

# Sowing seeds for the future.

Annual Report & Financial Statements  
2019/20



It's what we're made of.

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# What's in this report?

Welcome to our Annual Report and Financial Statements for the year ended 31 March 2020.

Our Annual Report, including the Financial Statements, aims to meet the information needs of our investors, lenders and partners to help them make informed decisions in respect of their interests in Bristol Water. We also recognise that this report will be read by a wide variety of other stakeholders including customers, suppliers, employees, analysts, regulators, governmental and non-governmental organisations. Where we believe that a topic is relevant to understanding our business and material to a number of our stakeholder groups, we include it in this report. More information is available in the regulatory Annual Performance Report and in the "Trust Beyond Water" Board statement available on our website.

## Any questions?

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

### Email

[legal@bristolwater.co.uk](mailto:legal@bristolwater.co.uk)

### Call

0345 702 3797

### Post

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Bristol  
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"I'm proud of what we've achieved this year; we remain one of the best performing water company in reducing leakage; we've made huge progress on reducing interruptions to customers' supply, and we've continued to ensure that our social contract is at the heart of everything we do, making a difference to the lives of people and the health of our planet."



# Chairman's welcome

The strangest end to the year I've ever known...

It's been another incredible year for Bristol Water – a year of moving forward on our journey to strengthen and build the business. And another year I am immensely proud of. Due to COVID-19, I like many others, end the year confined to my home, dealing with business matters through conference calls and video apps. The thoughts and prayers of the entire Bristol Water family are for those in our community who have lost loved ones. This is supported by actions. We have provided 6,000 NHS staff with rebates on their water bills, registered an additional 2,000 vulnerable customers for priority service, helped 600 customers with reduced tariffs, and provided operational support for the establishment of the Bristol Nightingale Hospital. If anything, our response has highlighted the resilience and agility of our Company, adapting to deliver a resilient water supply that is relied upon by so many.

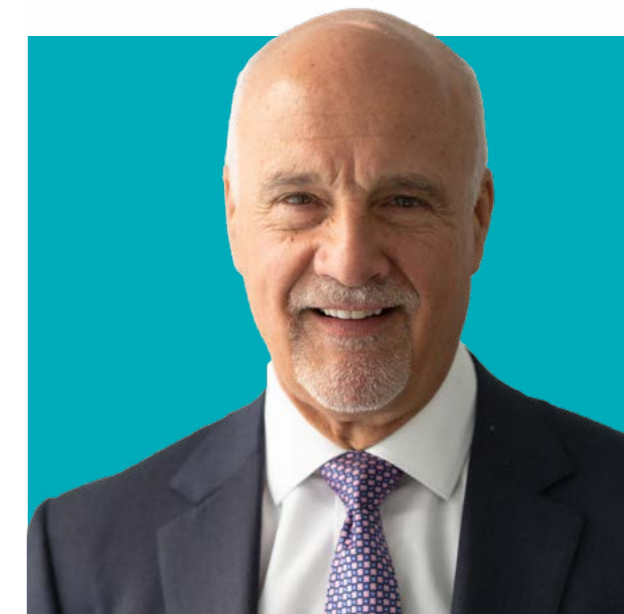
I'm proud of what we've achieved this year; we remain one of the best performing water companies in reducing leakage; we've made huge progress on reducing interruptions to customers' supply, and we've continued to ensure that our social contract is at the heart of everything we do, making a difference to the lives of people and the health of our planet.

In December, we received our Business Plan Final Determination from Ofwat and we decided to refer this to the Competition and Markets Authority ("CMA"). We agreed on many things with Ofwat, but there remain a few technical, material issues, that we believe are not appropriately addressed in Ofwat's decisions. The Board and I stand by our Plan, its ambitious targets and efficient delivery plans.

Our Board and Executive team continue to strengthen; in May 2019, we welcomed Helen Hancock as Director of Legal Affairs and Company Secretary. Helen brings with her a wealth of experience in commercial and corporate law, having previously been a partner at international law firm, Simmons and Simmons.

Thank you to every single member of staff at Bristol Water for their contribution and commitment, as well as to our partners who work closely to support us. Together we will build a stronger and better business, no matter what challenges may arise.

**Keith Ludeman**  
Chairman  
13 July 2020



# Strategic report

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# CEO update

So here we are...

Since 1846, we've been making people healthier and the economy stronger. We've served generations of families and will serve generations to come. We don't just give people water, we improve their quality of life by keeping them healthy, helping them grow and nurturing the environment.



At the end of this year our ability to supply water and keep our own people healthy and happy was tested to its limits with the COVID-19 changing the way we live and do business. It may have changed the way we do things, but it hasn't changed who we are. Our values have stood us strong during this time.

The COVID-19 has not been the only thing to test our business this year. Our Business Plan, Bristol Water For All, submitted to our regulator, Ofwat, set a new way forward for us. We received Ofwat's final determination on the plan in December and, with a heavy heart, we had to refer this to the CMA.

There were many things we agreed on with Ofwat, with ambitious targets for the next five years being one. However, the referral was required because the Final Determination undermined the long term financial health of the Company. Under our Business Plan our customers would be getting great services with great value for money from a resilient company.

Despite these challenges to our business we've seen fantastic performance and improved the way we do things.

In October 2019, we introduced our new brand, Bristol Water. It's what we're made of. The brand reflects our purpose, it puts people and the planet at the front of everything we do. We've used local artists to introduce colour and vibrancy into our work and to really reflect the culture of the local area.

We've continued to speak to our customers about our social contract and I'm pleased the programmes within the contract are getting bigger and better. Last July we ran a major "citizens for the future" event where organisations who share our vision got together to take this approach forward. Educating the citizens and employees of the future is our top priority, a priority shared by our customers and employees. This year we've seen over 125 students take part in our mentoring programs with South Bristol Youth and Ablaze; over 1,000 students take part in Spawn to be Wild, nurturing baby elvers and releasing them back into our lakes (since the program started with the release over 5000 eels back into the wild); and 240 students have taken part in our career days.

Our campaign to reduce plastic waste has grown and become more effective. We've installed eight new water fountains across Bristol this year, saving on average around 4,000 plastic bottles every month from going to landfill. Our Water Bar has once again been out and about saving over 60,000 plastic bottles from landfill.

Operationally we continue to perform well and make improvements. We're, once again, one of the best performers in the industry when it comes to leakage. I am extremely proud of this as I know it is one of the top priorities for our customers. We had a great year and met stretching targets for supply interruptions and water quality through the hard work, innovation and dedication of everyone at Bristol Water.

Health and Safety of our people remains the top priority for me and the Company. I am proud that we've reduced accidents to a record low level, although there is always more that can be done. We have also taken active steps to minimise the exposure of our staff and members of our community while continuing to deliver a fantastic service to our customers in a seamless manner.

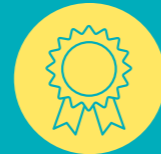
Thank you to every single member of staff.

**Mel Karam**  
Chief Executive Officer  
13 July 2020



# Our strategy

We're stronger when we work together. Our willingness and desire to collaborate with others is our secret to success. No matter how big or small a company or individual, if they share our values, we'll work with them to improve our service and the planet...



### Excel at customer experience

Every part of the customer journey with us needs to be the best it can be. No matter how big or small the job, and no matter how the customer wants to interact with us.



### Grow our people and our business

Our people and our partners are key to our strategy. They need to be free to create and deliver what our customers want. They need to shape the future and provide the services, not just the product, our customers want.



### Being trusted

Trust is everything. It is not only about maintaining legitimacy with people but them trusting us to deliver a good service at an affordable price in a manner that is sustainable over the long term.

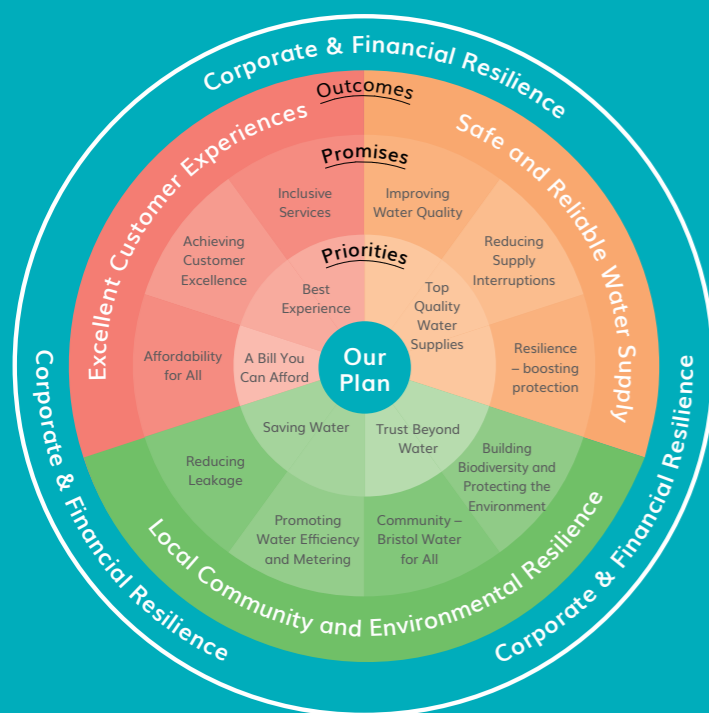


### Leading efficiency

We're committed to transforming our cost base. As we work towards service excellence and to deliver our strategy, we're determined to find efficient methods so that we never compromise our commitment to affordable bills. In the long-term, our business objectives and the outcomes we're working to deliver must align, and our Business Plan sets out how we plan to achieve this.

### Our business plan for 2020 - 2025

The below chart summarises our business plan in terms of our priorities, our promises to customers and the outcomes we will achieve are targeting.



## Chief Finance Officer's update

Our business relies on strong financial foundations to remain resilient for the future. Our focus in 2019/20 was in investing to build operational strength and enable us to deliver for the customers and communities we serve.

### Financial Key Performance Indicators (KPIs) For the year ended 31 March 2020

	2020	2019
	£m	£m
Turnover	125.5	121.6
EBITDA	47.3	50.0
Operating profit	22.7	29.9
Profit before tax	9.2	16.4
Profit after tax	0.5	14.3
Net debt (excluding 8.75% irredeemable cumulative preference shares) at 31 March	371.7	331.0
Regulatory Capital Value (RCV)	560.9	530.3
Ratio of net debt (excluding 8.75% irredeemable cumulative preference shares) to RCV	66%	62%
Capital investment before grants and contributions	70.6	55.2



**Efficient expenditure**

A sustainable business is underpinned by strong financial performance. Our performance in the year reflected a reducing cost base for underlying operations, but a number of material, one-off costs in order to build the business for the future and to respond to external pressures and challenges.

Revenue reflects an overall tariff increase due to regulatory allowances and inflation of 3.9%, but impacted at the end of the year by the temporary closure of local businesses as a result of the COVID-19. Our revenue was therefore under-recovered in the current financial period compared with the regulatory allowances by £1.5m, which we will recover over the course of AMP7.

Our operating costs have increased by 12% to £102.8m, including exceptional costs of £7.3m (2018/19: £3.1m exceptional income). This increase in cost reflects a number of challenges, the largest of which are set out on the following pages.

Firstly, the Company abstracts water from the Gloucester and Sharpness Canal, under contractual arrangements with the Canal and River Trust ("CRT"). In 2018, CRT triggered a charges review under these arrangements asking for material, and in our view, unsupportable, increases in these charges. As a result, we have commenced arbitration proceedings with CRT in order to settle the basis of such charges going forward. We continue to recognise costs associated with the contract at its historical levels, given our position that cost increases cannot be supported – indeed, we consider such costs should be reduced. However, we have fully provided for the legal and advisor costs anticipated to completion of this process, which are estimated at £2.5m, of which £0.9m arose during the period. Given the scale and one-off nature of these costs, these have been presented as exceptional costs in the current year.



Secondly, we took the difficult decision to refer Ofwat's Final Determination of our prices for the 2020-2025 regulatory period to the CMA. This process will require significant legal and advisory support, and as with the CRT arbitration process, we have provided for the full value of such support to completion of the process; this has resulted in a further £4.8m of exceptional charges being recognised in the year.

Thirdly, we have seen an increase in our bad debt charges from £3.9m to £4.8m, as a result of a deterioration in historic cash collections, as well as the impact of COVID-19, which we believe will impact our customers' financial health and therefore ability to pay our bills. This provision is based on historical experience and will be closely monitored over the coming months.

Finally, in October 2019, we took a major step forward in our transformation programme, by implementing a new network maintenance contract, working with new supply chain partners but also bringing in-house new capability, particularly around planning and scheduling of our work. This builds the foundations for driving efficiencies and improved performance in the future but resulted in one-off costs of £1.6m in the current year.

These increased costs are challenging for our business in the current year, but reflect our commitment to invest for the future, to protect our financial resilience and build the foundations for great performance. However, our profit for the year reduced from £14.3m to £0.5m in the 12 months ending 31 March 2020.

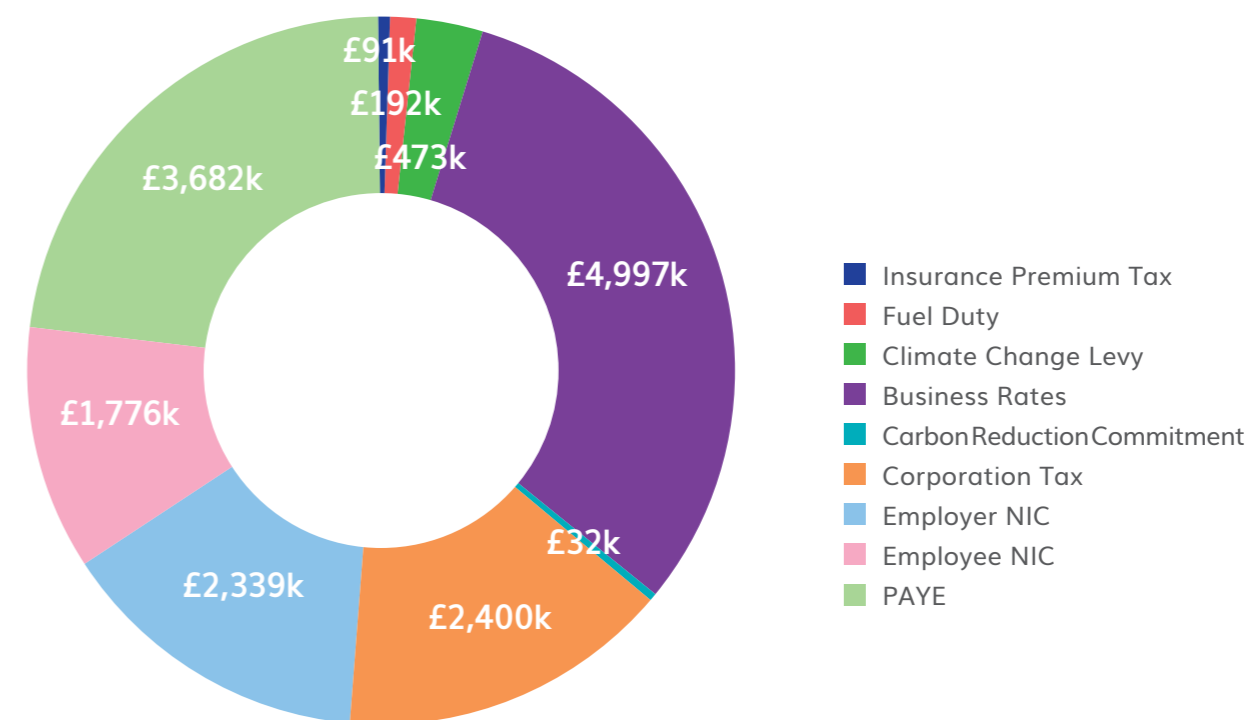
**Taxation**

As a regulated water company, operating a critical service for our customers and communities, our taxation policy is to pay our fair share of tax, being that which we are required to pay after recognising only legitimate concessions and reliefs.

You can read our full taxation policy at [www.bristolwater.co.uk/tax-strategy](http://www.bristolwater.co.uk/tax-strategy)

The Company's total tax contribution extends beyond the corporation tax charge; for the current financial year, Bristol Water's total tax contribution to the economy was £16.0m (2019: £15.2m). The largest contributors are shown in the graph below.

**Figure 1: Bristol Water's total tax contribution 2019/20**



### Capital investment

We continue to invest heavily in our capital programmes and worked hard in the year to ensure we had met our commitments over the AMP6 regulatory period. As such, our capital expenditure in 2019/20 was at the highest level over AMP6, with £70.6m spent in the current year (2018/19: £55.2m). This reflected our focus on improving the resilience of our network, reducing leakage and investing to improve our efficiency and performance. Most significantly we spent £19.6m on renovating 40.3km of mains (2018/19: £7.2m and 12.5km). Our costs relating to new developments were £5.8m (2018/19: £3.8m) which is due to a number of schemes commencing in the reporting year and a general increase in activity levels. Our overall level of expenditure is reflected in the value of our business with our regulatory capital value ("RCV") increasing to £560.9m from £530.3m in 2018/19, this reflected the increase in capital expenditure, the impact of inflation, offset by regulatory depreciation mechanisms.

### Net debt and gearing

We use the water bills paid by our customers and debt from financial markets and institutions as the main source of funds to finance our operations and extensive capital programme. Our practice is to maintain a debt portfolio with mainly long dated maturities reflecting the long-term nature of the Company's asset base, however we also maintain a number of revolving credit facilities with shorter maturity dates, the shortest of which will need to be refinanced in the next 2 years.



We completed a significant refinancing of debt in June 2018, securing £125m of new facilities at competitive rates. We also cancelled a £25m facility which, following the refinancing, was no longer required. The new facilities were used to repay loans with short maturities which were replaced with loans of longer maturities.

We drew down an additional £27m of debt during the year to finance our capital investment programme, as well as managing the cash flow impact of non-household retailers using changes to the regulatory mechanisms to allow them partially to defer payment of their debts owing to us at 31 March 2020. This ad hoc regulatory change in conjunction with our capital programme expenditure resulted in an increased funding requirement at the end the year of £15m.

We actively manage our gearing ratio and maintain a headroom margin to meet adverse impacts from risks and uncertainties. Our RCV increased to £560.9m (2019: £530.3m) reflecting inflation of £14m and net additions to RCV during the period of £17m. This had the impact of increasing our gearing slightly from 62% to 66% (excluding our preference shares).

### Dividends

It is our practice to pay an annual level of ordinary dividends reflecting Ofwat assumptions, the Company's funding requirements, actual debt levels, our cost and service incentive performance (where we may receive additional income or have penalties) and our actual performance. However, during the five year period ending 31 March 2020, dividends have been restricted to reduce financial leverage, with payments limited to meet the funding required elsewhere in the group, such as to finance Water 2 Business ("W2B").

Each year, a dividend is paid equal to the post-tax interest receivable from Bristol Water Holdings UK ("BWHUK"), in respect of inter-company loans. As BWHUK then pays the related interest back to Bristol Water, this transfer does not result in any cash effect for the Company. In 2019/20 this component of the dividend amounted to £3.3m (2018/19: £3.3m).

In 2019/20, an incremental dividend amounting to £3.0m (2018/19: £3.0m) was paid and the proceeds of this were used to repay part of the intercompany loan owed by BWHUK to BW plc, ensuring that the funds remained in Bristol Water plc.

Finally, annual dividends of £1.1m (2018/19: £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.

"We use the water bills paid by our customers and debt from financial markets and institutions as the main source of funds to finance our operations and extensive capital programme."



### 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 the WCPS for the regulated water business; the section was closed to new employees some years ago.

In the prior year, a buy-in of the scheme was undertaken, and as a result the scheme assets were replaced with an insurance policy which matches the pension scheme's liabilities. The Company is working with the pension trustee and also insurers to effect a buy-out, whereby the insurer will take on the responsibility for the scheme liabilities. The completion of this process will substantially reduce balance sheet risk whilst providing long term benefit to members by fully securing their benefits and entitlements.

The actuarial valuation under International Accounting Standard 19 (IAS 19), and therefore FRS101 at 31 March 2020, shows a net pension surplus of £9.7m which has been recognised in the financial statements (2018/19: £9.5m). As

the scheme has been closed to future accrual the surplus cannot be recovered through on-going contribution payments. 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 15 to the financial statements.





# Our Performance For people



## How we've performed for people

Since 1846 we've been making people healthier and the economy stronger...

In 1846 we were formed with a strong social purpose. A purpose to make everyone in the city healthier, meaning people could go to work and provide for their families and for the local community. We're now in our 174th year of delivering this social purpose.

We've not only made our workplace safer, more diverse, more equal. But we've made bills more affordable, customers more satisfied, bills more accurate, and been easier to get hold of.

We have arguably the best leakage score in the country (we don't want to upset those who may find a different measure that suggests otherwise!), we have beaten our targets for time people do not have access to water and made sure that our water is as safe and constant as it can be.

And let's not forget the fact that we haven't had a hosepipe ban since 1990.

Our social contract, published in January 2019 helps us go from strength to strength, and ensures we work with others in our small patch of the country to improve the daily lives of people.

Over the next few pages you'll see some highlights and how we've performed against the targets set in our 2015 - 2020 Business Plan and what we've been working towards for AMP7.



## CASE STUDY



# Local artists

Artists (from above): Mary Price, Loch Ness, Bex Glover, Zoe Power

Our small patch of the planet is full of colour and we're always being inspired by the things we see day-to-day. So, when we sat down and decided to put together a new image, it made sense to include the very things that inspire us.

In October 2019, we launched our new brand. A brand that is full of colour, full of pride, and full of spirit. It reflects our social purpose, our history, our values, our local connection, our people, and our planet. Simply put, it's what we're made of...

We set out to create something that truly reflects the culture of the local area, something that people are familiar with whilst still standing out from the crowd.

Armed with ideas from the Youth Board, we contacted some local artists to use their work within our branding. The work of Zoe Power, Mary Price, Loch Ness and Bex Glover, all local artists, is so important to who we are. Not only can it be seen within our work, but you can find it on the streets of Bristol, internationally famous for its street art scene. Their work has been handpicked because they reflect the vibrancy and the diversity of our area.

We never accept the standard approach as good enough and so, through our brand, we wanted to push the boundaries of how people see a utility company.

In March 2020, our brand won Platinum in the Branding Category at the Hermes Creative Awards. The awards are judged by the Association of Marketing and Communications Professionals, one of the largest evaluators of creative work in industry.



# Highly reliable

## Reliable supply

Customers value a resilient and reliable water supply. So, when supply interruptions do happen, they want their water back as soon as possible. We measure this as the total number of minutes customers have been without water due to unplanned interruptions in the year and divide this by the total average number of properties.

We've made a lot of changes in our approach during 2019/20, which has resulted in us beating our target by over a minute. We've invested heavily in our smart network and increased the coverage of pressure loggers. Alongside this, our network teams have not only changed their framework contractor mid-year, but changes to working practices to focus on Continuous Supplies reprioritised our work to ensure repair teams focused on restoring customer supplies before fixing the burst.

In AMP7 targets change to measuring Customer Minutes Lost on all interruptions of three hours or more. We've tracked our performance against this through the Shadow Customer Minutes Lost measure and in the last six months of the year we've recorded a total of 2.1 minutes. This equates to a full year impact of 4.2 minutes, which is well inside of our 2020-25 targets.

## Sufficient supply

One of our customers' most important requirements is to have an unrestricted water supply. We're pleased to say that it has now been 30 years (1990) since our last hosepipe ban, despite periods of low rainfall such as those experienced in the summer and winter of 2018/19.

Our performance of this is measured by our level of service in terms of the frequency of supply restrictions during periods of water shortages, measured using Ofwat's Security of Supply Index ("SOSI"). SOSI is calculated as an index out of 100 and takes into account the balance between supply of water that the Company has available and the demand from our customers, calculated as the proportion of dry weather demand that can be met by the water available for use in a dry 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 yet again for 2019/20 our SOSI value was 100, indicating our customers can expect a sufficient supply of water with no restrictions.



**9,063**

Population at risk from asset failure due to an extreme event.



**30 years**

since last hosepipe ban.

		2019/20 target	2019/20 actual	2018/19 actual	Target achieved
Reliable supply	Unplanned customer minutes lost Minutes per customer	12.2	11.1	14.7	Yes
Resilient supply	Population at risk from asset failure due to an extreme event Number of people	9063	9063	9063	Yes
Sufficient supply	Security of supply index ("SOSI") Number	100	100	100	Yes

# Excellent quality

## Safe drinking water

Our water consistently achieves exceptionally high compliance against some of the most rigorous testing standards in the world. Our aim is to supply our customers with clear safe water and comply with stringent regulatory standards. We do this through our Drinking Water Safety Plan approach, which helps us to reduce and manage any risks to water quality.

Our Water Quality team collects samples 365 days a year from across our 2,400 square kilometre supply area to ensure we comply with the sampling regime, with no exemptions applicable, for example, for weather conditions.

There are statutory requirements for regularity and frequency of sampling and these were met in 2019/20.

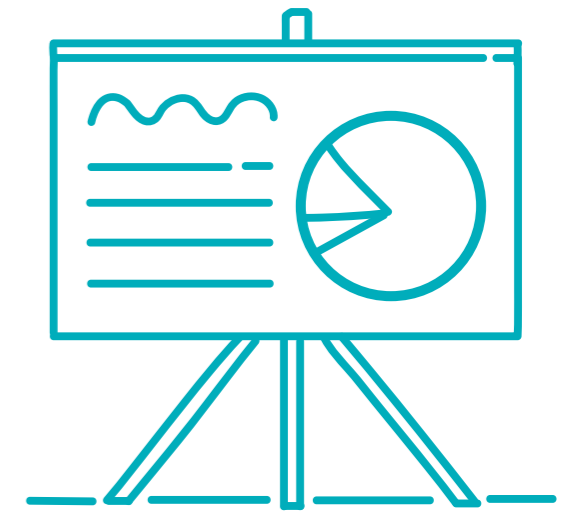
Although the aspirational 100% target for Mean Zonal Compliance ("MZC") was not achieved, 99.97% still represents a very high level of compliance which has been consistently achieved in the past 5 years and is representative of the high quality of water supplied to our customers.

## Water is good to drink

The quality of our water is the most important commitment for us. We're proud to report that this target has once again been met and there has been a drop in contacts from last year. This sets us up for a strong performance in AMP7.

Contacts for appearance remains the greatest proportion of overall contacts. Despite significant activity on the network, including an ambitious mains renovation programme, the number has reduced compared to the previous year.

In AMP7 we'll be reporting two performance commitments to separate out appearance from taste and odour. These will be reported as number per 1000 population. And we are planning for a 50% reduction in appearance contacts over 2020-25.



		2019/20 target	2019/20 actual	2018/19 actual	Target achieved
Safe drinking water	Compliance with legal standards Percentage	100%	99.97%	99.99%	No
Water is good to drink	Number of negative customer contacts regarding water quality Number	2,221	1,712	1,934	Yes

# Responsive to customers

		2019/20 target	2019/20 actual	2018/19 actual	Target achieved
Affordable bills	Percentage customers in water poverty Percentage	1.8%	0%	0%	Yes
Satisfied customers	Ofwat measurement of customer service Service Incentive Mechanism proxy ("SIM") out of 100	87.57	82.54	84.71	No
Easy to contact	Ease of contact Percentage rating from surveys	>96.5%	91.8%	91.4%	No
Bills are accurate and easy to understand	Number of negative billing contacts Number	2170	1274	1595	Yes

### Affordable bills

This performance commitment ensures we help those customers on the lowest incomes and experiencing the most serious financial difficulties. To do this we track the percentage of customers in 'water poverty'.

We've now successfully met this target for five years in a row. The gross water poverty figure was 0.54% (just over 2,500 customers), which falls to zero when the impact of our social tariffs is taken into account.

We offer three discounted tariffs to make sure we can help customers who find it hard to pay their water charges, with 19,027 customers receiving assistance through these measures, an increase of 14% over last year. In addition to the social tariff schemes, 2,900 households are currently benefitting from our 'Restart' scheme to clear their debt combined with our 'Assist' tariff, which reduces bills to an affordable level and helps customers who are in financial difficulty to get back on track with their water bill.

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



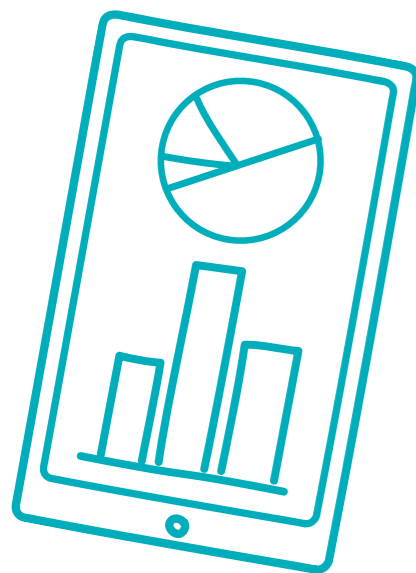
**19,027**

customers receiving assistance through discounted tariffs.



**2,900**

households are currently benefitting from our 'Restart' scheme to clear their debt



### Satisfied customers

The SIM has been used to compare water companies' customer service levels. In 2020 it will be replaced with the C-MeX measure. Therefore, the SIM proxy allows for calculation of a score on the previously used SIM.

The SIM proxy is made up of two parts. A quantitative measure (25%) relating to the number of calls received because something has gone wrong, and a qualitative (75%) measure in the form of the pilot data for C-MeX.

The qualitative element saw a slight decrease but a ranking improvement of three spaces up to 7th. Due to significant improvements/reductions in the levels of written complaints and unwanted phone contacts the quantitative part was improved from last year.

### Easy to contact

This measure is determined by a monthly survey of Bristol Water customers. It asks "How satisfied are you with ease of contacting the water company and getting through to someone who could take your call?"

Over 9 in 10 customers were satisfied with ease of contacting us. This is an improvement on last year. And although we reached our target in some months this year we've missed our end of year target.

### Bills are accurate and easy to understand

This measure looks at reducing the number of contacts we get regarding billing. For the third year in a row this has fallen and this year we're 41% below our target, which is a good thing.

"Over 9 in 10 customers were satisfied with ease of contacting us. This is an improvement on last year."



# Sustainable business

## Investor confidence

We use effective financial management and open communication to maintain investor confidence in order that we can secure funds to invest in the business to deliver our long-term strategy.

Ofwat's Final Determination of prices for 2020-2025 indicates a lower level of financial returns across the forthcoming period. This has meant that money available to pay for loan interest and dividends is getting less and less. This has led to industry wide downgrades by credit rating agencies. In March, shortly after the Final Determination was announced and we made our decision to refer the determination to the CMA, Moody's confirmed that they were downgrading us to Baa2 from Baa1. Seven other water companies were also downgraded by Moodys after the publication of the Final Determination, with others having already suffered downgrade during the financial year. In addition we remain on negative watch because our world is not certain, at least until the CMA rule on the decisions in dispute with Ofwat.

However we have maintained better than the minimum investment grade rating required under our licence throughout the period and we are confident that our plans are in the best interest of Bristol Water and its customers.

## Fair return to investors

To be a sustainable business, it is important that returns are fair and sufficient to attract investors to fund the investment required. Ofwat measure our financial performance using a metric called return on regulated equity ("RORE"). This ratio provides a measure of the value of companies' earnings relative to the equity component of the regulatory capital base. The average RORE for 2015-20 was 4.7%, lower than the 5.8% assumed in our CMA 2015 determination which included significant challenges to both operational performance and financial efficiency. Our operational performance in the early years of the AMP has resulted in performance penalties of £2.5m, impacting our notional return (although this significantly improved in 2019/20 as a result of better leakage performance). Our totex performance resulted in a penalty of £6.9m in the year as a result of significant spend on mains replacement, supply interruptions, leakage and metering. Further details are provided in our Annual Performance Report.

		2019/20 target	2019/20 actual	2018/19 actual	Target achieved
Investor confidence	Credit rating Moody's rating	Baa1	Baa2	Baa1	No
Fair return to investors	Percentage return on regulated equity (RORE) (average for AMP) Percentage	5.8%	4.7%	5.1%	No
Highly reputable	Customer survey Percentage rating in survey	>93%	87%	89%	No
Highly reputable	Stakeholder survey Percentage rating in survey	70%	67%	75%	No

## Highly reputable to customers

This measure is determined by an annual telephone survey of 1,000 customers who may or may not have contacted Bristol Water. It asks 'Overall, how would you rate the service you receive from Bristol Water?'

Overall 87% of customers rated the service as either 'excellent', 'very good' or 'good'. Although we've missed the target of 93%, this is higher than our average performance over the previous 4 years. None of the customers rated our service as fairly poor or very poor which is a great position to be in. However, the number of customers responding with 'don't know' or 'neither good nor poor' has increased on last year's survey, resulting in the 2% drop on last year's score. This could be explained, for example by customers having less direct experience of our service response in light of our improved operational performance.

"None of the customers rated our service as fairly poor or very poor which is a great position to be in."

## Highly reputable to stakeholders

We've continued to see improved stakeholder satisfaction but did suffer a decline in business customer satisfaction. Overall scores are more heavily weighted to business customers resulting in an overall decline in 5 out of 6 performance indicators. Despite this, we were the top performing wholesaler as far as business market retailers are concerned, and second in both MOSL market performance statistics.

In the current year we have tracked the new AMP7 Local Community Satisfaction measure as a pilot. The AMP7 target for this metric is 85% satisfaction from key stakeholders and social contract stakeholders. We achieve 89% satisfaction on this measure, meaning we already exceed our AMP7 performance commitment in this area.



## 87%

of customers rated our service as either 'excellent', 'very good' or 'good'.



## 89%

satisfaction from key and social contract stakeholders.

# Best people, right culture

## Safe working practices

Keeping people safe is, and will always be, our top priority. Not just our own people, but customers, suppliers and anyone we come into contact with.

We have seen not only a drop in reportable accidents to the Health and Safety Executive. But also, a drop in total accidents from 20 in 2018/19 to 12 in 2019/20. This is mainly due to a cultural shift in how everyone sees health and safety.

## Skilled workforce

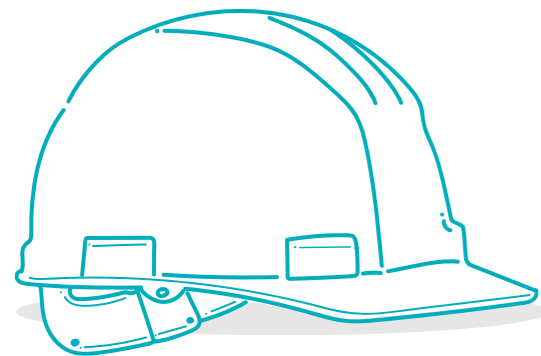
Our aim is to have the “right people, in the right place, with the right experience, at the right time”. We’re working hard to ensure that we’re seen as an ‘employer of choice’ and that our people share our values and objectives. Our appraisal process provides all employees with an opportunity to agree meaningful personal objectives to support the wider business objectives and these are regularly reviewed throughout the year. Everyone in the Company shares the same business targets for the annual bonus scheme.

From feedback through our Employee Engagement Survey we recognise that for many of our people personal development is very important. To support this we encourage and train line managers to have discussions about what this might include. For some it might be an opportunity to improve the core skills needed for their job role, for others it might be additional skills to support their future ambitions.

It’s important that the development opportunities offered are relevant to the individual and that they deliver the outcomes needed. Our internal Performance and Development team deliver many different opportunities for learning and development through structured courses, such as our management L.E.A.D (Lean-Engage-Apply-Develop) programme, as well as providing bite sized learning opportunities through channels such as webinars, podcasts, e-learning and TED talks which allow individuals to access these at the point of need.

Employee volunteering in support of our social contract initiatives is another way in which we support our people to develop and this year their enthusiasm in mentoring future employees has been outstanding. Employees from across the Company mentored 14 children from Norton Hill High School in resilience and goal setting over a 3 month period in conjunction with Ablaze and West of England Mentoring programme, both charities aim to break down social mobility barriers and tackle inequality of opportunity for young people. We have taken part in the UWE Equity programme, aimed at supporting students from a BAME background to get into the world of work. Helen Hancock, our Company Secretary, mentored a law student over a number of sessions and we also sponsored and gave out the mentee of the year award at the UWE annual awards.

In February we ran our first employee forum, which provided an opportunity for everyone to understand the wide range of initiatives they can support to deliver our customer commitment of “trust beyond water” as well as our social purpose. Jim McAuliffe, our Non-Executive director nominated to focus on community and employee issues, attends the forums and makes sure their views are heard in all our Board decisions.



	2019/20 target	2019/20 actual	2018/19 actual	Target achieved
Number of accidents reportable to Health and Safety Executive under Reporting of Injuries, Diseases and Dangerous Occurrences (RIDDOR) Regulations. Number	0	2	4	No

## CASE STUDY

# Education, education, education

In January 2019, we launched the water industry's first ever Social Contract. Of the eight programmes contained in it, our education programme consistently comes out as a key expectation of our customers, our employees, our Board and the Bristol Water Challenge Panel.

Put simply, education is the keystone to our social purpose. It’s education that gives people a love of water, that protects the planet, and builds strong foundations for the future. It’s education that will help develop our future engineers, our future scientists, our future environmentalists.

Last July we ran a major “citizens for the future” event where organisations who share our vision got together to take this part of our social purpose forward. We see educating the citizens and employees of the future as a top priority, a priority shared by our customers and employees.

This year we’ve implemented several mentoring programmes with our partners, Ablaze and South Bristol Youth. Over 100 students have taken part in the programmes with 100% saying they felt more confident about themselves having taken part.

Around 240 Year 9 students attended our career day in south Bristol. Our award winning eel conservation program, Spawn to be Wild, saw another 1,000 students nurture and release eels back into our lakes.

Our Youth Board was back for its second year. 40 students from across our region took part and were given a real business issue to consider. They were tasked with producing ideas and strategies for our new brand. We’re pleased to say that some of those ideas can be seen in our new branding.

Our Education programme continues to gather pace with more mentoring, internships and work experience planned for 2020/21. But we will also see further development of our Citizens for the Future programme...



**Gender Pay Gap**

Since 2017, all UK organisations with more than 250 employees have a legal obligation to publicly report on their gender pay gap.

The gender pay gap measure is the difference between the average earnings of men and women, expressed relative to mens' earnings.

Our gender pay gap figures have decreased year on year which is pleasing and is partly due to the increased focus to ensure we maintain pay parity as well as the appointment of female senior staff over recent years, including our Chief Financial Officer and Company Secretary.

Even with the improvement that has been made, the gap is still higher than we would like, particularly the bonus gap and it is important to understand the reasons behind this to focus on reducing it further.

We have a higher proportion of males fulfilling roles which attract shift premium payments, as well as more men occupying senior roles within the organisation. These senior positions attract higher rates of pay and bonus which contribute to our gender pay gap.

It's important to note that the gender pay gap figures do not mean we are paying our male and female workforce different amounts for the same work, but it does highlight that there is still more we need to do to reduce the gap.

**Areas we need to focus our efforts include:**

- Increasing the overall number of women working for us. Currently only 31% of the workforce is female; and
- Attracting and promoting more women into the upper pay quartile roles as currently 84% of the workforce in this pay bracket is male.



There are four measures calculated to report on the pay gap. A mean pay and bonus gap measure and a median pay and bonus gap measure. The table below shows the figures for Bristol Water from 2018.

**Snapshot Date: 5 April 2018**

- 20.2% Mean Gender Pay Gap
- 23.5% Median Gender Pay Gap
- 44.1% Mean Bonus Gender Gap
- 38.5% Median Bonus Gender Gap

**Snapshot Date: 5 April 2019**

- 14.4% Mean Gender Pay Gap
- 20.6% Median Gender Pay Gap
- 47.2% Mean Bonus Gender Gap
- 21.4% Median Bonus Gender Gap



**Steps already being taken to help close the gender pay gap include:**

- Training to support equality and diversity awareness
- Expanding engagement with local schools to talk to students about prospective careers in the water industry; and
- Participating in events such as 'women in work' and 'women in engineering' to help raise awareness of the varied and challenging roles we have available. We are also pleased to support some of our colleagues who have volunteered to be mentors to university students.

The full report can be found on our website and includes further detail on our workforce split, pay distribution and what else we're doing to address the gap.

**Diversity**

We aim to be a fully inclusive employer and our focus internally is on promoting equality and inclusion throughout our people policies, procedures and practices. As an employer in Bristol, we are acutely aware and conscious of challenges we have as a society in ensuring equality, diversity and inclusion throughout all aspects of what we do. We're committed to employment policies which follow best practice as set out by The Advisory, Conciliation and Arbitration Service and which are based on equal opportunities for all employees.

In attracting new talent to the organisation, we make sure that full and fair consideration is given to all applications. Our key focus is on having the best talent at all times and that means selecting on the basis of skills, experience and attitude. Having colleagues who share our vision and values ensures the Company is on target to deliver our objectives successfully.

Our management training programme supports recruitment and development by ensuring our managers are aware of how to avoid any form of bias and that they have the appropriate interview skills to select the best candidate for the position. These skills help encourage and support diversity as well as ensuring we attract and retain the best talent.

We regularly review our policies relating to flexible working practices, and the recent changes imposed by the COVID-19 pandemic have shown how, by adapting our practices to focus on outcomes, we can offer support for parents and carers helping to promote an inclusive and supportive culture.

**Modern Slavery Act**

We strongly oppose all forms of slavery and human trafficking and would never knowingly conduct business with suppliers or contractors engaged in such practices. We've 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 Limited ("BWBSL") (trading as Pelican Business Services "Pelican"), TK Gallagher, Lewis Civil Engineering and Wipro. They and our other suppliers know that we require our contractors and suppliers to comply with the Modern Slavery Act 2015 (the "MSA Act"), and importantly that we will not continue to purchase goods or services from any supplier that does not fully support this legislation and our own contractual terms. We continue to review our operations and supply chain regularly to evaluate human trafficking and slavery risks. and we include compliance with the MSA Act as a requirement before entering new agreements with contractors or suppliers.

# Our Performance For planet

## How we've performed for the planet

Taking care of our planet is at the heart of what we do. Not only is it the right thing to do but it helps us deliver a better product and safeguard our world for the future.

We concentrate on improving the biodiversity at every single one of our sites. We work hard to reduce our leakage which, if high, puts added stress on the environment. We also encourage our customers to use as little water as possible, and one of the main ways we do this is through metering, ensuring as many people as possible use less water. This year, customers on a meter used 18% less water (around about 30 litres per person per day) than those still billed by rateable value.

We've improved our biodiversity index score once again, mainly through the restoration of hedgerows and coppicing our woodland habitats. And once again we have one of the best leakage rates in the country. In October, we launched our Life's sweeter with a meter campaign with Peter the Meter our new lovable character designed by Bristol favourites Aardman Animation. Peter is leading the charge to convince people to use less water and switch to a meter.



## An ecological crisis

In February 2020, Bristol Mayor, Marvin Rees, declared an ecological crisis.

Climate and ecological breakdown is a real and imminent threat, as the global scientific community has warned. The Climate crisis is one we hope you've all heard of; you may question what is being done about it, but you will have heard of it. The ecological emergency is not talked about as much. They're linked. And both need action.

With 15% of British wildlife now at risk from extinction, Bristol Mayor, Marvin Rees, declared an ecological crisis in February 2020. The first major city to do so.

**This is a matter we take seriously. Biodiversity matters. Habitats matter. Ecology matters.**

"The decline of the natural world will impact the quality of water. We must do all we can to reverse this. We cannot do it alone"

**Iain McGuffog, Bristol Water's Director of Strategy and Regulation**

We're proud to have been part of the declaration and to be included in Bristol Green Capital Partnership's 'recognising and responding to the ecological emergency'. Our Biodiversity Index score is industry leading as it looks to improve the biodiversity at every site we impact.

As a water company, we rely heavily on the environment to provide us with plentiful and good quality tap water. We also own and manage some unique habitats at our operational sites.

We recognise that we face an ecological and climate emergency at a global scale. In response, we have agreed an ambitious environment programme with our regulators which will protect and improve our local environment. As part of this programme, we've committed to developing a companywide biodiversity action plan which will underpin the delivery of habitat improvements, which will be measured by our new and innovative biodiversity performance commitment.

Our social contract initiatives build on these plans by sharing our approach with others so that it can be amplified beyond our sites. It also includes the work of our employee conservation volunteer group. We are working through the Bristol One City Plan and its Environmental Sustainability Board to co-ordinate our work with those who share these concerns.

Our plans aim to protect and enhance natural resources through the proactive management of our sites and through measuring and improving biodiversity. Our social contract initiatives target sharing our approach with others to share our tools and expertise, thus helping improve biodiversity beyond our sites too. By doing so, we will be strengthening our community assets to become more resilient to different futures.

**CASE STUDY**

“As a local water company, we want to reduce plastic waste here in Bristol by making tap water more publicly available on the go.”

**Mel Karam, CEO**

# A mountain of plastic

**We’ve saved over 50 miles of plastic bottles going to landfill...again**

Our industry leading and award-winning Water Bar was back out on the road this year, helping people refill and saving tonnes of plastic bottles from going to landfill. Around 50 miles of plastic to be honest.

But that doesn’t even make the showreel of achievements this year when it comes to our refill revolution and war on single-use plastic.

On 19 June 2019, or National Refill Day as you might have known it, we partnered with City to Sea and Bristol City Council to launch the first of eight new drinking water fountains for the city. The new fountains quadrupled the number of refill fountains in Bristol, preventing a further 50 miles of plastic bottle waste and save local people half a million pounds a year, versus bottled alternatives.

Mel Karam, CEO at Bristol Water, said: “Often, people turn to bottled water out of convenience. As a local water company, we want to reduce plastic waste here in Bristol by making tap water more publicly available on the go”.

Cllr Nicola Beech, Cabinet Member for Spatial Planning and City Design at Bristol City Council, said: “This project plays a really important part of our plans to make Bristol a more accessible place to live, to work in and to visit”.

Natalie Fee, founder and CEO of City to Sea, said: “We are pleased to see so many local organisations coming together right here in Bristol... with the same common aim...”

The eight new water fountains proudly feature a signature from Ali Jennings, Bristol Water’s former Head of Communications who sadly passed away in 2018 but spearheaded our original campaign to install water fountains. We miss you Ali.

# Environmentally sustainable

**Efficient use of resources by company**

Outperforming our leakage target is a significant achievement and reflects an outstanding performance by all the teams involved during the year. This excellent outcome endorses the decision to increase investment in our leakage detection resources and is testament to how teams across the business have worked together monitoring, analysing, detecting, prioritising and repairing leaks.

**Efficient use of water by customers**

We do everything we can to encourage our customers to use less water. Why? Because using less water means there is less impact on the planet and makes our service more affordable for people. Metering is one of the most effective ways to do this. Water meters help people manage their water use and mean they’re most accurately billed.

We measure this by meter penetration which is the percentage of customers who have a water meter installed at their property. We’ve continued to improve our processes around meter penetration and in October 2019 we launched our ‘Life’s sweeter with a meter’ campaign. This campaign aims to increase the number of ‘meter optants’, or those people choosing to apply for a meter. This has seen a steady increase in the number of applications we received. It was, however, impacted by the COVID-19 outbreak in March which has traditionally been our month with the highest applications. We currently have a meter coverage of 59.0%, which is up from 56.0%, but below our 62% revised target.



**59%**

meter coverage in our supply area

**Environmentally sustainable**

		2019/20 target	2019/20 actual	2018/19 actual	Target achieved
<b>Sustainable environmental impact</b>	<b>Biodiversity Index</b>	17,653	17,670	17,668	Yes
<b>Efficient use of water by customers</b>	<b>Domestic Meter penetration Percentage</b>	66% original target 62% revised target	59.0%	56.0%	No
<b>Efficient use of resources by the Company</b>	<b>Actual Leakage</b> Total leakage in million litres per day (ML/d) as per the revised measure	40.0	37.2	41.7	Yes



### Sustainable environmental impact

One of the ways in which we monitor our protection and enhancement of the natural environment is through our innovative approach called the Biodiversity Index ("BI").

This natural capital accounting tool quantifies an environmental value for our sites and creates a "direction of travel" for the way we manage our property. This helps us to protect and enhance our natural environment by using the Index to quantify the impact of our actions on the broader environment. This natural capital calculation and method is a tool we will continue to develop through the new AMP. This measure has improved by 1.83BI points from March 2019 to March 2020 compared to last year mainly due to the restoration of hedgerow habitats and coppicing of our woodland habitats. Our work also involved the maintenance of species rich grass verges at our Head Office site and mitigating the impact of mains renovation work by the translocation of sedges and special ground flora at our Barrow treatment works.

### Streamlined Energy & Carbon Reporting

#### Protecting our environment for the future

In the UK we're expecting hotter drier summers and warmer wetter winters, as well as more extreme weather events with floods, storms and heatwaves of greater severity and frequency, and sea level rise. Climate change will have a material impact on the water industry as it affects both the available water from the environment and customers' need for water.

We're seeing rates of change far greater than those experienced in recent history. Although we anticipate that climate change will reduce the water we have available for public water supply, the integrated nature of our supply network and the range of water sources we have available both help to mitigate this impact. We therefore anticipate that the impact of climate change on the water available for use in our area over the next 25 years at least is likely to be relatively low.

Climate change is a huge challenge for society, and even though our water supplies appear to be resilient for the future, we still expect big changes to how we work in order to keep water costs affordable.



### Our social responsibility

Bristol was the first city to declare a Climate Emergency (in 2018) and more recently an ecological emergency (February 2020). Tackling these issues is not possible if governments and/or businesses work in isolation – sustainability requires a change in how we all live and work, what we consume and how we develop our approach as citizens. We will need a change in skills as a workforce, so education and learning now is essential. Our priority through our social contract is to build trust that a range of organisations working together can deliver a shared social purpose – the wellbeing of society.

As an organisation we have made public commitments on both the climate and biodiversity emergencies. We are working with the Bristol Green Capital Partnership which has developed a vision for an environmentally sustainable Bristol. As with our own plans and initiatives, the Bristol City Council's "One City" plan recognises the importance of environmental sustainability, but addressing it requires social mobility and the whole range of other wellbeing challenges to be addressed. We're supporting this ambition and we're part of the One City Plan Environmental Sustainability Board and we have also publicly endorsed Bristol's Climate Strategy and response to the ecological emergency.

The Publication of the One City Climate Strategy marks a significant moment for Bristol. Major organisations in the City have come together to share the pace and breadth of change required to respond to the climate emergency. Our social purpose recognises the role that individuals, businesses and government alike must all play, working together, to make positive changes to the way we go about the day to day. We were set up to deal with the public health crisis facing the city in the 1840s, by providing clean water to the whole city. It took innovation and transformation to deal with that emergency, and Bristol led the way then. A similar transformation is required now and is achievable. We will continue to play a leading role in Bristol through the One City Plan and Climate Strategy, helping to improve health, wellbeing and the environment. Cutting water consumption through reducing leakage, metering and not wasting water will help to cut energy use and carbon, and we all have to work together to achieve this.

Here are some examples of our recent work in response the climate and ecological emergencies:

- Agreeing a water industry Public Interest Commitment for the industry to be carbon neutral by 2030 – the first commitment of its kind by any

industry and widely acknowledged to be extremely ambitious. We continue to work with the sector to develop our plans to achieve this target.

<https://www.water.org.uk/publication/public-interest-commitment/>

<https://www.water.org.uk/news-item/water-industry-takes-significant-first-step-in-drive-to-be-carbon-zero/>

- Integrating our strategy with the Bristol One City Plan, principally through our membership of the Environment Board, and for example, by proactively supporting the drafting of the city's climate strategy and the city's bid for climate action funding. We are also a member of the newly formed ecological crisis working group. Although this One City Plan approach is being led by Bristol, it can readily be implemented beyond the city's boundaries. <https://www.bristolonecity.com/environment/the-environment-board/>
- Working with other organisations to develop a cross sector response – for example through our ambitious Resource West initiative we are currently developing plans for a large-scale pilot scheme to reduce water and energy consumption and reduce waste. We are working with several partners including Bristol Energy, Bristol Waste, Wales and West Utilities, Western Power Distribution, Wessex Water and the University of the West of England. The key to this approach is that tackling one aspect of resource efficiency at a time will have less impact than considering them together – it makes it easier for consumers to engage and make a change.





- Publishing our social purpose and social contract – the first of its kind in the water industry. This provides a framework for our contribution to the wellbeing of society and a voluntary financial consequence if we fail to meet the expectations of our customers and stakeholders in this regard. Over 40 initiatives which achieve social and environmental benefits are being delivered as part of our social contract. These initiatives include for example, the 10 water fountains which we have installed in Bristol to provide free access to drinking water – saving tens of thousands of plastic bottles. [www.bristolwater.co.uk/social-contract](http://www.bristolwater.co.uk/social-contract)
- Recognising the importance of cultural rather than behavioural change to respond to the climate emergency – developing our education programme and running a ‘citizens for the future’ event with local stakeholders to identify actions to stimulate this cultural transformation in resource consumption. Running a poetry competition through Ablaze Bristol to encourage children to think about the value of water. [www.bristolwater.co.uk/wp-content/uploads/2019/07/Output-from-Citizens-for-the-Future-workshop-12-July-19.pdf](http://www.bristolwater.co.uk/wp-content/uploads/2019/07/Output-from-Citizens-for-the-Future-workshop-12-July-19.pdf)
- Promoting our approach through local and national events – most recently through panel membership at the Action for Nature event, run by the Bristol Natural History Consortium at the end of February – here we shared a business perspective on how to respond to the environmental emergencies.
- Sponsoring and working closely with the Bristol Green Capital Partnership to develop our partnerships with local stakeholders with

a common social and environmental purpose – identifying joint actions to respond.

- Our work with City to Sea on the Refill campaign

We recognise that there is more that we can do, and our ambition is to continue to work in collaboration with local stakeholders to ensure that we enact a coordinated response. Some of our plans for the year ahead include:

- Developing our carbon strategy – which will focus on local and cross sector responses to climate change
- Engaging youth on our response to the environmental emergency – through our Company Youth Board, the Bristol City Council Youth Board and through a designated stakeholder event which seeks to give young people a voice in relation to our plans.
- Continuing our support for the One City Plan – and in particular, ratcheting up our work with environmental stakeholder to find joint opportunities to respond
- Investing heavily in our Chew Valley recreational sites, improving access, recreation opportunities, biodiversity and educational use.
- Running a large innovation event with local stakeholders, focussed on innovation to achieve organisations’ social and environmental purpose
- Delivering new social contract activities such as our commitment to engage with landlords on water efficiency in rented properties – recognising that our customers in the 18-34 age range have higher water use habits than older generations and yet are unlikely to own their own homes.

“We think that cultural change, rather than shorter term behavioural change is required to deal with the climate and ecological crisis that society faces – using water thoughtfully needs to become a new social norm.”

#### Our Carbon footprint

The vast majority of our carbon footprint is from the energy required to treat water to a safe standard and transport it to our customers. Whilst we continue to find ways to treat and distribute water more efficiently such as through our latest pump optimisation software, the greatest opportunity for us to reduce carbon is to encourage and support our customers to use less water – in particular less hot water in their homes and businesses.

We think that cultural change, rather than shorter term behavioural change is required to deal with the climate and ecological crisis that society faces – using water thoughtfully needs to become a new social norm. So, as part of our response, we are investing in an education programme and working with our stakeholders to find the best way of getting our messages to younger generations. In addition, we are working with other local utility providers, retailers, education charities and environmental experts to develop a joint education campaign so that we deliver a clear overall message to young people on water, energy and waste. This change in culture will help to influence their parents, landlords, employers and education providers who need to help deliver the lasting changes that we need to make. Building this shared connection to society is the distinguishing feature of our social contract approach, although not everyone agrees with our local perspective on social contracts.



The aim of the water industry is to achieve net zero carbon emissions for the sector by 2030. As energy-intensive businesses, we have an important contribution to make in tackling the causes of climate change. We can make a real difference through measures such as greater water efficiency, buying green energy as well as generating renewable energy ourselves, planting trees, restoring peatland and working with our supply chain. Water companies in England, including Bristol Water, have all committed to achieve net zero carbon emissions for the sector by 2030.

#### 2019/20 Performance

Energy efficiency is vital to business productivity and supports the transition to a low-carbon business against the backdrop of climate change.

Our gross operational emissions for 2019/20 were equivalent to 23,291 tonnes CO<sub>2</sub>, defined by the scopes below:

- **Scope 1** (direct emissions): use from transport (where the journey begins or ends in the UK)
- **Scope 1** (direct emissions): Combustion of natural gas
- **Scope 2** (indirect emissions): Electricity purchased and used for operations (not including energy sold on)
- **Scope 3** (other indirect emissions): Energy use and related emissions from business travel in rental cars or employee owned vehicles where the Company is responsible for purchasing the fuel.

#### Looking forward to 2020/21

We continue to develop and implement a programme of improvements to operational efficiency and a number of significant capital investment schemes that aim to reduce overall energy consumption. Most significantly, a whole network of automated pump scheduling and optimisation system to reduce the amount of energy we use to produce and move water to our customers.

As part of our drive to meet challenging efficiency targets set by Ofwat for AMP7, we are reducing the electricity that we import from the grid by installing gas generators at Purton treatment works, our biggest energy consumer. This will marginally increase our carbon footprint and we will seek to mitigate this by seeking opportunities to investigate the use of biogas or other low carbon fuel sources for the generation system as part of our innovative partnership Resource West, working with other utility and resource management organisations in the West of England area.

#### Scope 1,2 & 3 carbon emissions

Source:	2019/20		2018/19 (Baseline)	
	tCO <sub>2</sub> e	%	tCO <sub>2</sub> e	%
Electricity - grid	20,757.5	89.1%	25,113.4	90.5%
Gas	97.3	0.4%	78.6	0.3%
Transport	1,938.9	8.3%	2,202.9	7.9%
Diesel	305.0	1.3%	311.8	1.1%
Process & fugitive	192.7	0.8%	42.4	0.2%
<b>Total</b>	<b>23,291.4</b>		<b>27,749.1</b>	
Energy consumption	85,394,751	kWh	89,550,880	kWh
Intensity ratio - kg of CO <sub>2</sub> equivalent per capita	18.98	kg/CO <sub>2</sub> e/capita	22.81	kg/CO <sub>2</sub> e/capita

## Risk and uncertainty



#### Risk Management Framework

In the current year we have injected fresh impetus into risk management in order to better harness the collective insight of the Company, to inform risk-based internal assurance activities and to reflect best practice, all in the context of a business which is constantly changing. Our overall aim remains to embed risk management into all business processes, from strategy development through to execution.

We have long recognised the importance and benefits of timely identification, assessment and management of risks that may impact our ability to achieve our strategic objectives. This year we have placed greater emphasis on identifying the extent that we rely upon existing controls to mitigate our greatest risks to the business, assessing the effectiveness of these controls and identifying where improvements can be made.

We have further strengthened our process for capturing, assessing, reporting and managing risks. The Corporate Risk Register combines a comprehensive bottom-up process with dedicated and regular strategic review from the Executive and Board. Asset Management Risk Management processes identify operational risks and the Asset Risk Register is the primary interface for the Corporate Risk Register for operational risks. Alongside this the Executive Management Team undertakes strategic risk review for legal, regulatory, financial and any broader operational risks ensuring the Company Risk Register fully reflects the strategic risks to the Company.

The framework includes the following hierarchy of responsibilities:

- **Board of Directors and Audit and Risk Assurance Committee ("ARAC")** have overall governance responsibility for overseeing management's implementation of the risk management policy. This includes setting and reviewing the corporate risk appetite.
- **The Executive Management Team and senior management** is responsible for the implementation of the Risk Management Framework to all applicable activities and reporting to the ARAC.
- **Risk Owners** are responsible for the identification and day-to-day management and oversight of risks in their assigned area. Identified asset owners are accountable for monitoring, reporting and rectifying any unacceptable risks associated with the assets they are responsible for.
- **The CFO and the Chair of ARAC** are responsible for the internal assurance plan and for ensuring the ongoing review and reporting on the effectiveness of the Company's controls to minimise risk through a programme of Internal Audit.

"We have long recognised the importance and benefits of timely identification, assessment and management of risks that may impact our ability to achieve our strategic objectives."

#### Risk Identification

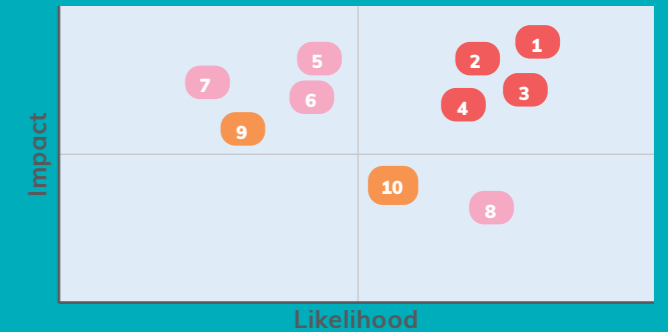
Risks are considered both before and after considering the impact of mitigating controls, and are ultimately ranked on a residual risk basis, considering their potential impact, likelihood, the effectiveness of existing controls, and the Company's risk appetite.

The risk appetite has been set by the Board who recognise that Bristol Water operates within a complex regulatory environment and it is not viable to fully mitigate all the risks it faces. In general, there is a lower risk appetite to activities that are key to delivering core operational services.

#### Top 10 Strategic Risks

The following risks have been identified as the top 10 strategic risks following recent assessment.

1. Coronavirus pandemic (COVID-19)
2. Unacceptable price control
3. Transformation delivery
4. CRT arbitration outcome
5. Health and safety failure
6. Access to capital
7. Chemical supply chain
8. Cyber-attack
9. Material regulatory reporting failure, e.g. tariffs
10. Significant operational failure



Each of the top 10 strategic risk are summarised below with greater detail over the following pages. The top four risks combine both high impact and high likelihood and collectively present risk to the longevity of the organisation. For this reason they form part of the Long Term Viability Statement.

1. The **Coronavirus pandemic (COVID-19)** has increased the likelihood of prolonged staff absences disrupting the organisation's ability to supply water and deal with incidents. Many individual corporate risks have been adversely impacted by COVID-19 through for example increased risk of bad debt and contract failures and delays to planned updates to manage cyber security and data protection.
2. The **Unacceptable price control** in Ofwat's Final Determination of December 2019 has presented an unacceptable level of risk to the business through the combination of a low cost of capital, insufficient cost allowances and an unbalanced risk and reward framework. We have referred this to the CMA and the risk remains of an adverse re-determination.
3. **Transformation Delivery** has ascended to be a top strategic risk. Ofwat's Final Determination has crystallised the financial scale of transformation required and COVID-19 has delayed testing and piloting, presenting the risk of a material and sustained overspend of our allowed expenditure and/or material underperformance on operational commitments, resulting in financial penalties.
4. The **Canal & River Trust** has submitted a claim for a material, and in our view excessive, increase in our water abstraction charges. We have referred this claim to arbitration and whilst

we consider their case to be without basis, if the Trust were to be successful, the financial impact on the business would be material over the long term timeframe of the contractual arrangements.

5. Risk of **Health and Safety failure** reflects the risk that as an operational business, we must continually assess and manage risks with regard to Health and Safety failure and if mitigating actions are not effective, there is significant risk to the lives of our employees.
6. **Access to capital**, our ability to raise new debt and equity finance is critical for us to continue to invest in our infrastructure, which ensures our long term financeability and viability. Changes to regulatory allowances and, challenges in the macroeconomic climate may impact this access and therefore our position and cost base.
7. The vulnerability of the **Chemical Supply Chain** was highlighted by some of the preparation undertaken for leaving the EU without a withdrawal agreement in place.
8. The loss of head office data and corporate networks as a result of **Cyber-attack** has increased in likelihood, in part due to delays to some planned improvement as a result of COVID-19.
9. We provide a broad spectrum of information to our regulators, which must be timely, accurate and complete. A **material regulatory reporting failure** will lead to regulatory, financial and compliance risks that will challenge the business.
10. Given the operational nature of the business, there is a risk that a **significant operational failure** arises that challenges the ability of the business to provide clean, safe water across our customer base.

## 1. Coronavirus pandemic (COVID-19) • Executive Responsibility: Chief Executive Officer

Risk description and potential impact	Mitigating actions
<p>The health and wellbeing of some Company employees has been impaired by the Coronavirus pandemic. Over the long term there may be collective deterioration in staff health and wellbeing.</p> <p>Implications for the wider economy are significant, resulting in prolonged impact on both the company and customers, delays in achieving our transformation programme and higher bad debt.</p> <p>The prospect of prolonged staff shortages remains a risk to continuous water supply either through the inability to maintain the operation of production sites, repair burst mains and undertake water quality sampling.</p> <p>Delivering on significant operational improvements may be challenging, whilst the pandemic remains ongoing. This may result in higher penalties than anticipated, in the absence of any action by Ofwat to acknowledge the challenges and adjust expectations for the period.</p> <p>Supply chain risks range from immediate essential and business critical items to more strategic investments being delayed.</p> <p>The closure of retail, leisure and hospitality businesses, has led to significant levels of business distress and will likely result in lower revenue from non-household customers. In addition, the impact on unemployment and the economy is likely to put households under financial stress; there is a risk that this results a deterioration in the cash collection rate and profit reductions.</p>	<p>Business continuity plans are in place and have been activated in the year to deal with a reduction of staff due to the COVID-19 outbreak, with critical activities and staff identified. The COVID-19 pandemic is being dealt with in conjunction with the Local Resilience Forum and Water UK.</p> <p>Potential further mitigating actions should a second wave of the pandemic arise which has a more significant impact on the Company include moving staff with certain skill sets into different teams, re-employing retired staff members, and appealing externally for workers with certain skill sets.</p> <p>Supply mitigations include increase stores, reduce usage, use local resilience forums and other government routes to unlock supply chain. Bristol Water has an increased focus on alternative suppliers.</p> <p>Actions to address financial distress include careful management of cash flows in short term to mitigate pressure on liquidity and financial metrics, focus on debt collection, communication with customers around payment plans, target on ensuring good information on vacant properties and early identification of payment issues to best manage the position. We provide support to vulnerable customers including those with low incomes and we regularly review our collection rates to ensure that we understand our customers' ability to pay.</p> <p>Business continuity plans are in place which focus on dealing with a reduction of staff due to pandemic illness, with critical activities and staff identified. Links are established with agencies (including civil contingency community) that provide information and advice to assist in day-to-day and long-term planning. Continuity plans provide some mitigation for loss of power (e.g. emergency power generation, rezoning, emergency communications systems), and buildings are maintained to appropriate standard of fire protection and security. Disaster recovery procedures are in place with alternative sites identified for critical staff, and processes exist for systems and backup data.</p>

**Movement in Risk Exposure:** There is increase in exposure to a series of risks due to the COVID-19 pandemic. This remains a significant on-going consideration for the Company and effective controls and mitigations are in place. Business resilience plans have been tested during the year and found to be appropriate.

## 2. Unacceptable Price Control • Executive Responsibility: Chief Executive Officer

Risk description and potential impact	Mitigating actions
<p>The CMA redetermination for AMP7 does not fully realise the required objectives.</p> <p>The risk exposure has increased as Ofwat's Final Determination proved to be unacceptable and we have asked for our determination to be referred to the CMA for re-determination.</p> <p>We consider that our Business Plan, as reflected in our Statement of Case to the CMA is an appropriate, challenging and financeable business plan, which ensures a high quality of service to our customer for an efficient cost, whilst ensuring the long term resilience of the business.</p> <p>As the CMA will reach its own view and may also take into account new information not currently available to us, we have modelled a range of possible outcomes to the CMA reference. If the outcome of the CMA reference is below our current assumptions, in some scenarios this could lead to significant pressure on the credit rating metrics and financial position of the Company.</p>	<p>Relationships with Ofwat remain positive despite the reference to the CMA. A CMA appeal is intensive and time consuming but, based on the process, to date we are managing the workload and responding effectively.</p> <p><b>Specific mitigations include:</b></p> <ul style="list-style-type: none"> <li>▪ we are using legal and financial advisors to support our internal resource, to ensure a high quality, knowledgeable case to the CMA;</li> <li>▪ our position is consistent with CMA precedent, specifically relevant in certain areas of our appeal and to our business; and</li> <li>▪ we have strong governance and challenge of our approach, arguments and submissions via a Steering Group comprised of Board Members and attended by key advisors.</li> </ul>

**Movement in Risk Exposure:** The risk has increased because of Ofwat's Final Determination.

### 3. Transformation Delivery • Executive Responsibility: Chief Financial Officer

Risk description and potential impact	Mitigating actions
<p>As a result of the regulatory environment and reduction in returns and allowed costs reflected in the Final Determination from Ofwat, transformation is required to ensure that the business is focussed on delivering the outcomes of the plan and does so at the least possible cost to the customer.</p> <p>The transformation programme is underway in order to reduce our spend allowances, whilst meeting our performance commitments. A failure to achieve cost reductions will result in overspend compared with allowed expenditure and a deterioration in financial metrics, which could impact the Company's financial health and cost of debt.</p> <p>In addition, failure to deliver operational performance in line with our commitments will result in financial penalties to the Company under the regulatory framework.</p> <p>The current stress placed on the operational organisation and difficulties arising from operating during COVID-19, are likely to impact on the ability to deliver the transformation programme to the timelines originally anticipated. Initiating restructuring or redundancies in the context of also asking employees to deliver above and beyond, when also facing significant potential personal health concerns and anxieties, is likely to challenge the ability of the business to function effectively. As such, consideration needs to be given as to the likely timetable and impact of transformation initiatives, and the extent to which financial savings can realistically be achieved to the level targeted in the budget.</p> <p>In addition, this requirement for change and cost reduction may result in our people becoming unsettled and therefore there is a risk of losing experienced and skilled staff. The need to manage the aspirations of individuals and groups provides challenges, requiring strong leadership. There is a risk of single points of failure and lack of knowledge transfer, coupled with the same key individuals required to deliver different projects.</p>	<p>A significant programme of work is being planned and implemented to deliver the transformation objectives. Re-forecasting and rephrasing of work will arise based on challenges arising from COVID19, but objectives and principles remain consistent with our original plans and expectations and the business remains focussed on delivering the relevant changes to the business.</p> <p>In terms of staff retention, there is a talent management programme in place, and increased focus on career planning, especially for high potential individuals. Internal recruitment and headhunting give options to fill gaps as they arise, and succession planning is in place.</p> <p>Actions from the results of our employee survey are being implemented and include an increased focus on training and development. Our resourcing strategy and learning and development strategies are in place to ensure we deliver against the people plan. Audits are undertaken to ensure internal quality standards are delivered.</p> <p>Short term mitigation for failure to implement transformation is to maintain cash by restricting capex and dividends.</p>

**Movement in Risk Exposure:** Risk exposure increase due to Ofwat's Final Determination having crystallised the financial scale of transformation required by the business in the absence of increased revenue allowed by the CMA re-determination. COVID-19 has also delayed the commencement of testing and piloting of key changes.

### 4. CRT Arbitration • Executive Responsibility: Chief Executive Officer

Risk description and potential impact	Mitigating actions
<p>We have a specific risk relating to the cost of our water abstraction from the Gloucester &amp; Sharpness canal. The Canal and River Trust (CRT) is currently seeking to significantly increase the cost to us of this abstraction.</p> <p>Arbitration is now underway, and the risk remains that the arbitration process concludes that a higher level of cost is justifiable for abstracting water from the Gloucester &amp; Sharpness Canal.</p> <p>As noted we consider the CRT claim without merit, however if CRT's claim were to be successful the impact would be high.</p> <p>This would lead to cost increases, backdated to 1 April 2018, with material cash flow implications in the 2020/21 and 2021/22 financial years, as well as increased costs going forward.</p>	<p>We are currently in the process of arbitration to conclude our dispute around the cost increase claimed by CRT. Our arguments in this case are being developed and argued by expert legal advisors in relevant areas of dispute and is being closely managed by the CEO, CFO and Company Secretary/ Legal Director. Regular updates are provided to the Board who are also closely managing this position.</p> <p>This cost risk has also been agreed as a notified item within the Final Determination to mitigate any impact of cost increases arising at a customer sharing rate of 75:25 in customers favour.</p>

**Movement in Risk Exposure:** Increased risk exposure as the outcome has the potential to significantly increase the costs of the organisation over the long term timeframe of the underlying contractual arrangements. The outcome is considered possible, but remote.

### 5. Health and Safety Failure • Executive Responsibility: Chief Executive Officer

Risk description and potential impact	Mitigating actions
<p>The nature of Bristol Water's business means that its employees, contractors and the public are potentially exposed to a large range of health and safety risks. These risks are increased due to large number of contractors being engaged to carry out work on behalf of the organisation.</p> <p>A severe health and safety accident is most likely to relate to a high-risk activity such as excavation, working with electricity, with gases or chemicals, or in confined spaces or at height. In addition, failure to maintain the operational estate at a level that complies with relevant regulations may result in an incident; errors may be made by operational teams which might impact on asset serviceability and lead to unsafe working (e.g. over dosing of chemicals); or staff may work in some geographical areas where criminal activity is higher than average and staff could be attacked or abused.</p> <p>If the risk of a health and safety exposure was left unmitigated, this could lead to injury or death. In the event of a serious accident, Bristol Water could be prosecuted and fined, which would have a significant impact on its reputation, as well as an impact on its employees and customers.</p>	<p>Systems and policies are in place to maintain an awareness of requirements detailed in Health and Safety Guideline 65. A series of initiatives and campaigns are in place to drive improvement, these include Director safety inspections, regular toolbox talks for operational staff to raise health &amp; safety awareness, company-wide launch of the 'Take 5 for Safety' Initiative, launch of new site inspection system incorporating corrective action plans, improved hazard reporting systems and timely response and correction of reported hazards, and an estates department maintenance programme.</p> <p>There is an improved lone worker system in place and staff are instructed not to put themselves in danger. Throughout Bristol Water there is a health and safety induction programme, on-going training (competent operator framework), monitoring, risk identification and assessment, and regular health &amp; safety committee meetings.</p>

**Movement in Risk Exposure:** No movement in risk exposure.

**6. Access to Capital • Executive Responsibility: Chief Financial Officer****Risk description and potential impact**

In order to finance our business, we rely on a combination of debt and equity funding, to allow us to invest in the business for the future, and to operate at an efficient level of return. In order to raise debt finance in particular, we rely on having an investment grade credit rating to raise debt at an efficient cost. As such, a key measure of our viability is our ability to maintain an investment grade credit rating.

Our credit rating was downgraded from Baa1 to Baa2 consequent to the Final Determination, and remains on negative watch, such that there is a risk of further downgrade. If we fail to maintain this credit rating, restrictions could arise on our existing loan covenants, difficulties could be experienced in raising new debt at an efficient cost, and potentially a breach of our operating licence may be triggered.

The Final Determination and our subsequent referral to the CMA, also presents risk to shareholder value generation and ability to raise equity financing. The Final Determination set a cost of capital significantly lower than is necessary to finance our business. Furthermore, the impact of COVID-19 has heightened the potential risk to returns.

**Mitigating actions**

We monitor our financial position carefully and in particular, we focus on covenants under our existing finance documents and our financial metrics to ensure we retain an investment grade credit rating. We take actions to manage our financial position to support our rating, such as retention of dividends.

Given the Final Determination reflected significant financial challenges, we have also referred our determination to the CMA raising specific issues with the proposed cost of capital across the industry and the company specific adjustment which has been allowed for Bristol Water in its previous appeals. The outcome of this referral will be highly material to the overall financial risk of Bristol Water.

**Movement in Risk Exposure:** Increase in risk exposure arising from the Final Determination due to the low cost of capital assumed by Ofwat.

**7. Chemical Supply Chain • Executive Responsibility: Chief Customer Officer and Chief Financial Officer****Risk description and potential impact**

The supply chain for bulk water treatment chemicals has been assessed and it is evident that a small number of suppliers rely on global supply chains to manufacture bulk water treatment chemicals. A failure of the supply chain for any of the chemicals would have a serious impact on the business as alternative products are not readily available.

Recent failures (technically and economically) of several chemical production plants now means that several chemicals are now only produced at a single facility. Failure (or planned shutdown) of this plant would stop production of key chemicals and interrupt delivery to our sites.

Approximately 75% of the available capacity of our treatment works are based upon chemical treatment of the raw water to provide water suitable for drinking.

**Mitigating actions**

Increased stocks of chemical held on site as part of the planning undertaken for leaving the EU. Chemical stocks are closely monitored with early warning triggers.

A Water UK project is in place to enhance bulk chemical resilience across the water industry.

**Movement in Risk Exposure:** The risk exposure has increased due to recent failure of several chemical production plants and potential interruptions to supply due to leaving the EU with uncertainty over future trading arrangements and the impact of COVID-19.

**8. Cyber Attack • Executive Responsibility: Chief Customer Officer, Chief Financial Officer, Company Secretary****Risk description and potential impact**

The risk of customer or employee data breaches, with resulting loss of significant amounts of personal data. The loss of head office data and corporate network could be the result of cyber attack. There is also the threat of data corruption for critical datasets, loss of systems and prolonged recovery times. Our network and control systems could be infiltrated, directly affecting water supply to customers.

**Mitigating actions**

Projects have been delivered in order to mitigate the risks associated with GDPR compliance and Cyber Essentials+ accreditation and maturity assessment work with DWI / Defra, which reduces likelihood of breach. Ongoing actions focus on technical, process related and cultural improvements to ensure we remain focussed on minimising the risk of attack.

**Movement in Risk Exposure:** Increased risk exposure due to planned improvements delayed due to COVID-19.

**9. Material regulatory reporting failure • Executive Responsibility: Director of Strategy and Regulation****Risk description and potential impact**

We are required to submit information to the regulator, Ofwat, in order to allow them to carry out their duties. For example, the Company Annual Performance Report is a report which details the financial and non-financial performance data for the year. This is a complex submission of several data tables, with multiple data owners and reporting processes. If we fail to provide accurate and appropriate reporting, deliberately or otherwise, inaccurate data will be reported and could cause in regulatory action.

In addition, tariffs are set for customers and wholesale charges based on data and information from the business which, if interpreted inaccurately could result in adverse reputational and regulatory consequences.

**Mitigating actions**

Maintenance of high standards, openness, integrity, regular interface and employment of skilled staff are all important steps take to maximise data and reporting integrity. Personnel are all aware of this need for integrity.

Established and robust internal and external review and assurance processes appropriate to significance of data.

**Movement in Risk Exposure:** The long-term risk exposure is broadly stable with marginal upward pressure from changes in the developer market and revenues impacted by COVID-19.

## 10. Significant Operational Failure • Executive Responsibility: Chief Operating Officer and Director of Strategy and Regulation

Risk description and potential impact	Mitigating actions
<p>As an operational business, reliant on our assets and processes to provide a safe, reliable water supply to our customers, there is a risk that a failure in any individual asset, process or activity could result in a material impact on our business. A prolonged failure in any area could result in missing performance commitments such as leakage targets, supply interruptions or similar obligations that could result in material financial penalties. Operational risks are broad and numerous, but include asset failure, fire, flood, or failure in treatment processes resulting in water quality failures.</p>	<p>We have established and robust processes to manage our assets across the business, and to understand at a detailed level the operational risks across the business. Our asset management function assesses, prioritises and mitigates these risks, based on information and collaboration with operational colleagues.</p> <p>Our key performance metrics, from water resources, through treatment works performance and costs, to network performance including leakage, supply interruptions and customer related indicators, are closely monitored by executive management and the Board, in order to ensure early sight of any potential areas of risk and action is then taken.</p> <p>We also have insurance in place for key risks such as fire, flood and similar to mitigate large scale asset related risks.</p>

**Movement in Risk Exposure:** No movement in risk exposure.

# Long Term Viability Statement

## Background

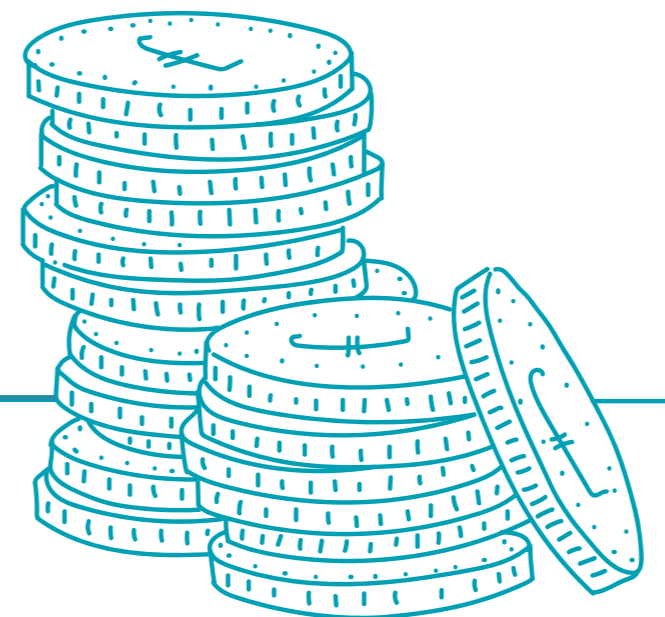
The directors of Bristol Water are responsible for ensuring the long-term viability of the company. The directors need to ensure the resilience of the Company by identifying, managing, avoiding or mitigating risks to supply, delivery and financial resilience. As such, the directors have carried out an assessment of the Company's financial outlook over a period of 10 years and with reference to the following underlying management processes and information:-

- Long term financial planning process
- Annual budgets
- Regular forecast updates
- Risk reviews, as presented and discussed by the Audit and Risk Assurance Committee and Board. The key risks have been set out on pages 37-46 of this report.
- Sensitivity analysis and stress tests of financial performance.
- Credit rating assessments and metrics, and the associated credit quality of the Company for financing purposes.

In performing this assessment, the directors also take into account other factors, including, Ofwat's statutory duty to secure that companies can finance the proper carrying out of their functions.

The water industry in England and Wales is currently subject to economic regulation and Ofwat, the economic regulator has a statutory obligation to secure that water companies can (in particular through securing reasonable returns on their capital) finance the proper carrying out of their functions. Ofwat meets this obligation by setting price controls for a five year period, with 1 April 2020 marking the start of the current period. This period runs until 31 March 2025, and Ofwat released in December 2019 its Final Determination of prices in respect of 2020-2025. There are a number of incentive mechanisms that adjust for performance that can amend price controls within this period.

As described in our Strategic Report, we decided to refer our Final Determination for AMP7 to the CMA, as whilst we agreed on many things with Ofwat, there are a few material, issues that we do not believe are appropriately addressed in Ofwat's determination. At the heart of these issues are issues around the financeability of the Company, including the cost of capital allowed for Bristol Water, the scale of the efficiency challenge posed by Ofwat, and the balance of risk in our overall plan. These are key risks to the business, and we have outlined them in greater detail in the Risk Review (see pages 37-46. The CMA reference is of critical importance to the long term viability and financial resilience of the business. We will, therefore, as with any change in a uncertainty, review our viability scenarios as circumstances change. We anticipate that the uncertainties may remain throughout 2020/21 as there are a number of factors we set out below which will reset our expected revenues for 2021 and beyond.





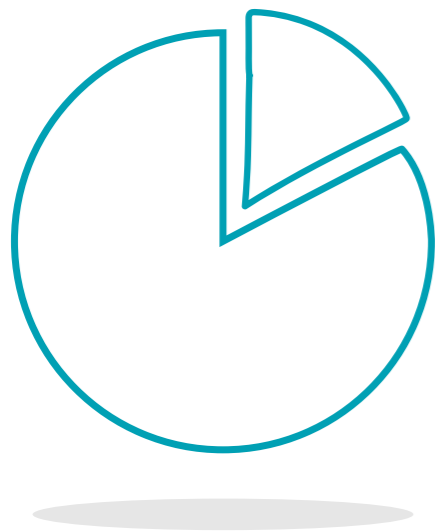
### Period of assessment

We have conducted our assessment of long term viability over a period of 10 years. In determining this period, we have taken into account the long-term nature of the business; the 25 year rolling licence period, the long term capital investment program and the 5 year AMP periods.

As noted previously, the current price controls run from 1 April 2020 to 31 March 2025, and is subject to Ofwat's Final Determination published in December 2019, which we have referred to the CMA. The uncertainties resultant from this are reflected in our modelling described further below.

When considering the Company's financial outlook beyond AMP7, it is necessary to make assumptions with regard to the price review process for the period 2025-2030 and the outcomes for AMP8. We have plans that extend through this period and are reliant on Ofwat's statutory duty to ensure that efficient companies can finance their functions, as well as the successful delivery of AMP7. These assumptions are embedded in our modelling.

Whilst we have referred our current determination to the CMA, we remain of the view that the regulatory mechanisms - including the ability to request a review of any determination that does not in our view support our long term viability - remain strong and support our 10 year rolling assessment period. However, by taking a longer timeframe, there is inherent uncertainty in the financial projections and will result in greater uncertainty around the potential outcomes. This notwithstanding, bearing in mind the long term nature of the Company's business, the criticality of water supply to our customers and communities, and the established nature of our planning process, we believe this period remains appropriate.



### Assessment process

We rely on a combination of debt and equity funding, to invest in the business for the future, and operate at an efficient level of return. In order to raise debt finance in particular, we rely on having an investment grade credit rating to raise debt at an efficient cost. As such, a key measure of our viability is our ability to maintain an investment grade credit rating, i.e. a Moodys rating of Baa3 or above. Ofwat's Final Determination is based on an assumption that water companies hold a Baa1 credit rating and apply a cost of debt aligned with this rating.

In assessing our long term viability, we therefore consider our likely credit rating alongside our funding facilities, cash flows, need for new funding and covenant compliance on existing arrangements. Our credit rating was downgraded from Baa1 to Baa2 consequent on the Final Determination, and remains on negative watch, such that there is a risk of further downgrade. Our quantitative modelling therefore considers the risk of downgrade, and in particular considers the impact of risks on our financial resilience and the possibility of a two notch downgrade to below investment grade credit rating. If we fail to maintain this credit rating, it will lead to restrictions being triggered on our existing loan covenants, difficulties in raising new debt at an efficient cost, and potentially being in breach of our operating licence.

Our public credit rating is undertaken by Moody's, who assess our credit worthiness using a grid of relevant considerations. This grid includes two primary ratios; Adjusted Interest Cover Ratio and Gearing. For comparative purposes, and to ensure an appropriately rounded position, we also model metrics under the Standard & Poor's methodology, which focus on the ratio of funds from operations to net debt (FFO to Net Debt). To ensure compliance with our existing securitisation framework we also monitor covenants under these requirements, which most significantly reflect an alternative calculation of interest cover and regulated asset ratio (the ratio of net debt to regulatory capital value).

### Risks

As described in the Risk Review, we have identified those key risks and standard economic shocks that could impact the long term viability of our business. These are the impact of the COVID-19 pandemic; an adverse outcome to our CMA reference; an adverse outcome to the arbitration with the Canal and River Trust; a material and sustained overspend on our expenditure allowances compared with the Final Determination; and/or a material underperformance on operational performance commitments, resulting in financial penalties. These risks have been reflected in our scenario modelling.

### Stress testing

We have performed quantitative financial scenario testing on the impact on our cash flows and credit ratings of the risks described above and in the Risk Review. The scenarios tested are described below, together with potential mitigating actions. Our base case reflects our view of a financeable long-term business plan, as submitted to the CMA in our Statement of Case, taking into account that

for 2020/21 our revenues are based on charges calculated on the basis of the Ofwat PR19 Final Determination. The only group company relevant to the viability assessment of Bristol Water is BWBSL, the joint venture of Bristol Water's Holding company, due to the retail service functions it provides to the Company. These are inherently considered within the scenarios set out on the following pages.

Risk identified	Scenario modelled	Mitigating actions
1. The impact of the COVID-19 leads to an extended downturn in the wider economy	Implications for the wider economy are significant, resulting in prolonged impact on both the Company and customers, delays in achieving our transformation programme and higher levels of bad debt.	Careful management of cash flows in short term to mitigate pressure on liquidity and financial metrics.  This mitigation is likely to be effective because the main impact of revenue reduction is a cash flow timing difference only.
2. The revenues resulting from the CMA determination are lower than our requirements.	We consider that our Business Plan, as reflected in our Statement of Case to the CMA is an appropriate, challenging and financeable business plan, for ensuring a high quality of service to our customers whilst ensuring the long term resilience of the business. As the CMA will reach its own view and may also take into account new information not currently available to us, we have modelled a range of possible outcomes to the CMA reference. If the outcome of the CMA reference is below our current assumptions, in some scenarios this could lead to significant pressure on the credit rating metrics and financial position of the Company.	Equity retention by restricting dividends.  Identify and implement short-term cost savings and efficiencies, in excess of what we currently believe to be long-term sustainable levels and to manage the financial implications of performance penalties on cash flow and credit metrics.  Reduce or defer capital programme to manage cash flow and credit metrics
3. Canal and River Trust arbitration results in an increased cost for abstraction from the Gloucester & Sharpness Canal. (Risk 4 in the Risk Review)	The arbitration process may conclude that a lower or higher level of cost is justifiable for abstracting water from the Gloucester & Sharpness Canal. This would lead to cost decreases or increases, backdated from 1 April 2018, which could lead to material cash flow implications in 2020/21 and 2021/22. We assume that 75% of an ongoing material change in cost will be reflected in our revenues from 2022/23, based on the Notified Item included in our PR19 Final Determination for this uncertainty.	Equity retention by restricting dividends.  Careful management of cash flows in short term to mitigate pressure on metrics.  This mitigation is likely to be effective because of the regulatory protection in place for cost decreases or increases arising from this uncertainty.

Risk identified	Scenario modelled	Mitigating actions
4. Totex underperformance (see Risk 3 in Risk Review)	We assume a level of 'totex' (combined capital and operating expenditure) spend in line with our plans. We have a transformation programme underway in order to deliver the efficiencies assumed in our plans. We target our expenditure at what is believed efficient in the long-term to meet our performance commitments, which also allows for short-term flexibility in response to cost pressures. The degree of short-term cost control if we spend in excess of this value, will result in a deterioration in financial metrics, which could impact the Company's solvency and cost of debt.	<p>Reduce discretionary expenditure in the short term.</p> <p>Equity retention by restricting dividends. Note that this is an automatic consequence from our 2020-25 dividend policy</p> <p>Implement medium term cost reduction programme to deliver sustainable cost savings</p>
5. Failure to deliver operational performance in line with performance commitments	Failure to deliver what we have promised to customers results in financial penalties to the Company under the regulatory framework. We have considered the impact of such operational underperformance, which we assume for stress testing at 1% of regulated equity each year from 2022/23. This reflects the level indicated by Ofwat that would be considered as part of the annual determination of outcome delivery incentives, in order to support financeability and manage bill volatility for customers.	<p>Re-prioritising investment and targeting cost efficiencies in order to improve performance.</p> <p>Equity retention by restricting dividends. Note that this is an automatic consequence from our 2020-25 dividend policy.</p>
6. Changes in wider economic environment	We consider changes in the wider economic environment, such as inflation (positive or negative) changes, changes in interest rates and macroeconomic factors such as Brexit on our overall financial position.	<p>Our financial structure is designed to minimise the impact of such changes, with the regulatory framework also reducing risk in a number of areas.</p> <p>Equity retention by restricting dividends.</p>

Risk identified	Scenario modelled	Mitigating actions
7. Combined scenario of 1, 3, 4 and 5	A combination of scenarios has been modelled, to consider an overall downside scenario which reflects 10% overspend on costs, delays in our cost reduction programme and as a result of COVID-19, coupled with performance penalties.	<p>Re-prioritising investment and targeting cost efficiencies in order to improve performance</p> <p>Management action to minimise costs, manage timing of cash flows and implement medium term sustainable cost reductions.</p> <p>Equity retention by restricting dividends.</p>
8. Combined scenario of 1, 2, 3, and 4	A combination of scenarios has been modelled, to consider an overall downside scenario. This is equivalent to 10% overspend on costs, coupled with lower revenues due to cost of capital allowances.	<p>This combined scenario would put significant pressure on our overall solvency, particularly if it continued for a sustained period. More material measures would need to be taken in order to mitigate the risks arising and ensure the long term viability of the Company.</p> <p>These would include suspension of dividends for the foreseeable future, cost reduction and restructuring, cash flow management.</p> <p>The regulatory mechanisms set out within the PR19 Final Determination are not on their own sufficient mitigation for this scenario. We will review this position as the uncertainties in the scenario are clarified during 2020/21.</p>

## Long Term Viability Statement (cont.)

The scenarios reflect a wide range of potential risks to the business, and vary in the extent to which they are considered reasonably probable of arising. However, to ensure appropriate downside scenarios are considered, the modelling has considered each risk on an individual basis, as well as the combined scenario described above. For example, our considered assessment is that the scenario modelled for the Canal and River Trust arbitration is a downside position that is unlikely to materialise. However, given that the arbitration process remains ongoing with a high impact if an adverse outcome does arise, it has been deemed appropriate to include this in the stress testing scenarios. In addition, management is of the view that the totex overspend is unlikely to materialise in reality on a sustained basis, given management action would need to be taken to avoid this in the medium term, albeit with potential impacts on operational performance.

The outcome of the individual quantitative scenario testing suggests that financial analysis should remain consistent with investment grade credit rating at lower levels, but only if supported by dividend restrictions and cost control mitigations. However, in some circumstances, more extensive action would be required for a combination of scenarios but consider the probability of these scenarios crystallising being unlikely.

We have also considered the impact of key operational failures in considering long term viability. We have insurance in place for many material, adverse events; although these would result in short term liquidity issues if such events were to arise requiring insurance to be drawn upon, these are important protections in the medium term.



### Review and assurance

The Board reviews and approves our business plans and financial models on which this viability statement is based. The Board, also reviews and challenges the risk review, with associated mitigating strategies, as well as approving the period over which the assessment of viability is made. The Audit and Risk Assurance Committee supports the Board in this review. The financial model used for quantified stress testing was reviewed by an independent third party and our external auditors, PwC, also considered this long term viability statement as part of their work.

### Viability Statement

The directors have assessed the viability of the Company over a 10 year period to 31 March 2030. In so doing, they have taken into account the Company's current financial position, the protections that exist under the regulatory regime including the ongoing protections provided by the CMA re-determination process, and the key financial projections over this period.

Scenarios have been assessed based on quantifying the financial impact of risks identified in the risk review, as well as wider macroeconomic implications for the business, and a combined downside scenario. Third party advice has been sought in order to ensure likely implications of the various scenarios on credit metrics are assessed appropriately, along with quantifying the impact of mitigating actions.

Based on the resultant assessment, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the 10 year period to March 2030.

### s172 Statement

The Company's Section 172 statement can be found on pages 106-108 in the Directors' report.

**Mel Karam**  
Chief Executive Officer  
13 July 2020

"Based on the resultant assessment, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the 10 year period to March 2030."



# Corporate Governance report

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# Chairman's introduction

## Keith Ludeman

Dear Shareholder

I am pleased to introduce our Corporate Governance report for 2020 on behalf of the Board of Directors of Bristol Water. The pages which follow provide details on the activities and governance processes of the Board and its Committees.

During 2019-2020, the Board spent a significant proportion of its time on operational delivery and strategic development. In particular, it was heavily engaged in scrutinising, and agreeing the Company's responses to, Ofwat's initial assessment and subsequent Draft Determination of the Company's 2020-2025 Business Plan in relation to the Ofwat Price Review 2020-2025 ("PR19"). Ofwat published its Final Determination for the Company in relation to PR19 on 16 December 2019. After much consideration, the Board resolved to request a referral and redetermination of its Final Determination to the Competition & Markets Authority ("CMA"). We set out for Ofwat and in our Statement of Case to the CMA that the Board believes that Ofwat's Final Determination is not financeable for Bristol Water as a small water only company. The referral is ongoing. More details on the scope of the Board's activities, discussions and actions are detailed on pages 68-69

My role, along with the Board, is to ensure that Bristol Water operates to the highest standards with a robust governance framework in order to deliver its objectives and meet stakeholder obligations. The Board sets the long-term strategy, which it monitors by both challenging and supporting the executive directors in its implementation.

In 2019 a board effectiveness review was carried out by the Company Secretary, based on a previous, externally commissioned board effectiveness review carried out by the consultancy, Indepen, in 2017/18. The evaluation of the 2019 Review by the Company Secretary concluded that the Board and Committees are effective and that the Directors

demonstrate commitment and time to their role. The review included some recommendations to improve board effectiveness further and these recommendations are being acted upon.

As Chairman, I continue to focus on maintaining a Board which is diverse, having a broad range of skills, backgrounds and perspectives. In 2018 there were a number of changes to the Board including the appointment of three new independent non-executive directors ("INED"s) to the Board in order to replenish and rebalance the composition of the Board and to ensure the Board's continued effectiveness. The relationships within the Board have been developed and strengthened in 2019/2020 and have enhanced the Board's effectiveness.

Lastly a word relating to COVID-19 and its impact on the Company. There was only a limited impact on the Company and its operations during 2019/2020, reflecting the fact that the UK Government escalated its response to the pandemic, and imposed a hard "lock-down" only in the last two weeks of the financial year 2019/2020. Further details on the operational and financial impact of COVID-19 on the Company is contained on pages 39-40

**Keith Ludeman**  
Chairman  
13 July 2020

"As Chairman, I continue to focus on maintaining a Board which is diverse, having a broad range of skills, backgrounds and perspectives."



# Board of Directors



**Keith Ludeman**

**Non-Executive Chairman, Chair of Nomination Committee**

Mr Ludeman was appointed to the Board in July 2012. He is the Non-Executive Chairman of the London Transport Museum, the Chairman of HS1 Limited and ten other subsidiary companies within the high-speed rail infrastructure group. He is also an independent non-executive director of Eversholt Rail Group and act as the Senior Independent Director of Eversholt Rail Group for governance purposes. He is also Chairman of London Luton Airport (with effect from May 2019) and an advisor to Lloyds Development Capital. Formerly he was Chief Executive Officer of Go-Ahead Group plc and has fifty years' experience in the transport industry.



**Mel Karam**

**Chief Executive Officer, Member of the Safety Committee**

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



**Laura Flowerdew**

**Chief Financial Officer**

Ms Flowerdew was appointed to the Board on 1 October 2018. Ms Flowerdew is a Fellow of the Institute of Chartered Accountants and joined the Company from Bristol Energy where she held the role of Finance Director. Ms Flowerdew has also held senior finance roles at Anglo American Plc, De Beers Group and Tribal Group Plc. Prior to that, she was a director at Deloitte in their Energy and Utilities business. She is also a non-executive director of Bristol and Wessex Billing Services Limited.



**Tim Tutton**

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

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



**Paul Francis**

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

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



**Jeremy Bending**

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

Mr Bending joined the Board on 25 October 2018 as an independent non-executive director. Mr Bending has over 40 years' experience in the power and utilities sector and was previously Chief Operating Officer of National Grid Gas Distribution and Director of Network Strategy at National Grid. He is a Chartered Engineer and a member of the Institute of Asset Management. Mr Bending is a non-executive director of Phoenix Natural Gas Limited, Glover Gas and Power BV and a director and owner of Armco Solutions Limited.



**Jim McAuliffe**

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

Mr McAuliffe was appointed to the Board on 29 November 2018. Mr McAuliffe is a Chartered Accountant and held the role of Finance Director at Bristol Airport from 2002 until July 2018. He remains a trustee of the Bristol Airport Pension Scheme. Mr McAuliffe is also a member of the Board of Lighthouse Relief, a Swedish NGO which provides emergency relief and long-term support to refugees in Greece, a consultant with the Management Consultancy Crucial Connexions and a member of the Bristol & West of England Advisory Group for Common Purpose, a global leadership development programme.



**Hajime Ichishi**

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

Mr Ichishi was appointed to the Board of Bristol Water plc on 10 May 2012. He is a Manager at the ITOCHU Corporation of Japan, responsible for development of ITOCHU's water, environment, social and transportation infrastructure sector project in Europe, the Middle East, Africa, CIS and North and South America. He has held various senior positions within the Itochu group. He is also a non-executive director of Canaragua Concesiones, S.A. and Bristol Water Group Limited, Bristol Water Core Holdings Limited, Bristol Water Holdings Limited, and Bristol Water Holdings UK Limited.



**Paul Malan**

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

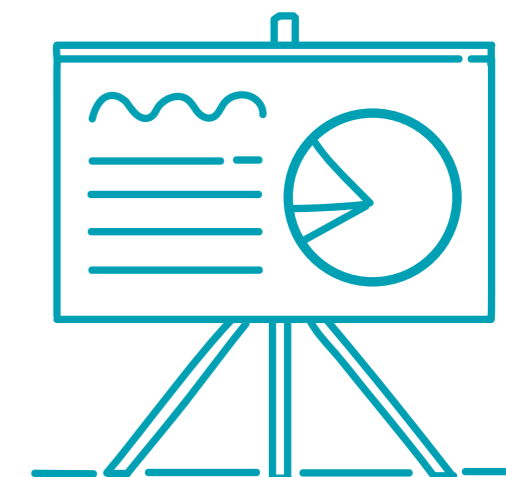
of experience in infrastructure advisory and investment at iCON Infrastructure LLP, Deutsche Bank AG and Macquarie Bank Limited. He was appointed to the Board on 7 July 2016. Mr Malan is a non-executive director of iCON III Bristol Limited, iCON III Water Investments Limited, Bristol Water Group Limited, Bristol Water Core Holdings Limited, Bristol Water Holdings Limited, and Bristol Water Holdings UK Limited.



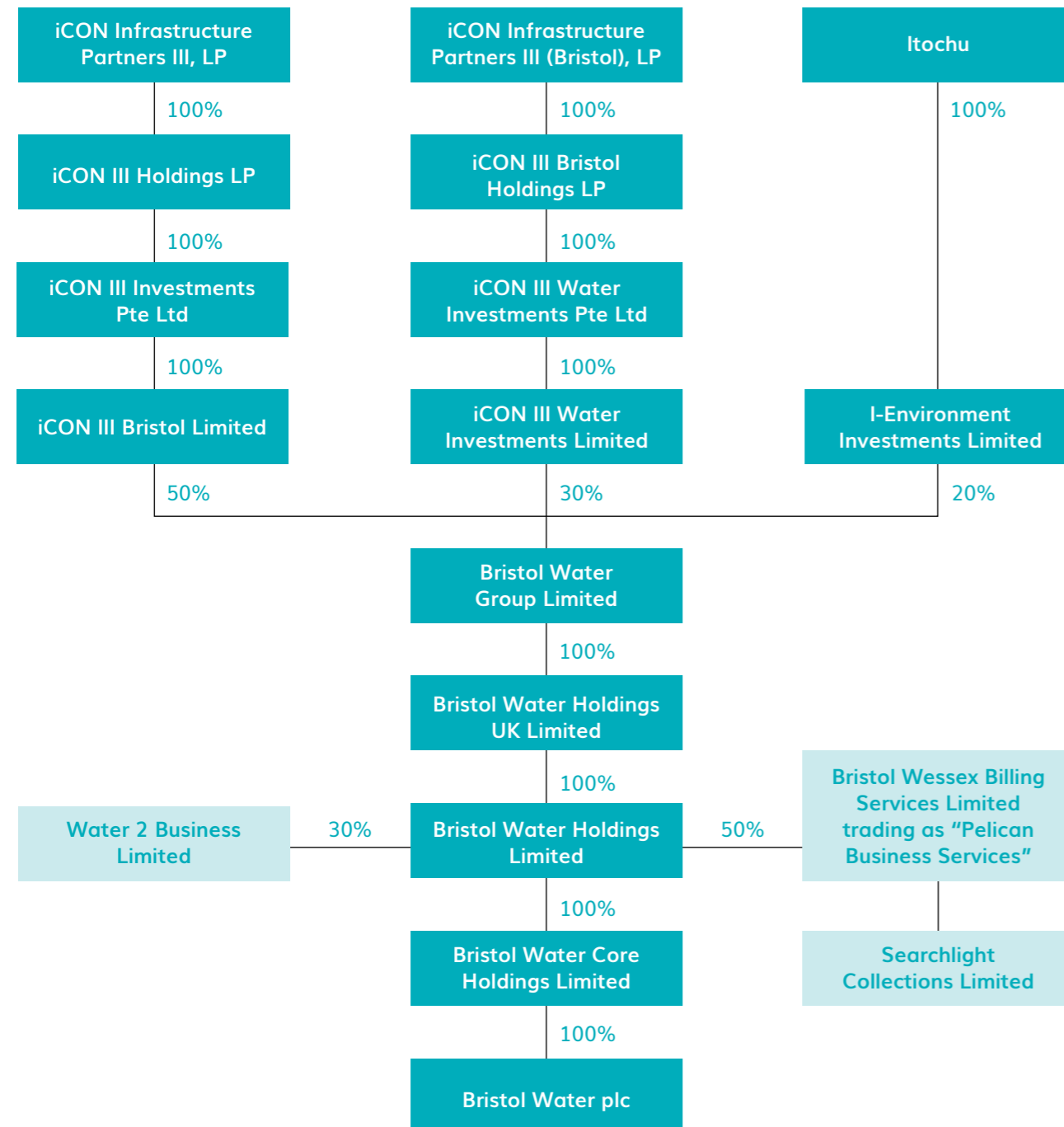
**Indradoot Dhar**

**Non-Executive, Member of ARAC**

Mr Dhar is a member of the iCON Infrastructure LLP team where he focuses on asset oversight and risk management. Prior to joining iCON Infrastructure, he worked at Cambridge Associates, a global investment consultancy firm, and Deutsche Bank AG. He was appointed to the Board on 8 May 2018. Mr Dhar is a non-executive director of Bristol Water Group Limited, Bristol Water Core Holdings Limited, Bristol Water Holdings Limited, and Bristol Water Holdings UK Limited.



# Ownership and corporate structure



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 Holdings LP	Singapore Limited Partnership, domiciled in Singapore	No Designated Members General Partner – iCON Infrastructure Management (Singapore) Pte. Ltd
iCON III Investments Pte. Ltd	Singapore incorporated Limited Company, domiciled in Singapore	Allen Tan Han Loong Indradoot Dhar Edmund Tang Koon Kay
iCON III Bristol Limited	Incorporated in Guernsey Tax resident in the UK	Paul Malan Richard Stevens
iCON Infrastructure Partners III, (Bristol), LP	English Limited Partnership, domiciled in Guernsey	No Designated Members Managing General Partner – iCON Infrastructure Management III Limited
iCON III Bristol Holdings LP	Singapore Limited Partnership, domiciled in Singapore	No Designated Members General Partner – iCON Infrastructure Management (Singapore) Pte. Ltd
Icon III Water Investments Pte. Ltd	Singapore incorporated Limited Company, domiciled in Singapore	Allen Tan Han Loong Indradoot Dhar Edmund Tang Koon Kay
iCON III Water Investments Limited	Incorporated in Guernsey Tax resident in the UK	Paul Malan Richard Stevens
Bristol Water Group Limited iCON III Bristol – 50% iCON III Water – 30% I-Environment Investments – 20%	Incorporated in England & Wales Holding company	Hajime Ichishi Paul Malan Indradoot Dhar
Bristol Water Holdings UK Limited Wholly owned by Bristol Water Group	Incorporated in England & Wales Holding company	Hajime Ichishi Paul Malan Indradoot Dhar
Bristol Water Holdings Limited Wholly owned by Bristol Water Holdings UK Limited	Incorporated in England & Wales Holding company	Hajime Ichishi Paul Malan Indradoot Dhar
Bristol Water Core Holdings Limited Wholly owned by Bristol Water Holdings Limited	Incorporated in England & Wales Holding company	Hajime Ichishi Paul Malan Indradoot Dhar
Bristol Water plc Wholly owned by Bristol Water Core Holdings Limited	Incorporated in England & Wales Holds Water Undertaker Licence under Water Industry Act 1991	Details of Directors on pages 58 to 59
Bristol Wessex Billing Services Limited 50% owned by Bristol Water Holdings Limited	Incorporated in England & Wales Joint venture billing company	Colin Skellet Andrew Pymer Ben Newby Laura Flowerdew
Searchlight Collections Limited Wholly owned by Bristol Wessex Billing Services Limited	Incorporated in England & Wales Debt collection company	Alex Chapman Amy Badman
Water 2 Business Limited 30% owned by Bristol Water Holdings Limited	Incorporated in England & Wales Non Household Retailer Holds water supply licence	Jeremy Smith Alan Morgan Mark Watts

## Ownership and corporate structure

The Board of Bristol Water 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.

As at 31 March 2020, 80% of Bristol Water was ultimately owned by two investment funds (the "iCON Funds") which are affiliated with iCON Infrastructure LLP ("iCON"), with the remaining 20% of Bristol Water owned by I-Environment Investments Limited, a UK subsidiary of Itochu Corporation ("Itochu"). The iCON Funds interest are split as follows: iCON Infrastructure Partners III, L.P. ("iCON III") own 50% and iCON Infrastructure Partners III (Bristol), L.P. ("iCON Bristol") owns 30%.

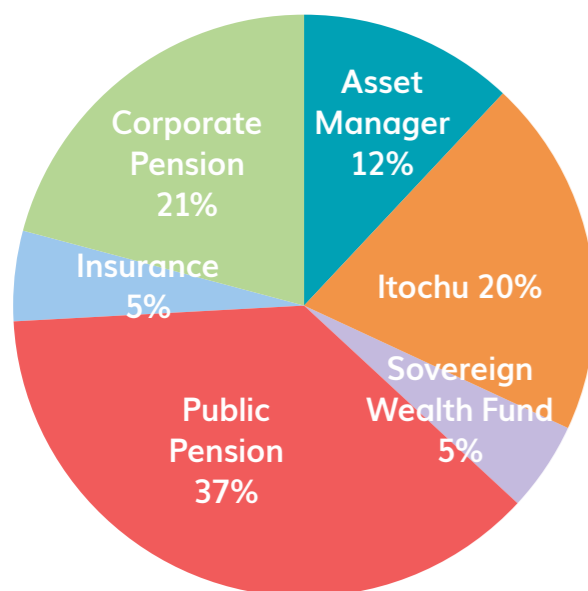
The iCON Funds have owned their interests in Bristol Water since 2016. They are constituted as English limited partnerships, which are domiciled in Guernsey. The iCON Funds employ typical partnership structures used for institutional investment, pursuant to which partners themselves (rather than the 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 the UK, Germany, France, Canada, the United States and Japan. Further information concerning iCON, which is an experienced investor in the UK water sector, can be found at [iconinfrastructure.com](http://iconinfrastructure.com).

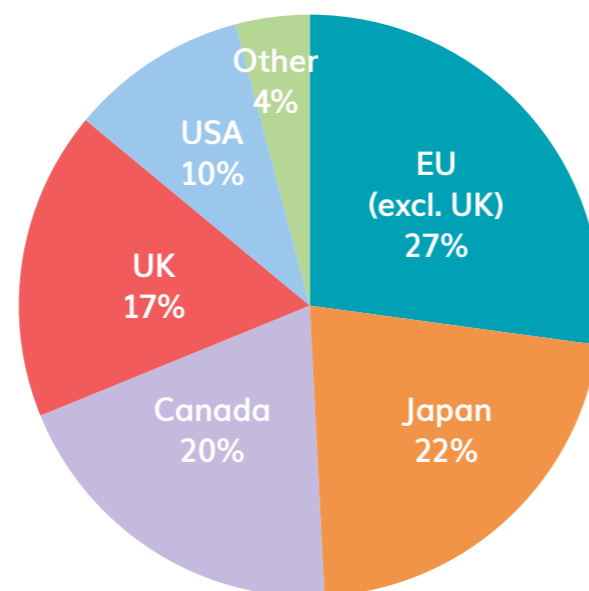
Itochu has owned its indirect 20% shareholding in Bristol Water since 2012. Itochu is a diversified group based in Japan which is listed on the Tokyo stock exchange. Further information concerning Itochu can be obtained at [itochu.co.jp/en/](http://itochu.co.jp/en/).

The graphs below show the beneficial ownership of Bristol Water by both investor type and country:

Beneficial Ownership by Investor Type



Beneficial Ownership by Country



The ultimate holding company of Bristol Water is Bristol Water Group Limited ("Bristol Water Group"), which is a UK incorporated and UK tax resident company. The iCON Funds and Itochu are indirect investors in Bristol Water Group. The iCON Funds hold their interests in Bristol Water Group through intermediate holding entities domiciled in Singapore (as detailed in the group ownership structure on page 60). The direct holding companies were incorporated in Guernsey but which are tax resident in the UK, namely iCON III Bristol Limited in the case of iCON III and iCON III Water Investments Limited in the case of iCON Bristol. Itochu owns its shareholding through a UK incorporated and UK tax resident holding company, which is a 100% owned subsidiary.

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

### Financing and dividend policy of the group with its ultimate shareholders

During the year, Bristol Water paid dividends of £6.3m (2018/19: £6.3m) to its immediate holding company Bristol Water Core Holdings. Of this dividend, £3.3m was returned to Bristol Water in respect of interest owing on intragroup debt facilities (see below under "Group financing arrangements") and the £3.0m balance was to part re-pay loans provided by Bristol Water Holdings UK Limited. No dividends were paid during the year (2018/19: £nil) by Bristol Water Group to the holding companies of Itochu or the iCON Funds.

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

In December 2016, the iCON Funds and Itochu contributed £9.0m additional funds to the group. These funds were provided on a short-term, non interest-bearing basis to Bristol Water Group by the holding companies of the iCON Funds and Itochu, pro-rata to their ownership interests in Bristol Water Group. They were on-lent by Bristol Water Group to Bristol Water Holdings UK to fund payments to Agbar, a previous part owner of

Bristol Water Holdings UK, on 15 December 2016 in connection with the ending of an operations and maintenance arrangement between Agbar and Bristol Water Holdings UK. In 2019 the repayment date of these loans was extended to 31 December 2021 and the principal amount outstanding of the loans as at 31 March 2020 was £5.6m (2019: £5.6m).

As at 31 March 2020, Bristol Water's net debt, excluding preference shares, was £372m (2019: £331.0m) corresponding to a ratio of 66.3% of its regulated asset base, which is in reasonably close proximity to the 62.5% notional capital structure that Ofwat assumed for water companies in AMP6. The net debt of the consolidated group comprising Bristol Water Group and its subsidiaries is also consistent with Ofwat's assumption, after adjusting for the £5.6m of short-term receivables and accounting for mark-to-market adjustments for debt arising at the time of Bristol Water Group's acquisition of its interests in the group.

### Group financing arrangements

There are two upstream loans from Bristol Water to its intermediate 100% shareholder BWHUK: a £47.0m (2019: £47.0m) loan earning interest of 6.042% and an £18.5m (2019: £21.5m) loan earning interest of 5.550% (together the "Upstream Loans"). These loans were advanced to the Company in 2003 and 2005, respectively and on 31 March 2020 the Company repaid £3.0m of the 2005 loan. Bristol Water received interest payments of £3.3m net of tax in respect of the Upstream Loans from Bristol Water Holdings UK in the year ended 31 March 2020 (2018/19: £3.3m). These interest payments are currently funded by dividends received from Bristol Water. These Upstream Loans are entirely internal to the consolidated group headed by Bristol Water Group.

### Governance

iCON has confirmed that the iCON Funds are aware and supportive of Ofwat's Principles of "Board leadership, transparency and governance" published in January 2019 (which superseded and replaced the previous version published in April 2014), which sets out Ofwat's expectations for holding companies of regulated water companies to show their adherence to the highest standards of corporate governance. Compliance with these principles became a condition of the Company's undertaker's licence with effect from August 2019.



## Ownership and corporate structure

There is a list of matters that are reserved for the Board of Bristol Water which indicates where shareholder approval may be required. This is available on our website<sup>1</sup>. Where shareholder approval is required, this is obtained prior to approval by the Bristol Water Board.

During 2019/20 all Board decisions were made by the Bristol Water Board and no decisions were reserved for shareholders or for Bristol Water Holdings Ltd.

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 a new Corporate Governance Statement for the next financial year which has been approved by the Board; and
- It will support Bristol Water's ability to make strategic and sustainable decisions in the long-term interests of the Company.



<sup>1</sup> [www.bristolwater.co.uk/wp-content/uploads/2018/09/2018-Apr-23-Matters-Reserved-for-the-Board-of-Bristol-Water-plc-Final.pdf](http://www.bristolwater.co.uk/wp-content/uploads/2018/09/2018-Apr-23-Matters-Reserved-for-the-Board-of-Bristol-Water-plc-Final.pdf)

## Corporate Governance report

### Principles of Corporate Governance

In May 2019 Bristol Water adopted a new Corporate Governance Statement (the "BW Corporate Governance Statement") which had effect from April 2019 and replaced the Company's former Corporate Governance Code. The BW Corporate Governance Statement confirms the Board's commitment to maintaining trust in Bristol Water's reputation for high standards of conduct, beyond just as a dependable provider of an essential water service. The Statement also confirms the Board's commitment to compliance with the UK Corporate Governance Code as published by the Financial Reporting Council in 2018 (the "UK Corporate Governance Code") the "Ofwat Principles". The Ofwat Principles are set out in the Ofwat document "Board leadership, transparency and governance" published in January 2019 and re-enforce the UK Corporate Governance Code. With effect from August 2019, Compliance with the Ofwat Principles is a condition of the Company's Licence.

The Corporate Governance Statement is available on our website<sup>2</sup>; and our Long Term Viability Statement can be found on pages 47-52.

Bristol Water is a private company with listed debt including Cumulative Irredeemable Preference Shares but no listed ordinary shares as categorised as a 'standard listing' on the main market of the London Stock Exchange. It is therefore not under an obligation to report compliance with the UK Corporate Governance Code, however, the conditions of our Water Licence require us to report as if we have a 'premium listing'. The Board is pleased to confirm that Bristol Water complied with the provisions of the Ofwat Principles and also the UK Corporate Governance Code, with one exception, namely that the Company does not have a majority of independent non-executive directors appointed to the Board. As summarised on pages 58-59 there are four independent non-executive directors (INEDs) of the Company on the Board plus our Chairman. Our non-executive director Chairman is not considered independent for the purposes of the UK Corporate Governance Code owing to the length of his appointment. The Board also

comprises two executive directors - the Chief Executive Officer and Chief Financial Officer - and a further three non-executive directors, two of whom are designated by the iCON Funds and other of whom is designated by Itochu Corporation.

It is not considered proportionate to increase the size of the Board further by appointing additional independent non-executive directors. The Board composition is already diverse and covers a mix of skills and expertise as well as regional connections. Accordingly, given the relatively small size and turnover of the Company it is not considered necessary or proportionate to appoint additional directors solely for the purpose of compliance with this provision of the Code.

The requirement in the "Ofwat Principles" that the independent non-executive directors comprise the largest group on the Board is met.

<sup>2</sup> [www.bristolwater.co.uk/wp-content/uploads/2019/07/Bristol-Water-Corporate-Governance-Statement-July-2019.pdf](http://www.bristolwater.co.uk/wp-content/uploads/2019/07/Bristol-Water-Corporate-Governance-Statement-July-2019.pdf)

## Corporate Governance report

The table below gives an indication of the key specific areas of skills and experience that Board members provide mapped against the principal Board skills and experience requirements of Bristol Water.

### Role of the Board

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

The Board is responsible to all of the Company's stakeholders for the approval and delivery of the strategic objectives of Bristol Water, by ensuring that all financial, technical and human resources are in

place and also lead the Company within an effective framework of monitoring and managing risk.

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

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

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

	Keith Ludeman	Tim Tutton	Jeremy Bending	Paul Francis	Jim McAuliffe	Indradoot Dhar	Hajime Ichishi	Paul Malan	Mel Karam	Laura Flowerdew
Utility / Infrastructure industry or equivalent experience	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Finance				✓	✓	✓	✓	✓		✓
Regulation	✓	✓	✓	✓					✓	✓
Customer Experience	✓				✓				✓	✓
Community	✓				✓				✓	
Health & Safety	✓		✓	✓					✓	
Infrastructure investment	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Culture change			✓		✓				✓	✓
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 its effectiveness. The Chairman sets the agenda for the Board meetings, in consultation with management, providing adequate time for each agenda item. He is responsible for the culture of the boardroom which is one of openness, debate and constructive challenge, encouraging the effective contribution of all NEDs.

#### Non-executive directors (NEDs)

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

- **Audit and Risk Assurance Committee ("ARAC")** which reviews the integrity of financial information, financial controls and risk management;
- **Nomination Committee** which oversees the Board composition and succession planning;
- **Remuneration Committee** which reviews company remuneration policy and Executive remuneration packages;

The Safety Committee reviews and oversees the Company's Health and Safety strategy, objectives and performance and events and circumstances affecting the Health and Safety of our employees, contractors, customers and the wider public. By virtue of its remit it necessarily comprises a number of operational senior managers of the Company. As a result, whilst there is not a majority of Independent

Non-Executive Directors appointed as members of the Safety Committee, it is chaired by an Independent Non-Executive Director (Jeremy Bending).

The 2019 Ofwat Principles of Board Leadership Transparency and Governance includes requirements such as:

- independent directors (including an independent chairman) are the largest single group on the Board, compared with (i) executive directors, and (ii) NEDs 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 NEDs (including an independent chairman) on the Board.

We set out in our risk and compliance statement to Ofwat that we comply with all of Ofwat's Principles of Board Leadership, Transparency and Governance. A copy of the letters of appointment for non-executive directors are available to shareholders by writing to the Company Secretary.

#### Board meetings and attendance

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

Members of the Board	Meetings attended	Max possible	Percentage attendance during appointment period
K Ludeman, Chairman	12	12	100%
M Karam, Chief Executive Officer	12	12	100%
L Flowerdew, Chief Financial Officer	12	12	100%
P Malan, NED	12	12	100%
H Ichishi, NED	12	12	100%
T Tutton, INED	12	12	100%
I Dhar, NED	12	12	100%
P Francis, INED	12	12	100%
J Bending, INED	12	12	100%
J McAuliffe, INED	12	12	100%

## Corporate Governance report

### Board Composition

As at 30 May 2020 the Board of Bristol Water (the "Board") comprised the Chairman (a non-executive director), two executive directors and seven other NEDs. Five of the NEDs (including the Chairman) are, in the opinion of the Board, independent (however, for the purposes of the UK Corporate Governance Code the Chairman is not considered as independent). None of the NEDs have served for more than nine years on the Board.

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

### Independence of Non-Executive Directors ("NED")

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

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

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

The Board considers the Chairman to be the principal point of reference to whom concerns of whatever nature may be conveyed. Mr Tutton is the senior independent non-executive director ("SINED") on the Board and in the event that an individual does not wish to raise a concern with the Chairman, such concerns may be raised with Mr Tutton.

### Board activities

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



Topic	Discussion
Safety	<ul style="list-style-type: none"> <li>Company Health &amp; Safety KPIs</li> <li>Company Health &amp; Safety Strategy and Objectives</li> <li>Contractor Health &amp; Safety KPIs</li> <li>Significant Safety Incidents</li> <li>Safe Control of Operations Procedure implementation</li> </ul>
Customers	<ul style="list-style-type: none"> <li>Customer Service Updates</li> <li>C-Mex performance measures review</li> <li>CC Water KPI performance</li> <li>Billing platform</li> <li>Feedback from Challenge Panel</li> </ul>
People	<ul style="list-style-type: none"> <li>Wellbeing of employees</li> <li>Considered the results of the employee engagement survey</li> <li>Equality, Diversity and Inclusion Strategy</li> <li>Gender Pay Gap</li> <li>Senior management team selection and development</li> <li>Approval of annual employee pay awards</li> </ul>
Operating Performance	<ul style="list-style-type: none"> <li>Continual review of performance to AMP6 performance commitments and ODIs</li> <li>Review of general operating performance</li> <li>Responses to incidents</li> <li>Sub-contractor performance</li> <li>Leakage performance</li> <li>Metering targets</li> <li>Transformation and efficiency gains plans</li> <li>Impact of COVID-19</li> </ul>
Finance	<ul style="list-style-type: none"> <li>Annual budget approval</li> <li>Approval of Annual Report and Accounts for the previous year ended 31 March 2019 and interim accounts for six months ended 30 September 2019</li> <li>Annual Performance Report and Assurance</li> <li>Review of Artesian cash flow and investor reports</li> <li>Review of financial performance against budget and forecast</li> <li>Funding requirements</li> <li>Review of long-term financial viability and going concern status</li> <li>Review of financial and credit metric performance against covenant and rating agency methodology</li> <li>Strategy for the period</li> </ul>
Regulatory	<ul style="list-style-type: none"> <li>Review and approval of 2018/19 Business Plan for AMP7 2020-2025 and responses to Ofwat Initial Assessment and Draft Determination and review of Final Determination and the necessity of requesting a referral of it to the CMA</li> <li>Social Contract Strategy and Programme</li> <li>Annual Performance Report and Assurance</li> <li>Interim Performance Report and Assurance</li> <li>Water Resource Management Plans</li> <li>Review of licence and other regulatory consultations</li> <li>Condition R Compliance Statement</li> <li>Review and approve the quarterly Ofwat Commitments Monitoring Report</li> </ul>
Governance & Risk	<ul style="list-style-type: none"> <li>Major contract awards (of £1m or more value)</li> <li>Procurement and Selection of new Network Maintenance delivery tender partners</li> <li>Review of measures associated with prescribed status</li> <li>Review principal risks</li> <li>Review of governance framework</li> <li>Board effectiveness review and Chairman evaluation</li> <li>Reappointment of external auditor and review of non-audit fees compliance with ethical standards</li> <li>Effectiveness of internal controls and risk management processes</li> <li>General Data Protection Regulations ("GDPR")</li> <li>Renewal of Policies and Procedures</li> </ul>

## Corporate Governance report

### Accountability

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

Details of how the Company generates and preserves value over the long-term is set out in the Strategic Report on pages 8-52.

### Evaluation of Board effectiveness

In accordance with Ofwat's "Principles of Board Leadership, Transparency and Governance" updated in January 2019, it is required that an annual evaluation of the performance of the Board is undertaken to ensure that its composition has the right balance of skills, experience, independence, knowledge and diversity, in addition to evaluating how stakeholder needs are addressed and how the overarching objectives of the Board are met.

The Board has established a formal process for the evaluation of the effectiveness of the Board and its Committees with an external review conducted every 3 years. During 2017/18, the Chairman engaged with Ann Bishop of Indepen Limited to undertake a Board Effectiveness Review. During 2019 an internal Board Effectiveness Review (the "2019 Review") was undertaken based on a questionnaire issued to directors by the Company Secretary. In May 2019, the Chairman met with the Board to discuss the findings of the 2019 Review and to assess the performance of the Board based on those findings.

The recommendations include streamlining of Board Packs, investigating software solutions for "virtual" board paper portals and increasing the amount of time spent by the Board on strategy and strategic issues. Board packs are now provided in soft copy format only and the Company secretary has worked closely with the Chairman of the Board and the Chairs of the various Board Committees to improve the quality and relevance of information comprised in them. The Company Secretary has been asked to investigate and evaluate the options for online portals and digital tools to share Board information and papers, however this remains an ongoing process at this time. The Board has engaged extensively in strategic issues,

principally its oversight and scrutiny of the Company's business plan for 2020-2025 ("AMP7") and the conclusion of the Company's PR19 price review process with its regulator Ofwat as well as scrutiny and endorsement of the Company's Social Contract strategy programme and strategy to further improve employee engagement.

The recommendations from that Review have continued to be implemented during this financial year and the Board regularly monitor progress. A further internal Board Effectiveness Review is currently being conducted, based on a similar questionnaire issued to the directors by the Company Secretary in June 2020 and the results and any additional recommendations to improve Board effectiveness will be discussed by the Board in July 2020. The focus of the review and recommendations is to ensure that the relationships within the Board develop and strengthen based on the actions taken in 2019/20 and that the Board's effectiveness is enhanced further.

The NEDs met without the Executive Directors present on 30 May 2019 and are scheduled to do so again in July 2020.

The Senior Independent Director and the NEDs met without the Chairman present on 30 May 2019 to appraise the Chairman's performance. The Senior Independent Director had, prior to the meeting, issued to directors a Chairman Performance Evaluation Questionnaire, the results of which were reviewed at this meeting. The Senior Independent Director and the INEDS are scheduled to meet again in July 2020 to appraise the Chairman's performance. That further discussion will similarly be informed by the outcome of a Chairman Performance Evaluation Questionnaire.

Such interaction ensures that the members of the Board, and in particular the NEDs, develop an understanding of the views of shareholders and vice versa.

### Information and support

The directors are provided with appropriate, accurate and relevant financial and operational information necessary for them to discharge their duties. The management information is prepared by senior management of the Company and produced on a timely basis for consideration and review by the directors. Clarification, amplification and specific updates are provided as requested by directors. Senior

managers who are not Executive, periodically attend the Board to provide appropriate levels of information on key issues.

On 30 May 2019 Helen Hancock was appointed as Company Secretary. She is a qualified solicitor with over 30 years' experience in corporate, commercial and finance law.

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 Effectiveness evaluation process carried out annually.

### Induction and training of Directors

New directors receive appropriate induction on their appointment to the Board covering the activities of the Company and its key business and financial risks, the terms of reference of the Board and its committees and the Company's latest financial information. During 2019/20 there were no new appointments to the Board.

Ongoing training is provided as necessary and includes updates from the Company Secretary on changes to the Listing Rules, requirements under the Companies Act and the general laws of England and Wales, 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 directors their training and development needs. Also, all the directors have access to independent professional advice at the Company's expense where they judge it necessary to discharge their duties, with requests for such advice being authorised by the Chairman or the Company Secretary.

### Risk management and internal control

The Company has complied and continues to comply with the UK Corporate Governance Code provisions on internal control having established the procedures necessary to implement the guidance issued in 2014 by the Financial Reporting Council, Guidance on Risk Management and Related Financial and Business Reporting and by regular review and reporting in accordance with that guidance.

The Board has overall responsibility for the system of risk management and internal control, and for reviewing its effectiveness; whilst the role of

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

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

- A regular risk identification, assessment and mitigation process, which is performed across the business, with robust challenge from the executive team before being submitted to the Audit and Risk Assurance Committee ("ARAC") for review. The Board has regular discussions on risks and controls, as supported by the ARAC.
- An internal audit plan is prepared on a rolling 3 year cycle, based on the key risks identified, and to ensure key mitigating controls operate effectively.
- Regular reporting on key performance indicators, regulatory performance commitments and financial outcomes to gain visibility of the business and its operations.
- With the onset of the COVID-19 pandemic, more frequent updates on changes in the business, risks arising and mitigating action plans have been taking place with the Board in order to manage closely this specific risk

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.

In addition, the Company has a schedule of matters reserved for the Board which is available on our website, [www.bristolwater.co.uk/wp-content/uploads/2018/09/2018-Apr-23-Matters-Reserved-for-the-Board-of-Bristol-Water-plc-Final.pdf](http://www.bristolwater.co.uk/wp-content/uploads/2018/09/2018-Apr-23-Matters-Reserved-for-the-Board-of-Bristol-Water-plc-Final.pdf)

## Corporate Governance report

The Company operates through a formal board structure.

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;
- reviews the role of insurance in managing risks;
- reviews and approves financial budgets and emerging financial results; and
- reviews and scrutinises the Company's business plans and responses in respect of in and the progress of the Ofwat Price Reviews (the most recent one being for the period 2020-2025 ("PR19")).

The ARAC:

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

The Safety Committee:

- reviews the Company's Health and Safety Strategy and Objectives;
- reviews and monitors the Company's performance against a range of leading and lagging Health and Safety Key Performance Indicators;
- reviews significant accidents both within and outside the Company to identify Health and Safety learnings and best practice;
- reviews the impact of events and circumstances impacting significantly on the safe operation of the Company's business as a water undertaker; and
- reviews changes to the Company's Health and Safety Policies and Procedures and new Health and safety Policies and Procedures.

The Audit and Risk Assurance Committee undertook an updated assessment of risk management and control arrangements, including the risk register, in November 2019 and concluded that the overall internal control framework remained effective. The review included an assessment of the effectiveness of internal controls within the group's joint venture, BWBSL. A further report on internal risk controls and significant risks to the Company was presented to the Audit and Risk Assurance Committee in May 2020.

### Commitment

Sufficient time is available both for the executive and NEDs to undertake their responsibilities. The expected time commitment is considered as part of the appointment process of NEDs 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 NEDs.

Directors disclose their other commitments at the time of appointment. Further updates are made as required, if a NED takes any additional commitment. Non-executive directorships are stated in the Directors' biographies.

### Retirement and Re-election of Directors

All directors are subject to election by shareholders at the first annual general meeting after their appointment. At the Annual General Meeting of the Company held on 30 September 2019, in accordance with the UK Corporate Governance Code, all directors offered themselves for annual re-election by shareholders and were duly re-elected.

### Relations with Shareholders

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

### Directors' Conflicts of Interest and External Appointments

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

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

The Nomination Committee Report, ARAC Report, Safety Committee Report and Remuneration Committee Report form part of this Governance Section and are contained on pages 74-105.

The Board Diversity Policy is contained within the Nomination Committee Report on pages 74-75.



# Nomination Committee report

Keith Ludeman, Chair of the Nomination Committee

## Introduction

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



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

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

The committee is chaired by Keith Ludeman, and comprises the following INEDs; Tim Tutton, Paul Francis, Jeremy Bending, Jim McAuliffe and two shareholder NEDs, Paul Malan and Hajime Ichishi.

### Nomination Committee's Responsibilities

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

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

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

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

During the year, there were no meetings of the Nomination Committee, the Board having been substantially restructured in 2018. A review of the structure, size and composition of the Board was conducted at a meeting of the full Board of directors of the Company in May 2020.

### Diversity and succession planning

The Board has a 'Board Diversity Policy' which was updated and approved by the Board on 29 November 2018, which confirms that the Board is committed to:

- all searches for the Board candidates being conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender, age and ethnicity; and
- 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.

The Board Diversity Policy adopted in 2018 remains in effect, albeit that there have been no new appointments to the Board.

As part of the 2019 Board Effectiveness Review, detailed above, consideration was given to the number of external positions held by the NEDs to ensure that there was no over-boarding and that the directors have sufficient time to commit to Bristol Water.

The Board is committed to the principle of equal opportunities and equal treatment for all employees set out in the Company's Equal Opportunities Policy. The Remuneration Committee discussed and reviewed the Company's strategy for promoting greater equality, inclusion and diversity across its employee workforce in October 2019 and March 2020 and will continue to monitor developments in 2020/2021.

In 2019/20, the Company introduced a new Behavioural Competency Framework for all employees, based on the Company's stated core values of Trust, Accountability, Pride, Ambition, Supportiveness, Professionalism and Respect. In support of this the Company also introduced a new leadership and management development programme for senior managers – the L.E.A.D (Learn-Engage-ApPLY-Develop) Programme - designed to develop the core skills needed to drive performance through effective people management and leadership.

During the year eight employees completed our Talent Programme which provides additional and focused opportunities for employees that the Company believes can develop and become future leaders of the business.



# Audit and Risk Assurance Committee ("ARAC") report

Paul Francis, Chair of the Audit and Risk Assurance Committee

## Introduction

As Chair of the ARAC, I am pleased to introduce our report on the role of the ARAC and the work undertaken during this year.

The Board see the ARAC as a critical component of our governance processes, and set out on the following pages are details of our activities and discussions. In particular, the Committee continues to play a key part supporting the Board in discharging its responsibility on the integrity of the Financial Statements, risk management and internal controls and other risk and compliance matters.

### Attendance during the financial year

The constitution of the Committee and attendance is summarised in the table below.

The Company considers that Paul Francis, Chair of the Committee, possesses the necessary recent and relevant financial experience to effectively chair the Committee. In addition, the Company considers that all the members of the Committee possess relevant skills and experience to meaningfully support the activities of the Committee. The biographical details of all the members of the Company are shown on pages 58-59. The Company Secretary is secretary to the Committee.

In addition to the attendance set out below, the Chairman of the Board, CEO, CFO, External Auditors and Internal Auditors are invited to attend all meetings of the Committee. Other members of staff are also invited as appropriate.

Member of the Committee	Meetings attended	Maximum possible
Paul Francis, Chair	4	5
T Tutton, Non-Executive	5	5
H Ichishi, Non-Executive	5	5
I Dhar, Non-Executive	5	5
J Bending, Non-Executive	5	5
J McAuliffe, Non-Executive	5	5

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

### Committee's responsibilities

The ARAC's responsibilities include:

- ensuring the appropriateness of the Company's financial reporting, including the interim and annual financial statements and reviewing both accounting judgements and policies to ensure the presentation of the Company's activities is fair and balanced;
- oversight of the Internal and External Audit activities, including review of non-audit work undertaken by the statutory auditor;
- reviewing and challenging the risk management processes across the Company, including setting the Company's risk appetite; and
- reviewing and challenging the ongoing effectiveness of the internal control environment, including arrangements for raising concerns relating to fraud and similar matters.

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

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

### Meeting on 30 May 2019

- Review of Non-Audit Services Policy prior to recommendation for Board approval;
- Review and recommendation for Board approval of updated Data Protection Policy;
- Review of internal controls report on the Company's metering programme;
- Review of the progress on the Risk and Viability Statement for the Annual Report; and
- Review of key accounting policies, judgements and matters incorporated into the 2018/19 Annual Report and Accounts of the Company Report from the external auditors on initial audit work and findings in relation to the 2018/19 Annual Report and Accounts of the Company.

### Meeting on 26 June 2019

- Review of the draft final Annual Report and Accounts of the Company for the year 2018/2019 prior to recommending the same for approval by the Board;
- Review of the Company's Annual Performance report for submission to Ofwat including Long

Term Viability Statement prior to recommending the same for approval by the Board;

- Review of compliance submissions under the Company's financing documentation
- Further review of the draft Risk and Viability Statement and Going Concern Statement.

### Meeting on 28 November 2019

- Review and recommendation for approval by the Board of the interim financial statements of the Company for the six months ended 30 September 2019 and the related going concern statement;
- Review of the Company's Statement of Risks, Strengths and Weaknesses forming part of Ofwat's Company Monitoring Framework;
- Review of the Company Risk register and associated mitigation action plans;
- Update on the Company's internal audit plan for 2019/20 and proposals for updating assurance process;
- Review of fraud risk assessment conducted by an external consultant
- Review of internal audit reports, including relating to payments and capital procurement;
- Review of reports on potential data breach and improvements in control environment made; and
- Review of action taken by management to ensure compliance with new Off Payroll workers legislation from HMRC.

### Meeting on 27 February 2020

- Received an update from the Company's auditors on the new accounting ethical standard and implications for non-audit services;
- Approved the appointment of PricewaterhouseCoopers ("PwC") as the Company's auditors for the year 2019/20
- Received a report from PwC on the proposed external audit plan for the Company's 2019/20 Annual Report and Accounts;
- Received an update on the progress of internal audits currently being conducted; and
- Approved the Company's Tax Strategy for 2019/20.

## Audit and Risk Assurance Committee ("ARAC") report

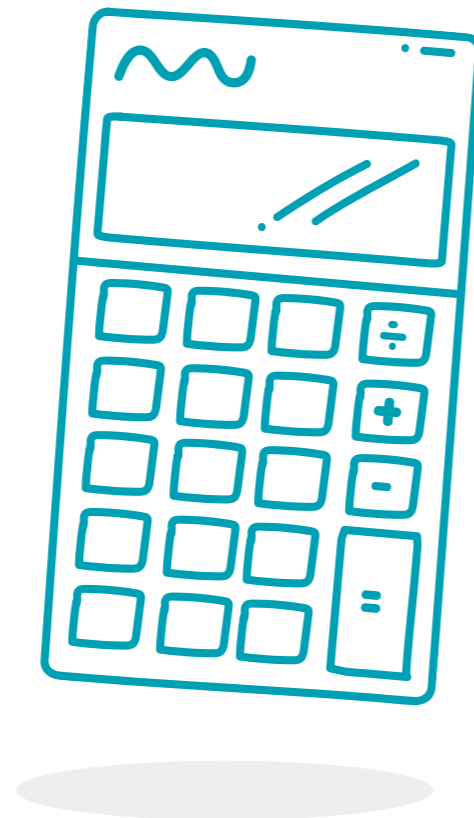
### Meeting on 26 March 2020

- Reviewed the preparation for the audit and submission of the Annual Report and Accounts of the Company for 2019/20 (the "Annual Report and Accounts")
- Received a report on significant audit items for consideration in the preparation of the Annual Report and Accounts;
- Reviewed the Company's regulatory assurance plan for its Annual Performance Report for the year 2019/20;
- Reviewed submissions related to financing covenants and compliance, and recommended for approval by the Board;
- Received a report on and recommended for approval by the Board the annual insurance renewals by the Company; and
- Received a report on the Company's steps to ensure compliance with the forthcoming HMRC off pay roll workers legislation.

### Significant accounting matters

A key responsibility of the Committee is the integrity of the financial statements and to ensure, on behalf of the Board, that the annual report and accounts, taken as a whole, were fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Committee considered significant accounting matters and judgments in relation to the Company's financial statements and management presented a report setting out the approach to these areas. Details of how each of these was addressed are shown in the following table. At the Committee's meetings throughout the year the Committee and the external auditor have discussed the significant accounting matters arising during the year and the areas of particular audit focus, as reported on in the independent auditors' report on pages 157-165. Section 4 of the notes to the financial statements also details the critical accounting estimates and judgements.



Significant accounting matter	Specific factors considered by the Committee in determining the judgements or estimates were appropriate:
<b>Long Term Viability Statement</b>	The Committee reviewed and challenged the evidence and assumptions underpinning the Long Term Viability Statement including: <ul style="list-style-type: none"> <li>cash flow management and working capital assumptions;</li> <li>implications for credit rating and compliance with licence conditions and loan documentation;</li> <li>sensitivity analysis and mitigating actions; and</li> <li>the time frame for the Viability Statement.</li> </ul>
<b>Measured income accrual</b>	The method of estimating water consumed by measured customers over the period between their last meter reading date and the year-end date was reviewed, and the resulting income accrual was compared with previous years.
<b>Accounting for expenditure on infrastructure assets</b>	The Committee considered the process under which the nature of capital projects is reviewed by Capital Project Managers and Finance to determine whether expenditure is capitalised as an addition to fixed assets or treated as an operational cost in the Income Statement.
<b>Capitalisation of employment costs</b>	The Committee reviewed employment costs capitalised to ensure the required criteria for capitalisation was met.
<b>Bad debt provision</b>	The Committee reviewed the key aspects of the calculation and has had detailed discussions with management about the judgement applied to the bad debt provision. This judgement either increases or decreases the provision calculation using historic collection rates, depending upon recent collection trends and economic factors. In particular, this also takes into account the impact of the COVID-19 global pandemic on customers and the Company.
<b>Canal and River Trust Arbitration</b>	The Committee reviewed the assumptions made by management, and the basis of, the provision of the costs of arbitration currently underway between the Company and the Canal and River Trust ("CRT") in relation to the cost of CRT transporting raw water from the River Severn to the Company's treatment works at Purton and Littleton. The Committee also reviewed the basis on which the Company has continued to account for the costs, pending the outcome of the arbitration.
<b>Referral for redetermination of the Company's Ofwat PR19 Final Determination to the CMA</b>	The Committee reviewed the basis on which management has provided for the costs of the conduct of the redetermination by the CMA of its PR19 Final Determination by Ofwat.



## Audit and Risk Assurance Committee ("ARAC") report

### External Auditors

The Company's external auditors are PricewaterhouseCoopers LLP ("PwC") who have been the Company's auditors since 2012. The audit partner is Colin Bates who became the audit partner on 1 April 2017.

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

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

### Independence

In order to ensure the independence and objectivity of the external auditors, the Committee has reviewed:

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

### Effectiveness

To assess the effectiveness of the external auditors, the Committee has reviewed:

- the arrangements for ensuring the external auditors' independence and objectivity;

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

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

### Non Audit fees

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

Before approving non-audit services, the Board considers whether it is in the interest of the Company that the services are procured from PwC rather than another supplier. Where PwC have been chosen, this is based on their detailed knowledge of our business and understanding of the water industry as well as demonstrating the required expertise. Non-audit services where the external auditor may be used include: audit related services required by statute or regulation, regulatory support and Corporate Responsibility report reviews.

With effect from 1 April 2017, the EU introduced legislation which imposes a limit on the value of non-audit services that the auditors can undertake on behalf of the client. Permitted non-audit services are subject to a 70% cap of the average statutory audit fees paid in the last three financial years for the group and hence first impacts the year ending 31 March 2021.

During the year, PwC received £79,100 (2018/19: £82,940) in fees relating to the audit services they provided to the Company and £98,018 (2018/19: £155,771) for the Group, including audit related assurance work. Non-audit related work undertaken amounted to £98,018 (2018/2019: £155,771) and significant work is set out below:



Nature of Service	Reason for PwC appointment	2018/19 fees £'000	2019/20 fees £'000
<b>Audit related assurance services</b>			
Assurance of regulatory returns	Audit of sections 1 & 2 of the Annual Performance report is closely linked to the Statutory Audit and the two are performed in parallel.	25	26
<b>Other assurance services</b>			
Assurance in connection with Ofwat regulatory reports	Agreed upon procedures relating to Wholesale Charges and RCV allocation.	2	3
	Agreed upon procedures relating to PR14 Reconciliation.	9	9
PR19 support	Water Industry knowledge and expertise in project planning, preparing evidence, drafting and editing business plans in the water and energy sector.	119	60
Inform subscription	Access to technical information.	1	0
<b>Total non-audit fees</b>		<b>156</b>	<b>98</b>
<b>% of non-audit fees in respect of group audit fees</b>		<b>141%</b>	<b>87%</b>

## Audit and Risk Assurance Committee ("ARAC") report

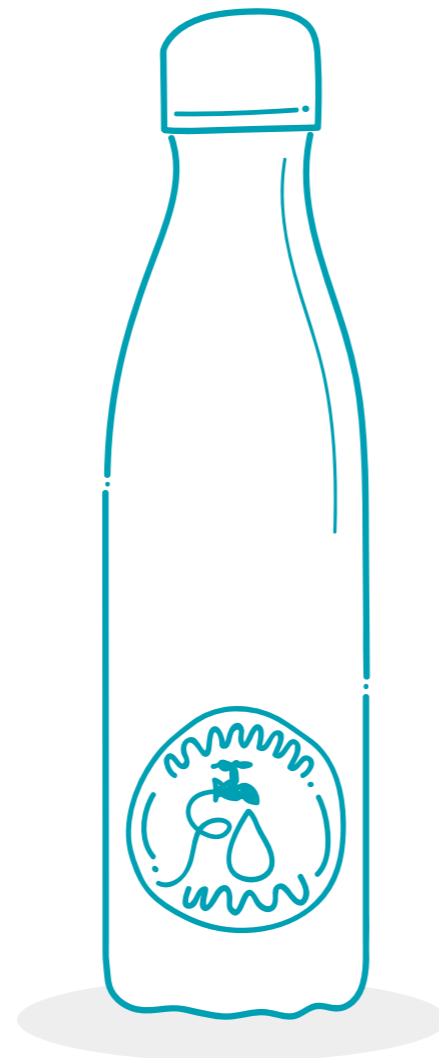
In autumn 2016, PwC were selected to be our "Strategic Partner" to review our business plan and make recommendations after comparing it to the strategic requirements of PR19, and to provide advice in respect of assurance required and reports received. PwC were selected for their operational insight and experience of the values and attributes required in the business plan submission to Ofwat. This team are based in the London office, whereas the audit work is performed by a team from the local Bristol office with a different management structure and expertise. A requirement of the selection process was that there is a clear ring-fencing of the separate functions. ARAC has no reason to believe ring fencing is not effective practice. The work was completed in the financial year 2019/20.

The detail of auditors' remuneration is provided in note 8 of the financial statements.

### Internal auditors

Internal audit services to the Company are provided by a combination of Mazars, an international company specialising in audit accountancy, tax, legal and advisory services, and specialists in areas where risks are identified and thus assurance is sought over the associated controls and mitigations. The internal audit plan is prepared annually in conjunction with the Committee and the executive management team of the Company.

In the current year, we have worked with a number of assurance providers to gain detailed, comprehensive and expert assurance over individual areas. Such work has included challenge and review of our asset management process, a detailed fraud risk assessment, with consequential review of payment and procurement processes, and work on HR processes and data management procedures. The ARAC and Board have been provided with the output of such reports and have had the opportunity to challenge and question our assurance partners as part of the Board assurance process.



## PR19 Sub-Committee report

Tim Tutton, Chair of the PR19 Sub-Committee

### Introduction

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

The PR19 Sub-Committee has played and continues to play a key role in supporting the Board on its responsibility for oversight of the Ofwat Price Review for the Price control period 2020 -2025 ("PR 19") and its outcome.

The PR19 Sub-Committee is formally constituted with terms of reference approved by the Board in November 2016. The PR19 Sub-Committee is chaired by Tim Tutton, and comprises one INED (Paul Francis), one NED (Paul Malan), the Chief Executive Officer of the Company and the Chief Financial Officer of the Company. The Director of Strategy and Regulation and the Company Secretary attend the meetings.

### PR19 Sub-Committee Responsibilities

Under the chairmanship of Tim Tutton the primary function of this sub-committee was to ensure that the PR19 Business Plan and the Company's responses to Ofwat's Initial Assessment of the Company's PR19 Business plan and Ofwat's Draft Determination for PR 19 are governed appropriately, diligently developed and robustly challenged to ensure that they meet the expectations of customers, regulators and other stakeholders and to assess the impact of the Company's Final Determination for PR19 published by Ofwat in 16 December 2019.

This year the work of the Committee intensified with significant operational and strategic options to review and challenge, which fed into the Company's revisions to its PR19 Business Plan and responses to Ofwat's Initial Assessment and Draft Determination. In addition to the Committee meetings, the Board as a whole were fully briefed throughout the year so that they were well informed to review and challenge management recommendations and to make the necessary strategic decisions in relation to approving the submission of the Company's revised Business Plans and responses to Ofwat's Initial Assessment and Draft Determination and the review of the impact of the Company's Final Determination by Ofwat which informed the decision of the Board in February 2020 to request a referral to the CMA for redetermination of that Final Determination and the signing of the Board Assurance Statement in July 2019 and further in respect of the further conditional Board Assurance Statement in September 2019 following Ofwat's Draft Determination.

### Attendance during the financial year

Members of the Committee	Meetings attended	Max Possible
T Tutton, Chair	6	6
P Malan, Non-Executive	6	6
M Karam, Chief Executive Officer	6	6
P Francis, Non-Executive	4	6
L Flowerdew, Chief Financial Officer	6	6

## PR19 Sub-Committee report

The PR19 Sub-Committee:

- provided strategic guidance on the content and direction of the revisions to its PR19 Business Plan in the light of, and responses to Ofwat's; initial assessment and draft determination to the executive management team and continued to provide guidance up to and including publication of the Company's Final Determination by Ofwat in December 2019;
- provided assurance to the Board of the Company that Ofwat's strategic requirements for the price review have been addressed within the Company's submission and engagement with customers, regulators and other stakeholders;
- provided continued oversight of the Company's assurance framework for its revised PR 19 Business Plan;
- agreed the most appropriate source of assurance (internal/external, nature of consultancy); and
- ensured all assurance recommendations have been considered and applied appropriately.

PwC has been engaged by the Company during the year to provide assurance to the PR19 Sub-Committee and the Board that the third party assurance providers Jacobs, ICS Consulting and PwC, engaged by the Company had appropriate terms of reference and scope of work and comment where necessary on the reports provided to the Committee and the Board by such assurance providers.

In addition to PwC who advise on assurance plans, the Company has appointed further experts to provide independent assurance on such things as: investment planning; corporate modelling; cost adjustment claims; customer engagement; and efficiencies.

### PR19 Sub-Committee

The role of the PR19 Sub-Committee concluded with its assessment of the impact of the Final Determination published by Ofwat on 16 December 2019 which informed the Board's reluctant decision to request a referral to CMA for redetermination of that Final Determination. The last meeting of the PR19 Sub-Committee took place on 23 January 2020 and it has now been dissolved. Separate governance arrangements, led by the Chief Executive Officer have been put in place to coordinate and oversee the redetermination by the CMA with the Chief Executive Officer reporting on progress of that redetermination directly to the Board for oversight.



## Safety Committee report

### Jeremy Bending, Chair of the Safety Committee

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

In November 2018, the Board set up a Safety Committee which is a new sub-committee of the Board to which I was appointed as its Chair. The role of the Safety Committee is to focus on the responsibility for health and safety matters arising from the Company's activities and operations.

#### Safety Committee Responsibilities

The Safety Committee:

- Reviews and make recommendations to the Board on the strategic direction for effective health and safety management, and to communicate, promote and champion health and safety issues;
- Keeps under review the adequacy of the framework of safety, health and policies and procedures within the Company (including training and competency assessment), and compliance with relevant health and safety legislation;
- Reviews appropriate health and safety measures, performance targets and Key Performance Indicators for the Company;
- Reviews significant health and safety incidents & investigation reports including near misses for both the Company and its third party contractors;

- Considers injury and illness prevention measures within the annual health and safety plan aimed at enhancing standards and promoting a culture free from harm to people;
- Considers health and safety issues that may have strategic business and reputational implications for the Company and, where necessary, recommend appropriate measures, responses and targets (including performance targets and KPIs for directors and senior managers);
- Considers public safety whilst on Company premises;
- Reviews related contractor and supplier performance; and
- Receives and reviews any relevant health and safety audits.

The Terms of Reference for the Committee were approved at a Board Meeting on 29 November 2018 and amended at a Board Meeting on 29 November 2019. Meetings are held at such times as the Committee deems appropriate, and at least four times a year.

#### Attendance during the financial year

Members of the Committee	Meetings attended	Max Possible
Jeremy Bending, Chair	4	4
M Karam, Chief Executive Officer	4	4
Richard Price, Strategic Projects and network Operations Director (non-statutory), now Chief Operating Officer (1 April 2020)	4	4
David Smith, (Director (non-statutory) of Asset Management and Production	4	4
Simon Fry, Head of Health and Safety	4	4

## Safety Committee report

The membership of the Committee is appointed by the Board from amongst the directors and senior management of the Company and must consist of at least three members not all of whom are required to be Board members. The members of the Safety Committee during 2019/20 comprised Jeremy Bending as Chair, Mel Karam (Chief Executive Officer), the Company's Director (non-statutory) of Asset Management and Production), the Company's Chief Operating Officer (formerly Strategic Projects & Network Operations Director (non-statutory)), and the Company's Head of Health & Safety. On 27 May 2020 Laura Flowerdew, the Company's Chief Financial Officer was appointed as an additional member of the Safety Committee.

The Company Secretary acts as secretary to the Committee.

The Safety Committee met four times during 2019/20 on 27 April 2019, 25 July 2019, 24 October 2019 and on 26 February 2020. At those meetings it considered the following items amongst others:

### Meeting on 27 April 2019

- Review of significant Health and Safety Incidents
- Focus of Committee for the coming year

### Meeting on 24 July 2019

- Review of significant Health and Safety Incidents
- Network Maintenance Contract awards Health and Safety update
- Health and Safety Strategy review
- Update on recent operational incidents
- Report on performance against Company Health and Safety Key Performance Indicators

### Meeting on 24 October 2019

- Report on performance against Company Health and Safety Key Performance Indicators
- Review of significant Health and Safety Incidents
- Contractor Health and Safety Update
- Amendment of Safety Committee Terms of Reference

### Meeting on 26 February 2020

- Report on performance against Company Health and Safety Key Performance Indicators
- Review of significant Health and Safety Incidents
- Report on proposed Safe Control of Operations Procedure
- Contractor Health and Safety Update
- Update on Coroner Inquest



## Directors' Remuneration report

### Annual Statement by Jim McAuliffe, Chair of the Remuneration Committee

#### Introduction

I am pleased to present, on behalf of the Board, our Directors' Remuneration Report in respect of the year ended 31 March 2020 together with our approach to remuneration for Executive Directors for 2020/21.

This report has been prepared under the principles of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 governing the content of remuneration reports and the provision of the Companies Act 2006, as amended by the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) regulations 2019.

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

#### Key matters

The year under review was the last in the current five year regulatory cycle, and therefore a key year for delivery of the Company's commitments. The Company has met its many challenges, delivering on the AMP6 programme for our customers whilst working hard to implement a new operating model and embedding subsequent ways of working.

We have also been faced with the challenge of the global Coronavirus (COVID-19) pandemic which has affected every part of society and the economy both in the United Kingdom and globally. The Company has responded vigorously to this challenge, prioritising the safety and wellbeing of its employees and customers, focusing particularly on essential services. Inevitably the COVID-19 pandemic has impacted on the way in which the Company serves its customers and in some cases has necessarily resulted in non-essential services being suspended. It is still too soon to evaluate accurately the long-term impact of the pandemic on the Company and the extent to which its effects will be felt in 2020/21 and potentially beyond. The Remuneration Committee is aware of the need to ensure that it exercises its judgement and discretion wisely in relation to remuneration levels and awards in 2020/21, and some decisions (e.g. the finalisation of some elements of the new LTIP) have been delayed.

The Committee continues 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** - consultation with representatives of the recognised trade union GMB had commenced but a decision had not been reached regarding an increase to base salary as of 1 April 2020. Due to the ongoing COVID-19 pandemic negotiations were deferred for 3 months. Negotiations have recently recommenced and are ongoing.

## Directors' Remuneration report

- Annual employee bonus** - the Committee gave consideration to the objectives and targets of the Company's annual bonus scheme for 2019/20, in which employees (with the exception of the Chief Executive Officer ("CEO") Mel Karam and the Chief Financial Officer ("CFO"), Laura Flowerdew) participated during the year. It has been decided to pay the employee bonus in line with the Company's annual bonus scheme rules for 2019/20, not least in recognition of the commitment and hard work of all our employees in responding to the COVID-19 pandemic.
- Annual Cash Incentive Plan – CEO/CFO** - the table below sets out the annual bonus payments for executive directors awarded in respect of 2019/20 pursuant to the CEO and CFO's Annual Cash Incentive Plan ("ACIP") 2019/20. A summary of the annual bonus performance measures and the extent to which performance was achieved is set out on page 99.
- Pension** - the Company continues to operate a company stakeholder (defined contribution) scheme. All employees of the Company are now enrolled in this scheme with employer contributions (to a maximum employer contribution of 6%), unless they have "opted out".
- Long Term Incentive Plan ("LTIP")** - The end of AMP6 marked the maturity of the five year LTIP covering the five year period to 31 March 2020 – which I refer to in this report as the "AMP6 LTIP". With the requirement to put in place a new LTIP commencing 1 April 2020, the Committee undertook a thorough review to ensure that this element of executive reward remains fit for purpose during the next regulatory period. As a result, the Committee believes it is appropriate to

make a number of changes to the way in which the system of long-term incentives operates for AMP7. I refer to the new long-term incentive plan arrangements in this report as the "New AMP7 LTIP".

The New AMP7 LTIP will comprise a system of three year, rolling LTIPs. The New AMP7 LTIP performance measures are designed to ensure greater alignment between executive remuneration and customer outcomes, and the measure relating to shareholder dividends has been removed. Across service performance, cost savings, and wider customer experience, measures relating to customer outcomes will account for over 80% of the maximum total LTIP award.

LTIP awards will be granted at the beginning of each financial year, and payments made at the end of each three year performance period, subject to the achievement of the performance conditions. The first three year period for measurement will cover 1 April 2020 to 31 March 2023.

The design of the new LTIP has been finalised within the context of a wider remuneration benchmarking exercise undertaken by external remuneration consultants, Mercer.

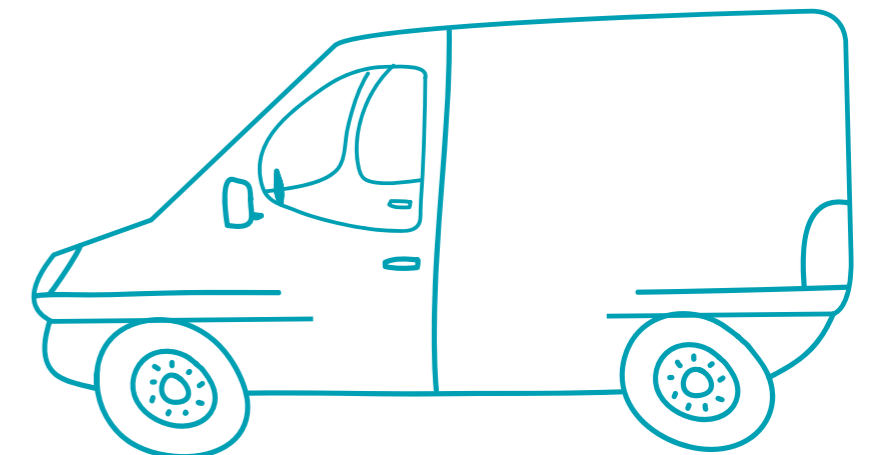
The AMP6 LTIP covered the period 1 April 2015 to 31 March 2020 and was granted to the CEO on 15 May 2017 and to the CFO on 1 October 2018. Participants could earn up to 34.2% of salary for each year of the plan during which they are directors of the Company based on the Company's performance against the long-term strategic goals of the Company, including

customer outcomes. Details of the awards made under the AMP6 LTIP are set out later in this report.

- Departing directors** - There were no departing directors during the year.
- New appointment** - There were no new appointments during the year.
- Implementation of remuneration policy in respect of 2020/21** - There was a change to the remuneration for the CFO and a change in relation to the CEO's pension contributions, which took effect from 1 April 2020, as set out in the table on page 103. In addition, as noted above, the New AMP7 LTIP is effective from the beginning of the AMP7 period and will apply to the CEO and CFO.
- Remuneration and Standards of Performance** - Non-Executive Directors' basic salary is not linked to performance targets. However, the annual bonuses awarded and payable by the Company to employees and under the 2019/20 ACIP and AMP6 LTIP (in relation to the CEO and CFO) are based on performance against certain targets linked to the standards of performance of the Company. Details of bonus outcomes and performance for 2019/20 can be found on page 99.

**Jim McAuliffe**  
Remuneration Committee Chairman  
13 July 2020

Directors	Proportion of maximum bonus achieved	Bonus Payment
Mel Karam - CEO	74.4%	£107,295
Laura Flowerdew - CFO	74.4%	£33,968



## Directors' Remuneration report

### 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 Jim McAuliffe, Chair, Jeremy Bending, Paul Francis, Paul Malan, Tim Tutton and Hajime Ichishi.

Members' biographies are given on pages 58-59. The Company Secretary is secretary to the Committee.

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

During the year the CEO, Head of HR and Company Secretary provided advice and services to the Committee. Guidance was also obtained from Mercer, in particular in relation to the design of the New AMP7 LTIP, and executive director reward benchmarking. The total fees paid to Mercer in the year for services to the Committee were £37,740 (2019 - £nil). Fees charged by Mercer are on a time and material basis.

Mercer is a member of the Remuneration Consultants Group and adheres to its code in relation to remuneration consulting in the UK. The Committee is satisfied that the advice received from Mercer was 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.

Members of the Committee	Meetings attended	Max Possible
J McAuliffe, Chair	5	5
P Francis, Non-Executive	4	5
J Bending, Non-Executive	5	5
T Tutton, Non-Executive	5	5
H Ichishi, Non-Executive	5	5
P Malan, Non-Executive	5	5

### Summary of Directors' remuneration policy

The table below sets out the Company's remuneration policy for the year ended 31 March 2020, and any changes for the year ending 31 March 2021, which has been agreed by the Committee.

Remuneration element and link to strategy	Policy and approach	Maximum opportunity for 2019/20	Change in policy since 2019/20 and changes implemented for 2020/21
<b>Base Salary</b> To attract and retain high performing individuals reflecting market value of role and director's skills, experience and performance.	Factors taken into account when determining basic annual salary levels are market data provided by a selected market leading provider, objective research, the individual executive director's performance during the year and pay and conditions throughout the Company.  Salaries are reviewed at the discretion of the Committee.	Base salary increases are applied in line with the outcome of any Company wide annual pay award following a review conducted by the Committee in consultation with trade unions. Increases will normally be in-line with the increases awarded to the rest of the Company workforce.	The salary for the CEO remains unchanged. The base salary of the CFO was increased by 21.5% to £185,000 with effect from 1 April 2020 as a result of a reward benchmarking exercise and an increase in the scope of the role.  Salaries will next be reviewed with effect from 1 April 2021.
<b>Annual Bonus</b> To drive and reward performance against personal objectives and selected financial and operational KPIs which are linked directly with business strategy and customer outcomes.	2019/20 - Annual bonus is based: - 80% on achieving certain business objectives; and - 20% on the achievement of role specific strategic objectives.  Business objectives include customer service and operational targets 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, C-Mex.  Bonus scheme targets are set annually.  Awards may be subject to malus and clawback provisions as described overleaf.	Maximum of: <ul style="list-style-type: none"><li>▪ 60% of Base Salary for the CEO</li><li>▪ 30% of Base Salary for the CFO.</li></ul>	Maximum of: <ul style="list-style-type: none"><li>▪ 60% of Base Salary for the CEO (no change)</li><li>▪ 50% of Base Salary for the CFO.</li></ul>

## Directors' Remuneration report

Remuneration element and link to strategy	Policy and approach	Maximum opportunity for 2019/20	Change in policy since 2019/20 and changes implemented for 2020/21
<p><b>LTIP</b> Incentivise long-term delivery of safe, excellent quality water, outstanding customer service and achievement of financial objectives.</p> <p>Align CEO and CFO long-term interests with those of customers, long-term shareholders and other stakeholders.</p>	<p>The LTIP is based on performance over the AMP6 period from 1 April 2015 to 31 March 2020.</p> <p>LTIP awards are based on the Company's performance against long term strategic goals of the Company including customer outcomes.</p> <p>50% will be paid following the end of AMP6 with the remaining 50% paid one year later.</p> <p>Awards may be subject to malus and clawback as described opposite.</p> <p>There is no share option scheme in operation.</p>	<p>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.</p>	<p>The New AMP7 LTIP comprises a system of three year, rolling LTIPs, awarded annually on 1 April. The first performance period commences on 1 April 2020 and extends to 31 March 2023. In the view of the Committee a three year incentive period is more appropriate and aligns Bristol Water with the majority of companies in the sector and aligns better to its internal business planning cycles. The maximum award is 70% of Base Salary for each year of the performance period for the CEO and 50% of Base Salary for the CFO.</p>
<p><b>Pension</b> Attract and retain high performing individuals reflecting market value of role and director's skills, experience and performance.</p>	<p>Pension contributions are made to the Company stakeholder schemes at a specified percentage of basic salary.</p>	<p>Maximum Employer contribution of 6% of base salary.</p>	<p>With effect from 1 April 2020, Mel Karam is entitled to a cash payment in lieu of pension, equivalent to 6% of base salary.</p>
<p><b>Benefits</b> Attract and retain high performing individuals reflecting market value of role and director's skills, experience and performance.</p>	<p>Reflecting market practice and comprising the provision of a company car (or cash allowance in lieu thereof) and private medical insurance.</p>	<p>N/A</p>	<p>N/A</p>

**Malus and clawback provisions**

The ACIP and the AMP6 LTIP are subject to 'malus' and 'clawback' provisions as set out below:

Annual Bonus (Annual Cash Incentive Plan ('ACIP'))	AMP6 LTIP
<p>Prior to the second anniversary of the payment date for the Annual Bonus the Committee may require repayment of all or part of the bonus in the event of:</p> <p>(i) a material misstatement or error in assessing performance measures which has led to an overpayment of the bonus; or</p> <p>(ii) dismissal due to gross misconduct in the bonus year or in the event of criminal behaviour.</p>	<p>Prior to the vesting of an LTIP award the Committee may determine that the award is reduced (including to zero), or the basis is amended, or that additional conditions are placed on an award in the event of:</p> <p>(i) a material misstatement in financial results;</p> <p>(ii) error in assessing performance measures;</p> <p>(iii) error in the information on which the award was made;</p> <p>(iv) a material failure of risk management;</p> <p>(v) serious misconduct;</p> <p>(vi) a significant failure in operations or risk management which comes to the attention of Ofwat;</p> <p>(vii) serious reputational damage to the corporate Group; or</p> <p>(viii) any other circumstance which the Committee considers to be similar in their material nature or effect as those instances above.</p> <p>Prior to the second anniversary of the end of the LTIP performance period the Committee may require repayment of all or part of the award payment in the event of (i) to (viii) above occurring.</p> <p>The malus and clawback rules do not apply to the CEO's guaranteed payment.</p>

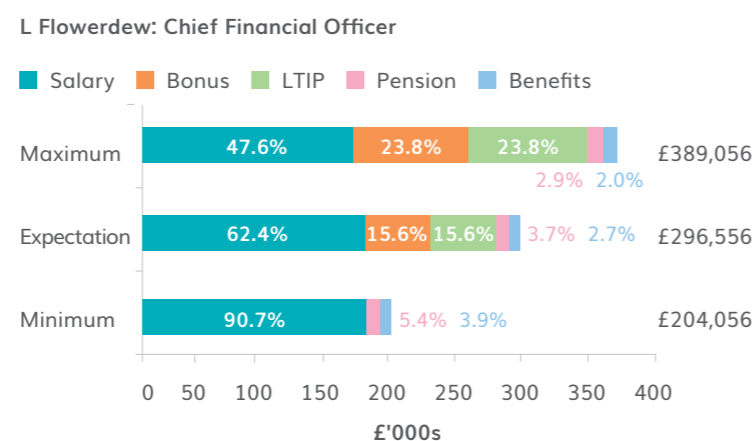
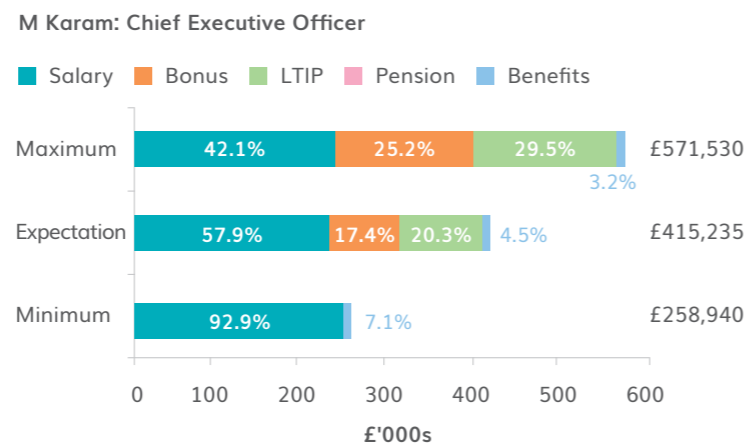
## Directors' Remuneration report

### Remuneration in different performance scenarios

In line with the Remuneration Reporting Regulations requirements, the chart opposite illustrates the CEO's and CFO's remuneration packages under three different performance scenarios: Minimum, performance in-line with expectations and Maximum.

The chart has been based on the following assumptions:

- Minimum = fixed pay (base salary, benefits and pension)
- In-line with expectations = fixed pay plus 50% of maximum bonus pay-out and 50% pay-out under the LTIP which has accrued in the year.
- Maximum = fixed pay plus 100% of bonus pay-out and 100% LTIP pay-out. It is the opinion of the Committee that the maximum level is highly unlikely to be reached given the stretching nature of the targets set.
- Salary levels (on which other elements of the package are calculated) are based on those applying on 1 April 2020. Bonus, LTIP, Pension and Benefits are calculated based on the remuneration policy in place for 2020/21. The value of taxable benefits as disclosed is the single figure for the year ending 31 March 2020. Pension is based on a fixed percentage of base salary linked to employee contribution up to a maximum employer contribution of 6%.



### Remuneration policy for the appointment of new Executive Directors

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

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

### Directors' appointments

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

Directors	Employment contract date	Expiry of current term*	Next AGM at which the director will stand for re-election	Notice period
<b>Executive Directors</b>				
M Karam	1 April 2017	Indeterminate, 6 months' notice period	2020	Rolling 6 months
L Flowerdew	1 October 2018	Indeterminate, 6 months' notice period	2020	Rolling 6 months
<b>Non-Executive Directors</b>				
K Ludeman	26 July 2012	10 September 2021	2020	1 month
T Tutton	1 January 2015	22 June 2021	2020	1 month
H Ichishi	10 May 2012	10 September 2021	2020	1 month
P Malan	7 July 2016	30 September 2020	2020	1 month
I Dhar	8 May 2018	8 May 2021	2020	1 month
P Francis	25 June 2018	25 June 2021	2020	1 month
J Bending	25 October 2018	25 October 2021	2020	1 month
J McAuliffe	29 November 2018	29 November 2021	2020	1 month

\* Subject to requirement for annual AGM re-election in accordance with the UK Corporate Governance Code

In accordance with the UK Corporate Governance Code, directors will stand for re-election annually.

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

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

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



## Directors' Remuneration report

Under the AMP6 LTIP and under the new AMP7 LTIP, executives would normally forfeit entitlement to payments under that LTIP unless defined as a "Good Leaver" which includes: injury, disability, ill-health, or death; redundancy (within the meaning of the Employment Rights Act 1996); retirement as determined by the relevant group company; or any other reason the Committee determines in its absolute discretion. If the executive is a Good Leaver then they would normally continue to be entitled to a payment under the plan based on the length of time they have participated in the plan and the extent to which the performance conditions have been met.

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

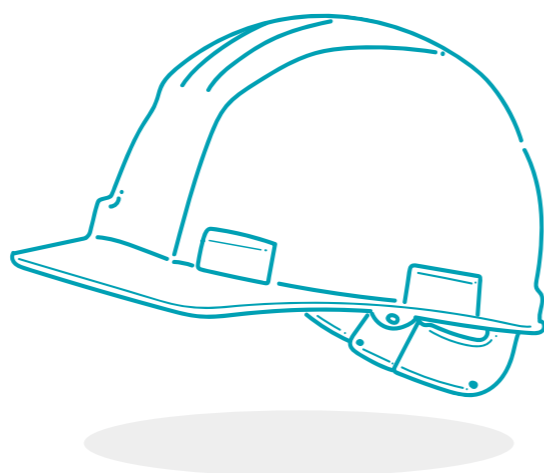
Directors' contracts do not provide for other compensation payable on early termination.

### Remuneration policy for Non-Executive Directors

The remuneration of the independent Non-Executive Directors ("NED"), other than the Chairman, is determined by the Board following consultation between the Chairman and the CEO. It is based on market evidence of fees paid to Non-Executive Directors in companies of comparable size and on the time required for the proper performance of the role. Additional responsibilities are also taken into account. No director votes in respect of their own remuneration. The Chairman's fee is determined by the Board, following consultation between the Committee and the CEO.

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

Fees for any newly appointed Non-Executive Director would be in-line with the above policy. The table below sets out our current policy in relation to fees paid to Non-Executive Directors. There is no change in the fees payable to Non-Executive Directors for 2020/21.



Position held by Non-Executive Director	Fee
Chairman of the Board	£101,500
Chair of ARAC	£44,540
Chair of Remuneration Committee	£41,540
Chair of Safety Committee	£41,540
Additional fee for role of Senior Independent Director	£2,000
Independent Non-Executive Director	£36,540

	Year ended 31 March 2020		Year ended 31 March 2019
	£m	Change compared to prior year %	£m
EBITDA	47.3	-5.5%	50.0
PBT	9.2	-43.9%	16.4
<b>Payments to shareholders:</b>			
Base level dividends	3.0	0%	3.0
Inter-company interest related dividends	3.3	0%	3.3
<b>Payments to employees:</b>			
Wages and salaries excluding directors	21.2	8.2%	19.6
Wages and salaries including directors	22.3	9.9%	20.3

The Senior Independent Director will continue to receive an additional £5,000 per annum allowance for services to support the CMA submission.

Paul Malan, Indradoot Dhar and Hajime Ichishi are shareholder designated Non-Executive Directors and receive no remuneration.

### Shareholder and employee input in setting remuneration policy

The Committee is aware of the need to set performance targets which inter alia, 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.

### 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 above shows the relationship between the Company's financial performance, payments made to shareholders and expenditure on payroll.

The base level dividend was paid to Bristol Water Core Holdings Limited.

### Application of remuneration policy in 2019/20

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

## Directors' Remuneration report

### Single total figure for remuneration of executive directors for 2019/20 (audited)

All figures in £'000	M Karam		L Flowerdew <sup>1</sup>		M Axtell <sup>2</sup>	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
Salary/fees	240	237	152	78	-	44
Bonus	107	65	34	10	-	-
Benefit	4	14	8	4	-	2
Pension	-	-	9	5	-	3
Single Figure Pre-LTIP	351	316	203	97	-	48
Change since prior year	11.2%	-	109.0%	-	(100.0%)	-
LTIP <sup>3</sup>	193	-	64	-	-	-
<b>Single Figure</b>	<b>544</b>	<b>316</b>	<b>267</b>	<b>97</b>	<b>-</b>	<b>48</b>

<sup>1</sup> Ms Flowerdew was appointed on 1 October 2018

<sup>2</sup> Mr Axtell left on 13 July 2018.

<sup>3</sup> Included within the Financial Statements is an accrual for the AMP6 LTIP. 50% of this was paid in June 2020, with the remaining 50% to be paid in 2021.

Bonus includes amount earned based on performance during 2019/20, which have been accrued and approved, but not paid as at 31 March 2020 and relates to the period served as a director.

The LTIP sums in the table above cover the period of the relevant director's participation in the AMP6 LTIP (three years for Mel Karam and eighteen months for Laura Flowerdew).

#### Salary (audited)

A salary review conducted by the Committee during 2018/19 resulted in a 1.5% increase in base salary effective from April 2019 for all employees earning over £40,000, including the CEO and CFO. All employees earning £40,000 and below received a 2.2% increase.

#### ACIP annual bonus for 2019/20 (audited)

The maximum opportunity for the CEO for the year ended 31 March 2020 under the 2019/20 ACIP is 60% of base salary and 30% of base salary for the CFO.

The table opposite represents the business performance measures which form 80% of the basis of the bonus. The achievement of the performance measures has been reviewed, with appropriate input from the Remuneration Committee (RemCom), following the end of the 2019/20 financial year. The maximum 2019/20 bonus opportunity against each of the main performance measures is shown opposite together with the award actually received.

Category	Category Weighting	Sub category	% of Total	Measure	Performance	Score	Weighted score
Health & Safety	20.0%	1.1 AFR - employees	10%	AFR = (No. of accidents x 100,000) / (No. of hours worked) [employees]. Based on a 12 month rolling period.	1.7	100%	10.0%
		1.2 AFR - contractor	10%	AFR = (No. of accidents x 100,000) / (No. of hours worked) [contractors]. Based on a 12 month rolling period.	2.29	73%	7.3%
Financial	10.0%	2.1 Budgeted Opex	10%	Budgeted Opex of £71.4m subject to approval at Board. Judgement to be taken by RemCom on any major variations – either overspend or underspend including where there is a decision to invest further than budget envisaged.	£71.3m	81%	8.1%
ODIs	15.0%	3.1 Negative Water Contacts	5%	The total number of customer contacts received (by telephone, letter or email) about the appearance, taste or odour of water during the year.	1712	100%	5.0%
		3.2 Unplanned Customer Minutes Lost	5%	As per the modified ODIs from the CMA.	11.14	100%	5.0%
		3.3 Leakage	5%	Actual reported Leakage figure using the updated actual NHHNU.	36.3	100%	5.0%
Customer Service	15.0%	4.1 SIM Ranking	15%	Service Incentive Mechanism (SIM) position. NB: Uses full year qualitative data and 18/19 quantitative results for other companies to measure against league table position.	11	0%	0%
PR19	20.0%	5.1 PR19 Business Plan publication	10%	Delivering all submissions and regulatory responses in time and to high quality as outlined in PR19 Programme timetable, with a score out of 10 determined by the Board, having regard to views expressed by the PR19 Sub-committee.	80%	80%	8%
		5.2 Ofwat IAP position	10%	Outcome of Ofwat's Final Determination of the business plan.	Slow track	100%	10%

## Directors' Remuneration report

In addition to these performance measures, the remaining 20% of each Executive Directors bonus is based on role-specific measures. During the year under review, role-specific objectives for each executive director were set as per the table below.

Mel Karam	Laura Flowerdew
<p>Personal factor score 8 out of 10 determined by the Board, having regard to the recommendation of the Committee, including performance on the following key criteria:</p> <ul style="list-style-type: none"> <li>Promote and lead effective working relationships with the Board of Bristol Water, and with all its Committees and all NEDs.</li> <li>Finalise all necessary arrangements for the Senior Management Team, to ensure that Bristol Water has an effective and sustainable team to deliver AMP7 from April 2020.</li> <li>Ensure that the arrangements for the new intelligent client network maintenance model for Bristol Water are embedded following the award of the new contract.</li> <li>Continue to lead Bristol Water such that its standing in the water industry is further enhanced.</li> </ul>	<p>Personal factor score 8 out of 10 determined by the CEO including performance on the following key criteria:</p> <ul style="list-style-type: none"> <li>Promote a more commercial and financially aware culture throughout the business by driving these values through departmental personnel and managers in the budgetary and financial reporting processes.</li> <li>Establish and develop the Bristol Water Finance Team in the light of retirements and staff changes to provide a robust platform to support the financial performance of the business.</li> <li>Following the recommendations of the ARAC establish an independent Internal Audit function to improve and monitor the internal controls within the business and to fully integrate the Risk Register into the business.</li> <li>Work with the Chief Customer Officer to deliver a replacement for the Pelican billing and customer interface system that will improve the customer relationship as well as provide greater control over billing, collections, and other information.</li> </ul>

Throughout the year Mel Karam has continued to enhance the management team strength and improved succession planning by filling key strategic roles and providing development opportunities. The appointment of Helen Hancock as Company Secretary and Head of Legal has completed the Executive structure in the year, ahead of PR19. The new network maintenance contract went live from 1 October 2019 and with it a new way of working for the business, providing the foundation for significant operational and financial benefit going forward. The business has performed strongly from an operational perspective, ending the year in an industry leading position across a number of metrics.

Laura Flowerdew has focussed on financial performance and control, driving improvements in the finance and procurement teams, as well as wider focus on commercial management and financial control in the business as a whole. Assurance

provision has also been reinvigorated and re-focussed to ensure it takes a risk-based approach and includes both financial and operational considerations. The implementation of the new billing system has been impacted by the COVID-19 pandemic, but work is now progressing.

Performance against these objectives, together with business performance and bonus scheme entitlement, dictates the amount of bonus awarded. Both CEO and CFO have been assessed as achieving 8 out of 10 on personal objectives.

The resulting bonus awards, after assessment of personal and business performance elements, for the full year were:

**M Karam**  
74.4% of maximum bonus entitlement, i.e. 44.6% of year end base salary

**Laura Flowerdew**  
74.4% of maximum bonus entitlement, i.e. 22.3% of year end base salary

Mel Karam's and Laura Flowerdew's bonus was based on their salary at the end of the year.

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

### AMP6 LTIP (audited)

The maximum opportunity for the CEO and CFO under the AMP6 LTIP was 34.2% of base salary for each year of participation in the plan. The table below sets out the performance measures comprising the AMP6 LTIP. The achievement of these measures has been reviewed, with appropriate input from the Remuneration Committee, following the end of the AMP6 period. The maximum LTIP opportunity against each performance measure is shown below, together with the award actually received for the CEO and CFO.

The scores allocated to each measure represent the very significant improvement in performance across a range of business metrics over the final three years of the AMP6 period. The actual performance scores for the CEO and CFO differ marginally as the respective participation periods are different.

Category	Performance Measure	CEO and CFO Weighting	CEO Actual Performance	CFO Actual Performance
Totex	Achievement of targeted Totex	20%	13.3%	13.3%
Dividends	Dividends payable by Bristol Water	10%	10%	10%
Outcome Delivery Incentives	Achievement in relation to net penalties/rewards for ODI performance	10%	4.1%	7.1%
Service Incentive Mechanism	Achievement of Ofwat SIM ranking in relation to other regulated water businesses	10%	6.7%	6.7%
Company Monitoring Framework	Achievement of "Targeted" or "Enhanced" status under Ofwat's Company Monitoring Framework	10%	6.7%	6.7%
PR19 Delivery Plan	Assessed quality of final PR19 Business Plan	15%	12.9%	12.9%
Asset Management Capability	Achievement of prescribed levels of Asset Management capability	25%	25%	25%
<b>TOTAL</b>		<b>100%</b>	<b>78%</b>	<b>82%</b>
Percentage of Base Salary pa			27%	28%

### 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 2020, no director (2018/19: no director) was accruing benefits under the Company's defined benefit pension scheme.

Mr Karam became a member of the Company designated stakeholder pension scheme in April 2017 until his decision to leave this scheme in January 2018, the Company made contributions equivalent to 6% of annual base salary to the scheme on Mr Karam's behalf. Contributions paid to the scheme for the financial year totalled £nil (2018/19: £nil).

Ms Flowerdew became a member of the Company designated stakeholder pension scheme on 1 October 2018 and contributions paid to the scheme for the financial year 2019/20 were £9,135 (2018/19: £4,500), an amount equivalent to 6% of annual base salary.

## Directors' Remuneration report

### Interests in shares (audited)

During the year ended 31 March 2020 none of the directors had any interest in the ordinary or preference shares of the Company.

### Single total figure for remuneration of non-executive directors for 2019/20 (audited)

	Salary/fees	
	2019/20 £'000	2018/19 £'000
K Ludeman (Chairman)	102	100
J McAuliffe	42	14
T Tutton	44	53
T Wood <sup>1</sup>	-	9
A Hemus <sup>1</sup>	-	6
P Francis	44	33
J Bending	42	18
H Ichishi <sup>2</sup>	-	-
P Malan <sup>2</sup>	-	-
I Dhar <sup>2</sup>	-	-
<b>Single Figure</b>	<b>274</b>	<b>233</b>

<sup>1</sup> Left June 2018.

<sup>2</sup> No remuneration has been paid by the Company.

The Non-Executive Directors do not receive a bonus or any other benefits.

### Change in CEO's Remuneration

The following table shows the total remuneration payable by the Company to the appointed CEO. In line with the Large and Medium-sized Companies Regulations 2008, this table shows 9 of the required 10 years of information, with the base year being 2012.

	Luis García						Mick Axtell	Total	Mel Karam		
	2012	2013	2014	2015	2016	2017 <sup>1</sup>	2017 <sup>2</sup>	2017	2018	2019	2020
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Base salary</b>	156	185	189	194	194	173	42	215	230	237	240
<b>Annual bonus</b>											
Annual bonus	33	58	54	51	40	35	11	46	83	65	107
Annual bonus as proportion of salary	21%	31%	29%	27%	21%	24%	26%	21%	36%	28%	44%
Maximum bonus achievable (as proportion of base salary)	36%	36%	36%	36%	36%	30%	30%	30%	60%	60%	60%
Proportion of maximum bonus achieved	59%	87%	79%	73%	57%	81%	84%	87%	60%	46%	74%
<b>LTIP earned</b>	-	-	48	187	-	-	-	-	-	-	193 <sup>3</sup>
LTIP as proportion of salary	0%	0%	25%	96%	0%	0%	0%	0%	0%	0%	80%
<b>Benefits</b>	8	9	9	10	11	8	1	9	36	14	4
<b>Pension</b>	-	-	6	12	12	10	2	12	10	-	-
<b>Total remuneration</b>	<b>197</b>	<b>252</b>	<b>306</b>	<b>454</b>	<b>257</b>	<b>226</b>	<b>56</b>	<b>282</b>	<b>359</b>	<b>316</b>	<b>544</b>

<sup>1</sup> The remuneration for 2016/17 reflects the fact that Mr Garcia resigned as CEO on 15 December 2016. It includes £27k for payments he was entitled to on leaving under his contract. His bonus was based on the salary excluding these amounts i.e. his salary pro-rated to the proportion of the year that he was in post (£145k).

<sup>2</sup> 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.

<sup>3</sup> The figure shown under LTIP earned in 2020 for Mel Karam is the full amount of LTIP award covering the three years of Mr Karam's participation in the AMP6 LTIP and is paid in two equal instalments.

Payments under the previous LTIP were made in two equal instalments; the first instalment was paid on 31 December 2015 and the second instalment was paid on 25 November 2016. The AMP6 LTIP drew to a conclusion on 31 March 2020, with the first instalment due in June 2020 and the second instalment due a year later in 2021.

## Directors' Remuneration report

### Percentage Change in Remuneration for the CEO Compared to all Employees

- **Salary** - The salary paid to the individual undertaking the role of CEO for 2019/20 increased by 1.5% compared to 2018/19. The average salary for other employees for 2019/20 increased by 1.85% compared to 2018/19.
- **Annual bonus** - The bonus awarded to the CEO under the ACIP for 2019/20 increased by 61.5% compared with the prior year (2018/19: decreased of 21.7%). The total bonus paid to employees, excluding the CEO, for the period is £1.4m compared to £1.3m in 2018/19. The average bonus per employee was £2,363 (2018/19: £2,259). The average bonus payment per employee for those in the lowest grade group for 2019/20 was £784 (2018/19: £708).
- **Long Term Incentive Plan** - As noted above, the CEO's LTIP payment is in relation to the three year period 2017/18 to 2019/20 during which he was a participant in the AMP6 LTIP.
- **Benefits** - Benefits, including benefits in kind, payable to the CEO decreased by 70.7% for 2019/20 compared with the prior year (2018/19: decreased by 61.4%) due to relocation costs no longer being paid. Benefits payable to all other eligible staff have remained constant compared with the prior year (2018/19: constant).

### Executive pay gap

In line with new reporting requirements, this is the first year we have disclosed the CEO pay ratio, which shows how the CEO's single total figure for remuneration compares to the equivalent figures for Bristol Water employees occupying the 25th,

50th and 75th percentile. In line with the majority of companies reporting this data, we have chosen Option A under the regulations, which takes account of the full-time equivalent basis for our employees. The CEO pay ratio is likely to be volatile, primarily as a result of the higher proportion of incentive-based pay earned by the CEO, compared to other employees. In particular, the figure for 2019/20 will be impacted by the maturity of the AMP6 LTIP (the value of long-term incentives, which reward performance over a number of years, is disclosed within pay in the year of vesting, which increases the CEO pay in that year). The figures in the table below therefore show the relevant ratios both including and excluding the AMP6 LTIP payment.

### How the remuneration policy will be applied in 2020/21

The same remuneration policy as outlined above will be applied during 2020/21

### Salary

The CEO opted not to receive an increase in base salary for 2020/21 in light of the impact of COVID-19 on the business, as well as the financial constraints the business in general is facing. The CFO's salary was increased with effect from 1 April 2020 as a result of a reward benchmarking exercise and an increase in scope of the role. The base salaries for executive directors for 2020/21 are shown below.

### Pension

With effect from 1 April 2020 Mel Karam is entitled to a cash supplement equal to the level of Employer pension contributions (6% of Base Salary).

### Executive Pay Gap

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020	Option A	15:1 (excluding LTIP) 23.4:1 (including LTIP)	11.3:1 (excluding LTIP) 17.5:1 (including LTIP)	7.6:1 (excluding LTIP) 11.8: (including LTIP)

### Executive Base Salary

Executive Director	Salary 2020/21
CEO Mel Karam	£240,454
CFO Laura Flowerdew	£185,000

### Annual bonus

The CEO and CFO will continue to participate in the separate Annual Cash Incentive Plan (ACIP). The maximum bonus for 2020/21 for the CEO is 60% of Base Salary reflecting the leadership required and criticality of the role. The maximum bonus opportunity for 2020/21 for the CFO is 50% of Base Salary.

The performance measures for the ACIP have been agreed as follows:

Measures	Weighting
Customer and ODI Performance measures	45%
Operating Costs	15%
People-related measures	10%
Health and Safety	10%
Role-specific	20%
<b>Total</b>	<b>100%</b>

The individual performance measures are not disclosed in advance being commercially sensitive, however these are disclosed at the year end. Their achievement will be reviewed, with appropriate input from the Remuneration Committee at the end of the year.

### 2020 LTIP Grant (audited)

As noted earlier in this report, a new system of rolling, three year Long Term Incentive Plan (the AMP7 LTIP) has been implemented. The first such three year award was made effective 1 April 2020, and covering the period to 31 March 2023.

Performance Measure	Weighting
Totex Performance	30%
Return on Regulated Equity	10%
ODI Performance Measures	40%
C-Mex	10%
People Measures (Long Term H&S and Employee Engagement)	10%
<b>Total</b>	<b>100%</b>

The maximum payment under the AMP7 LTIP is 70% of Base Salary for each year of the performance period that the CEO is in a participant and 50% of Base Salary for each year the CFO is a participant.

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).

# Directors' report

## The directors present their report and the audited financial statements for the year ended 31 March 2020.

### Section 172 Companies Act 2006 Statement

The Directors of Bristol Water believe that, in the decisions they have taken during the financial year ended 31 March 2020 they have acted in the way which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to its social purpose and stakeholders and the matters set out in sections 172 (a) to (f) of the Companies Act 2006.

This section sets out the Board's approach to decision making, stakeholder engagement, and some of the key decisions made by the board in the financial year ended 31 March 2020. To give greater insight into this we have provided clear cross referencing to where more detailed information can be found in this Annual Report.

As a regulated water company Ofwat requires the Board of the Company to establish the Company's purpose, strategy and values. In January 2019 we launched our Social Contract which included our social purpose following a wide-ranging consultation with our colleagues, customers and stakeholders, including as part of our PR19 business plan.

The Board adopted a new Corporate Governance Statement in July 2019 (the "Bristol Water Corporate Governance Statement"), replacing its previous Corporate Governance Code and embedding the Company's social purpose as a key consideration for the directors of the Board when discharging their fiduciary duties under sections 171 to 177 of the Companies act 2006.

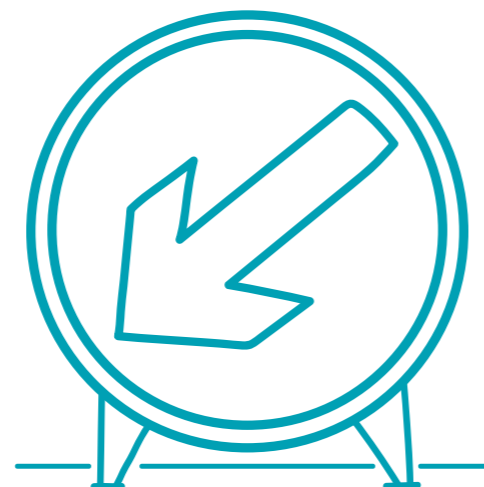
As stated in the Bristol Water Corporate Governance Statement, the Company's social purpose is:

*"To have a positive impact on the lives of our customers, our communities, our colleagues and the environment, beyond the delivery of pure and reliable water. By doing this we promote the success of the Company for the benefit of its members as a whole, through its business and operations."*

In accordance with the Bristol Water Corporate Governance Statement, the directors of the Company have discharged their duties as directors in accordance with the requirements of Section 171 – 177 of the Companies Act 2006 having regard to the Company's social purpose stated above. This commitment is linked strongly to the delivery of our Social Contract Programme, details of which can be found on pages 33-34.

We have highlighted in the table opposite some examples of the key Board decisions impacted by, and impacting on, our stakeholders in the financial year ended 31 March 2020.

The Board has published a separate "Trust Beyond Water" statement, which summarises for customers, employees and stakeholders the factors affecting Board decisions and key aspects of performance for different stakeholders, including investors. Bristol Water also publishes interactive graphics summarising performance against KPIs and social purpose targets. A report on the societal impact of delivery against our social purpose was published in December 2019.



Our stakeholder engagement	Key Board decisions during the financial year ended 31 March 2020
<p><b>Our customers</b></p>	<p>Continued engagement and consultation with Company's Customer Challenge Panel, chaired by Peaches Golding, OBE. to ensure (i) that customers' views are incorporated into the Company's Business Plan submitted to Ofwat for the 2019 Price review to set our revenues and expenditure targets for the five year Asset Management Period commencing April 2020 and (ii) that our customers support our Business Plan. Various Board members, including the Chief Executive Officer of the Company, regularly attend Customer Challenge Panel meetings and meet with the Chair of the Customer Challenge Panel to discuss key issues and concerns. The Chair of our Customer Challenge Panel has attended key Board meetings to provide customer Challenge Panel feedback on the Board's decisions in relation to the PR19 Price Review process and to listen to the Board's discussions on these issues.</p> <p>Continued focus on improving our performance on leakage and other key performance commitments to improve customer satisfaction. For further details see pages 31-32.</p> <p>Offering discounted tariffs, metering, water efficiency support and flexible payment plans to our customer who find it hard to meet their water bills or need some support in paying them.</p>
<p><b>Our communities</b></p>	<p>Adoption of the Company's Social Contract Programme for the financial year ended 31 March 2020, including receiving reports on its implementation. Further details of that Programme and some of our key customer, community and stakeholder engagement activities can be found on pages 33-34. Examples of these activities include:</p> <ul style="list-style-type: none"> <li>▪ establishment of a new Employee Forum which seeks to engage our colleagues in delivery of our Social Contract Programme and encourage new ideas to further promote our social purpose;</li> <li>▪ workforce the "Citizens of the Future" event which we hosted in July 2019 where organisations who share our vision got together to take the education elements of our Social Contract Programme forward;</li> <li>▪ our "Youth Board" which seeks to engage young people in the community and encourage them to consider the water industry as a potential career; and</li> <li>▪ commissioning local artists to reflect the spirit and diversity of the Communities which we serve in our new Company brand (these local artists' works now appear on our Company vehicles).</li> </ul> <p>We are a member of the Bristol Green Capital partnership recognising and responding to the ecological emergency which the planet faces. We work also with the Bristol One City Plan and the Environmental Sustainability Board to coordinate our work with those who share our concerns.</p> <p>Our Biodiversity score is industry leading and we looked to improve biodiversity at every site on which we impact.</p> <p>On 19 June 2019 (National Refill Day) we partnered with City to Sea and Bristol City Council to launch the first of eight new drinking water fountains for Bristol aimed at reducing the single plastic bottled water consumption.</p> <p>With many of our colleagues in the water utility sector we have also signed up to the Water UK Public Interest Commitment, including, amongst others a commitment to developing a strategy to end water poverty and to prevent the equivalent of 4 billion plastic bottles ending up as waste by 2030.</p>

Our stakeholder engagement	Key Board decisions during the financial year ended 31 March 2020
Our employees	<p>We established a new Partnership Forum as a consultative forum where employee representatives across the organisation can be consulted by senior management and inform key management decisions in relation to matters affecting our employee, colleagues and business.</p> <p>We introduced a new behavioural competency framework for our employees and a new "LEAD" (Learn – Evaluate - Apply - Develop) training programme for our extended leadership team to better equip them with the people management and change management skills they need to support our employees in both their personal development and in their daily work.</p> <p>We also focussed on equality, diversity and inclusion, with regular discussion and debate at Board level as to how better to promote equality diversity and inclusion across our workforce and wider business and to understand what steps the Company is taking to promote equality, diversity and inclusion. Further details can be found on pages 26-27.</p> <p>In November 2019 an annual employee engagement survey was conducted and the results presented to the Board.</p>
Our regulators	<p>The Board has supported and scrutinised the Company's senior management in their engagement with our principal regulator Ofwat throughout the PR19 Price Review process which concluded in the financial year ended 31 March 2020 to ensure that it has remained open, transparent and collaborative. Following the Board's decision in February 2020 to request Ofwat to refer its Final Determination for the PR19 Price Review to the Competition and Markets Authority ("CMA") the Board has continued to scrutinise and engage directly with Ofwat and the CMA in a transparent, open and collaborative manner.</p> <p>The Board also regularly received key reports and metrics in relation to the senior management's engagement with the Company's other regulators including the Drinking Water inspectorate and the Consumer Council for Water.</p>
Our supply chain and other delivery partners	<p>In June 2019 the Company completed a major procurement exercise to identify its key delivery partners for the delivery of its metering, network maintenance and mains replacement and resilience programmes ("NMSC") over the next five to ten years. Our contracts with our two successful delivery partners is based on an "intelligent partnership" framework whereby we and our delivery partners collaborate to promote innovation and efficiency underpinned by a "pain/gain share" mechanism which is designed to reward our NMSC delivery partners for reducing costs and increasing efficiency in the delivery of our NMSC programme whilst reducing costs for the Company. This includes collaboration on Health and Safety matters such as the Company's "Dig no Damage" campaign aimed at reducing the incidence of potentially dangerous service strikes (e.g. gas, electricity and telecoms) when excavating sites.</p> <p>The Company also completed a review of its internal processes and controls for supplier and vendor approval and management and streamlined these to be more efficient and responsive with the aim of focussing on a small number of key suppliers over time whose approach is most closely aligned to that of the Company</p>
Investors	<p>In the financial year ended 31 March 2020 the Company complied with its stated dividend policy adopted on 22 August 2019. Details of our shareholder and ownership structure and of our dividend policy are set out on pages 60-64.</p>

## Directors' report

### Financial results and dividends

The enhanced financial review including financial results and KPIs is contained in the Strategic Report on pages 11-15

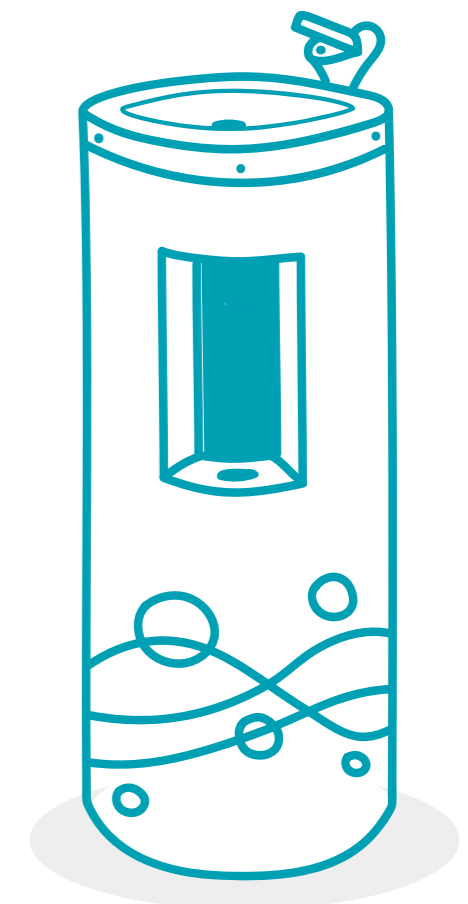
The total dividend paid during the year ended 31 March 2020 was 105p (2018/19: 105p) per ordinary share. The Board has not proposed a final dividend in respect of the financial year 2019/20 (2018/19: £nil). The Company's practice for dividends to shareholders is contained in the Strategic Report on page 14.

### Capital structure

Details of the issued share capital are shown in notes 21 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 Bristol Water Group Limited group. In addition, the Company has in issue 12,500,000 8.75% irredeemable cumulative preference shares of £1 each, details of which are disclosed in notes 21 and 25.



## Directors' report

### Outlook

The main drivers of 2020/21 profitability in addition to the key risk uncertainties highlighted above are expected to be:

- **Revenue** - The reduction in revenues from 2019/20 consistent with the Ofwat PR19 Final Determination of c7%, mitigated by performance adjustments which were adjusted through customer bills in advance of PR19.
- **Operating Expenditure** - Reductions in operating expenditure as a result of our transformation programme and reductions in capital expenditure reflecting our PR19 plan.
- **Inflation or deflation** - operating costs, capital expenditure and the Company's index linked debt are subject to inflation based on CPIH or RPI at various points in the year. Potential adverse impacts of high inflation or deflation are mitigated by linking of the majority of revenues through the previous year's November CPIH.
- **Energy costs** - energy costs are significant for the Company, and consumption will fluctuate with demand and depending on which water resources are being utilised. Our main reservoirs were full following the winter, which allows for lower energy-using sources to be utilised. We enter into appropriate forward contracts to fix future energy prices. At our biggest using energy site, we now have on-site energy generation capability which reduces energy costs.
- **Socio-economic conditions** - significant changes in the socio-economic conditions of customers may impact recovery of billed amounts. Ofwat have put specific mechanisms in place to reduce risk to the business retail market as a result of COVID-19.
- **Weather** - severe weather patterns can affect profitability in various different ways: Measured income can be affected by changes in volume consumed; chemical and power costs can be affected by raw water quality and the availability

of different sources; and network maintenance costs can be affected by mains burst activity. In severe weather, outcome incentive performance penalties are more likely to be incurred.

### Going Concern

- In assessing the going concern basis, the directors have considered the cash flow and financial ratios projections of the Company for the next 12 months.
- The key risks to the Company are set out in the Risk Review in the Strategic Report (see pages 37-46). In addition, we have modelled the long-term impacts of the risk review, together with potential mitigating actions that management can take, in the Long Term Viability Statement on pages 47-52. As set out in the Long Term Viability Statement, we rely on a combination of debt and equity financing, to fund our business. We also rely on having an investment grade credit rating to raise financing at an efficient cost as well as to comply with the terms of our operating licence. As such, in order to assess our ability to continue as a going concern we look at both our cash and available facilities, but also our credit rating and ability to raise new financing.

- Our credit rating is undertaken by Moody's, who assess our credit worthiness using a grid of relevant considerations. This grid includes two primary ratios; Adjusted Interest Cover Ratio and Gearing. For comparative purposes, and to ensure an appropriately rounded position, we also model metrics under the Standard & Poor's methodology, which focus on the ratio of funds from operations to net debt (FFO to Net Debt). To ensure compliance with our existing securitisation framework we also monitor covenants under these requirements, which most significantly reflect an alternative calculation of interest cover and regulated asset ratio (the ratio of net debt to regulatory capital value).
- The Company is well placed to respond to near term challenges, with a strong liquidity position constituted of £4.0m unrestricted cash together with uncommitted borrowing facilities of £50m as at 31 March 2020. The Company's funding position is summarised in the table below.



	Actual 31 March 2020 £m
Balance outstanding on Artesian loans - fixed rate	57.5
Balance outstanding on Artesian loans - index linked	143.1
Balance outstanding on other senior loan facilities	130.4
Balance outstanding on index linked bond	50.7
Gross Debt	381.7
Undrawn facilities	50.0
Cash	10.1
Total facility	441.8



## Directors' report

- The majority of the Company's debt is long dated, with the earliest repayment of debt reflecting £9.0m of drawn debt repayable on 2 December 2021; undrawn facilities amount to £50m, with a further £4.0m of unrestricted cash available to the business. The facilities available to the business are in excess of that required based on the Company's cash flows as reflected in forecasts. In addition, consideration has been given to a range of reasonably probable downside scenarios (including those described in the Risk Review) and in particular the short-term impact of COVID-19 on cash flows, as well as significant cost reductions required to meet our efficiency targets under the Final Determination whilst we await the re-determination by the CMA and the impact if such reductions are not achieved. Further, mitigating actions have been considered such as cancellation of dividends and short-term cash flow management should a combination of the scenarios occur. In addition, Based on the relevant financial metrics for these forecasts and scenarios and taking account of the mitigating actions available to the Company, the credit rating of the business is considered to be maintainable at investment grade and therefore sufficient to support its licence and existing financing requirements over the period of assessment.
- As a result, 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 12 months following signing of the report. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

### Financial Risk Management

Details of financial risks faced by the Company and the related mitigating factors are included in note 27 to the financial statements.

### Directors and their interests

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

- K Ludeman, Chairman
- M Karam, Chief Executive Officer
- L Flowerdew, Chief Financial Officer
- T Tutton, Senior INED
- J Bending INED
- P Francis, INED
- J McAuliffe, INED
- I Dhar, NED
- H Ichishi, NED
- P Malan, NED

In accordance with the UK Corporate Governance Code, all directors offered themselves for re-election at the Annual General Meeting held on 30 September 2019 and were duly re-elected.

Colin Caldwell resigned as Company Secretary on 29 May 2019. Helen Hancock was appointed Company Secretary on 30 May 2019.

### Service contracts

All current executive directors have service contracts, notice periods are detailed in the Remuneration Committee report on page 95. Each of the NEDs is provided with a Letter of Appointment which sets out the terms of their appointment.

### Other interests

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

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

The interests in shares and other contracts of Mr Malan and Mr Dhar 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 31 to the financial statements.

## Directors' report

### Research and Development

The Company undertakes research and development projects in relation to its business. Expenditure during the year amounted to £29,000 (2018/19: £42,000).

### Financial Instruments

The details of the financial instruments are provided in note 26 to the financial statements.

### Instrument of Appointment and Regulatory Accounts

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

### Directors' Qualifying Third Party Indemnity Provisions

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

### Auditors and Disclosure of Information to Auditors

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

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

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

### Employees

Information on employment policies and practices is contained within the 'Best people right culture' part of the Strategic Report on page 24.

### Political donations

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

### Environmental Matters

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

The partners involved include Natural England, the EA, 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 and we have supported farmers to invest in water protection measures on their landholdings.

We monitor the quality of water in the Mendip reservoirs and during the period of our catchment management programme this monitoring has indicated a gradual reduction in the level of algal blooms experienced in these water sources.

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

We monitor all of our discharges which have been consented by the Environment Agency with a view to full compliance, where there are failures these are reviewed, and appropriate remedial measures are implemented.

### Greenhouse Gas Emissions

We used just over 78 million kilowatt hours of electrical energy to treat and distribute water. This accounts for 91% 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 27,749 tonnes of CO<sub>2</sub> equivalent to 23,291 tonnes of CO<sub>2</sub> equivalent.

We use the Standard Water UK calculation methodology to calculate our carbon emissions shown as a normalised kg CO<sub>2</sub> per MI of water into supply. In 2019/2020, this decreased to 233CO<sub>2</sub>e/MI from 263CO<sub>2</sub>e/MI in 2018/19. 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.

## Directors' report

### Disclosures required under Listing Rule 9.8.4R

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

A statement of the amount of interest capitalised in accordance with IAS23 can be found in note 8. In line with current UK tax legislation, the amount is fully deductible against the Company's corporation tax liability. Tax relief is £63,324 (2018/19: £73,293).

Details of long-term incentive schemes can be found on page 88.

Details of significant contracts between the Company and directors can be found on page 113. During the year, there were no contracts for the provision of services to the Company by a controlling shareholder.

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

The statement of the directors in respect of the Annual Report, and the statement of directors' responsibilities are contained within the Directors' Report on page 117.

As required by the UK Corporate Governance Code, as set out in the Corporate Governance Report on pages 65-73, 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;
- the final draft is reviewed by the ARAC prior to consideration by the Board; and
- review individually, and collectively, by Board members prior to publication.

## 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 (reflecting United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

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

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation

and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Each of the directors, whose names and functions are listed on pages 58-59 confirm that, to the best of their knowledge:

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

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

**Helen Hancock**  
Company Secretary  
13 July 2020

**INCOME STATEMENT**
**for the year ended 31 March 2020**

	Note	2020 £m	2019 £m
<b>Revenue</b>	3,2,6	125.5	121.6
Operating costs excluding impairment losses on trade receivables	7	(90.7)	(90.9)
Impairment losses on trade receivables	7	(4.8)	(3.9)
Operating costs before exceptional items		(95.5)	(94.8)
Exceptional operating (costs) / income	7	(7.3)	3.1
Total net operating costs	7	(102.8)	(91.7)
<b>Operating profit</b>		22.7	29.9
Other net interest payable and similar charges	8	(12.4)	(12.4)
Dividends on 8.75% irredeemable cumulative preference shares	8	(1.1)	(1.1)
Net interest payable and similar charges	8	(13.5)	(13.5)
<b>Profit before tax</b>		9.2	16.4
Taxation on profit on ordinary activities	9	(8.7)	(2.1)
<b>Profit for the financial year</b>		0.5	14.3
<b>Earnings per ordinary share</b>	10	8.3p	238.3p

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

**STATEMENT OF COMPREHENSIVE INCOME**
**for the year ended 31 March 2020**

	Note	2020 £m	2019 £m
<b>Profit for the financial year</b>		0.5	14.3
<b>Other comprehensive income / (expense):</b>			
<b>Items that will not be reclassified to profit and loss</b>			
Actuarial gain / (loss) on retirement benefit surplus	15	0.5	(37.3)
Remeasurements of defined benefit pension scheme	9	(0.1)	12.9
<b>Items that may be subsequently reclassified to profit and loss</b>			
Change in the fair value of the interest rate swaps	14	-	(0.1)
<b>Other comprehensive income / (expense) for the year, net of tax</b>		0.4	(24.5)
<b>Total comprehensive income / (expense) for the year</b>		0.9	(10.2)

**STATEMENT OF FINANCIAL POSITION**
**at 31 March 2020**

	Note	2020 £m	2019 £m
<b>Non-current assets</b>			
Property, plant and equipment	11	671.8	629.4
Intangible assets	12	14.0	10.5
Other investments - Loans to a UK holding Company	13	65.5	68.5
Deferred income tax assets	14	5.9	5.2
Retirement benefit surplus	15	9.7	9.5
		766.9	723.1
<b>Current assets</b>			
Inventory	17	1.7	1.6
Trade and other receivables	18	32.0	27.8
Cash and cash equivalents	19	10.1	17.1
		43.8	46.5
<b>Total assets</b>		810.7	769.6
<b>Non-current liabilities</b>			
Lease liabilities	20	(1.9)	-
Deferred income tax liabilities	14	(71.6)	(63.2)
Borrowings and derivatives	21,26	(379.0)	(347.6)
8.75% irredeemable cumulative preference shares	21,25,26	(12.5)	(12.5)
Deferred income	22	(81.8)	(79.9)
Government grants		(0.3)	(0.3)
		(547.1)	(503.5)
<b>Current liabilities</b>			
Lease liabilities	20	(0.9)	-
Current portion of borrowings and derivatives	21,26	-	(0.5)
Current portion of deferred income	22	(1.8)	(1.7)
Trade and other payables	23	(36.5)	(40.4)
Provisions for liabilities	24	(6.4)	-
		(45.6)	(42.6)
<b>Total liabilities</b>		(592.7)	(546.1)
<b>Net assets</b>		218.0	223.5
<b>Equity</b>			
Called-up share capital	25	6.0	6.0
Share premium account		4.4	4.4
Other reserves		5.8	5.8
Retained earnings		201.8	207.3
<b>Total Equity</b>		218.0	223.5

The financial statements of Bristol Water plc, registered number 2662226 on pages 118-156, were approved by the Board of Directors on 13 July 2020 and signed on its behalf by:

**Mel Karam**, Chief Executive Officer and **Laura Flowerdew**, Chief Financial Officer

## STATEMENT OF CHANGES IN EQUITY

For the year ended  
31 March 2020

	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 2018	6.0	4.4	5.8	(0.3)	223.7	239.6
Profit for the year	-	-	-	-	14.3	14.3
<b>Other comprehensive expense for the year:</b>						
Actuarial loss recognised in respect of retirement benefit pension obligations	-	-	-	-	(37.3)	(37.3)
Remeasurement of defined benefit scheme	-	-	-	-	12.9	12.9
Fair value of interest rate swap	-	-	-	(0.1)	-	(0.1)
<b>Total comprehensive expense for the year</b>	-	-	-	(0.1)	(10.1)	(10.2)
Termination of interest rate swaps	-	-	-	0.4	-	0.4
Ordinary dividends	-	-	-	-	(6.3)	(6.3)
<b>Balance as at 31 March 2019</b>	6.0	4.4	5.8	-	207.3	223.5
Effect of adoption of IFRS16: Leases	-	-	-	-	(0.1)	(0.1)
Balance as at 1 April 2019 as restated	6.0	4.4	5.8	-	207.2	223.4
Profit for the year	-	-	-	-	0.5	0.5
<b>Other comprehensive income for the year:</b>						
Actuarial gain recognised in respect of retirement benefit obligations	-	-	-	-	0.5	0.5
Remeasurement of defined benefit scheme	-	-	-	-	(0.1)	(0.1)
<b>Total comprehensive income for the year</b>	-	-	-	-	0.9	0.9
Ordinary dividends	-	-	-	-	(6.3)	(6.3)
<b>Balance as at 31 March 2020</b>	6.0	4.4	5.8	-	201.8	218.0

The Board has not proposed a final dividend in respect of the financial year 2019/20 (2018/19: £nil). During the year the Board approved dividends totalling £6.3m, representing £3.3m in relation to the intercompany loan with Bristol Water Holdings UK Limited ("BWHUK") and £3.0m which was used to part repay the outstanding loan due to the Company from Bristol Water Holdings UK Limited ("BWHUK").

## CASH FLOW STATEMENT

For the year ended 31 March 2020

	Note	2020 £m	2019 £m
<b>Cash flows from operating activities</b>			
Profit before taxation		9.2	16.4
Adjustments for:			
Deferred income amortisation	22	(1.8)	(1.7)
Depreciation	7	22.3	20.5
Amortisation of intangibles	7	2.9	2.7
Impairment of fixed assets	7	0.1	-
Difference between pension charges and contributions paid	15	0.6	0.8
Profit on disposal of assets	7	(0.7)	-
Profit on disposal of assets and liabilities held for sale	7	-	(3.1)
Interest income	8	(4.1)	(4.1)
Interest expense	8	18.0	18.9
Pension interest income	8	(0.4)	(1.3)
Increase in inventory		(0.1)	-
Increase in trade and other receivables		(2.8)	(1.2)
Increase in trade and other creditors and provisions		5.7	1.0
Cash generated from operations		48.9	48.9
Interest paid		(12.3)	(11.8)
Corporation taxes paid		(2.5)	(2.2)
Contributions received	22	3.8	3.7
<b>Net cash inflows from operating activities</b>		37.9	38.6
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangibles		(71.6)	(52.9)
Proceeds from sale of fixed assets		0.7	-
Proceeds from sale of assets and liabilities held for sale		-	3.5
Interest received	8	4.1	4.1
Repayment of intercompany loan receivable	13	3.0	-
<b>Net cash used in investing activities</b>		(63.8)	(45.3)
<b>Cash flows from financing activities</b>			
Proceeds from loans and borrowings	21	27.0	97.0
Transaction costs related to loans and borrowings	21	-	(1.0)
Payment of finance lease liabilities		(0.7)	(0.4)
Payment of loans and borrowings	21	-	(78.9)
Termination of swap		-	(0.5)
Preference dividends paid	8	(1.1)	(1.1)
Equity dividends paid		(6.3)	(6.3)
<b>Net cash generated from financing activities</b>		18.9	8.8
<b>Net increase / (decrease) in cash and cash equivalents</b>		(7.0)	2.1
Cash and cash equivalents, beginning of year	19	17.1	15.0
<b>Cash and cash equivalents, end of year</b>	19	10.1	17.1

There has been a change in presentation of capital contributions in the statutory cash flow. Previously these were shown as investing activities but have been presented as operating cash flows in the current and prior year.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

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

Bristol Water plc is a public company, limited by shares with irredeemable preference shares and debenture stock listed on the London Stock Exchange.

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

### 2. BASIS OF PREPARATION

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

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

With effect from 1 April 2019 the Company has adopted IFRS 16, 'Leases'. IFRS 16 has been adopted retrospectively from 1 April 2019 but comparatives for the year ended 31 March 2019 have not been restated, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing standard are therefore recognised in the opening balance sheet on 1 April 2019 and are set out in note 5.

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### 3.1 Going concern

The Company meets its day-to-day working capital requirements through its cash reserves and borrowings. The Company's forecasts and projections show that the Company will be able to operate within the level of its current cash reserves and borrowing facilities. After making enquiries, the Directors have an expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements. See pages 110-112 for further detail. Further information on the Company's borrowings is given in note 3.14 and note 20.

#### 3.2 Revenue

Revenue comprises charges to direct customers

and retailers for water and other services, exclusive of VAT. Revenue is recognised as the performance obligation is satisfied. In accordance with IFRS 15 revenue from customers is only recognised when it is probable that the Company will collect the consideration to which it is entitled.

Revenue from metered water supply is based on water consumption and is recognised upon delivery of water. It includes an estimate of the water consumption for customers of both the Company and retailers whose meters were not read at the reporting date. For customers the estimate covers the period between the last meter reading and the reporting date, and for retailers the last month of the period. The estimate represents a contract asset under IFRS 15 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. Cash received from customers is held in trade and other payables and recognised to the income statement over the period to which the bill relates.

Revenue from developers in respect of the network and other assets is recognised over the period of time water services are expected to be provided through this connection. Unrecognised revenue is held in deferred income as a contract liability.

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

#### 3.3 Research and development

Research and development expenditure is charged to the Income Statement as incurred. Development expenditure is capitalised only when it meets the recognition criteria of IAS38.

#### 3.4 Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Company. They are items that are material either because of their size or their nature and are presented separately within the line items to which they best relate.

#### 3.5 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.

#### 3.6 Property, plant and equipment and depreciation

Tangible assets are stated at historic purchase cost

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

#### Capitalisation of borrowing costs

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

#### Depreciation

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

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

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

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

#### Impairment

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

## 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.

### 3.7 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.

### 3.8 Other Investments

Loans made to UK holding companies within the Bristol Water Group Limited group of companies are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortised cost. In accordance with IFRS 9, other investments are considered to be a low credit risk where they have a low risk of default and the issuing company has a strong capacity to meet its contractual cash flow obligations in the near term.

### 3.9 Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered)

for the year, and any adjustment to tax payable or receivable in respect of the prior years, using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

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

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

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

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

Tax is charged or credited to the 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.

### 3.10 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. The employees in the section stopped earning additional defined benefit pensions on 31 March 2016.

### Defined benefit scheme

Defined benefit scheme liabilities are measured by an independent actuary using the projected unit method and discounted at the current rate of return

on high quality corporate bonds of equivalent term and currency to the liability. Scheme running costs are charged to operating profit.

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

The amount charged or credited to finance costs is a net interest amount calculated by 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.

### 3.11 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.

### 3.12 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 loss allowance. See note 4 for a description of the Company's impairment policies.

### 3.13 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.

### 3.14 Financial instruments

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

The net costs of issue of loans (being expenses incurred less premiums received) where material are

amortised over the lives of the respective loans and disclosed within net borrowings. Immaterial amounts are written off as incurred. Index-linked loans are valued at cost plus accrued indexation.

### 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 Leased assets

The Company leases equipment and vehicles. Contracts may contain both leases and non-lease components. The company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone process.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets cannot be used as security for borrowing purposes.

Until the 2018/19 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- The payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonable certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, as is generally the case for the Company, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Each lease payment is allocated between the liability and finance costs. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date, less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

The right-of-use asset is depreciated over the asset's useful life.

Lease income from operating leases where the Company is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet

based on their nature. The Company did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

As explained in notes 20, 21 and 26, the Company has changed its accounting policy for leases where the company is the lessee. The impact of the change is explained in note 5. Prior to this change assets financed by leasing agreements that transfer substantially all the risks and rewards of ownership of an asset to the lessee were capitalised and depreciated over the shorter of their estimated useful lives and the lease term. The capital portion of the lease commitment was included in current or non-current creditors as appropriate. The capital element of the lease rental was deducted from the obligation to the lessor as paid.

The interest element of lease rentals and the depreciation of the relevant assets were charged to the Income Statement.

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

### 3.16 Grants

Government grants received are shown 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 in respect of expenditure charged to the Income Statement are recognised when the related rechargeable expenditure is incurred.

### 3.17 Trade and other payables

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

### 3.18 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 discounted if the effect of the time value of money is considered material.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

### Revenue Recognition

An estimate of water consumption by metered customers since the date of the last bill and the corresponding income that remains not billed (accrued income) is required to be made each year. The accrual is based on metered volumes, consumption already billed and tariffs. The accrued income is £14.2m (2018/19 £14.5m), of which £12.5m (2018/19 £12.7m) is included in note 18 prepayments and accrued income and £1.7m (2018/19 £1.8m) relates to Water 2 Business Limited, a related party company and is included within amounts owed by group undertakings in note 18.

In accordance with IFRS 15 revenue from customers is only recognised when it is probable that the Company will collect the consideration to which it is entitled. Management considers the payment history of customers and does not recognise revenue where no payment has been received for more than two years. Once consideration is received the revenue is recognised.

Contributions received from developers in respect of network and other assets are recognised as revenue as the performance obligation is satisfied. The performance obligation is deemed to be the authorised connection to water services which will be satisfied over the period of time water services are expected to be provided through this connection. We have estimated the average connection will be in place for a period of 60 years which is based on the useful economic life of domestic properties and building industry expectations.

### 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 7 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 11 for the carrying amount of the property, plant and equipment and note 3.6 for the useful economic lives for each class of assets.

### Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees. 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 June 2018 the scheme purchased a bulk annuity policy to insure the benefits for members in the Section. Following this the method for valuing the liabilities of the pension scheme has remained the same however the scheme assets, in the form of the insurance policy, now match the value of the liabilities.

The Company has included within valuation of the scheme liabilities an estimate for removing the inequalities in members' benefits as a result of



different Guaranteed Minimum Pensions for men and women ("GMP Equalisation").

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 15 for the disclosures of the defined benefit pension scheme.

#### 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 ageing profile of the receivables, historical experience and any relevant current and forward looking macroeconomic factors, as well as the credit rating for non-household customers. The Company applies the IFRS 9 'Financial Instruments' ("IFRS 9") simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 48 months before 31 March 2019 or 1 April 2018 respectively and the corresponding historical credit losses experienced within this period. The Company reviews current and forward looking information on macroeconomic factors affecting the ability of the customer to settle the receivable or the contract asset. Whilst the economic impact of the COVID-19 pandemic is still emerging the Company believes that there will be an impact on the recovery of household debt and has estimated an expected increase in the impairment of unmeasured and measured trade receivables of 0.17%, £0.3m and 0.14%, £0.3m respectively (based on an increase to current year debt provisioning rates of 0.7% and 0.5% respectively). This estimate has been based on historic collections data from previous financial crises and an assessment of the potential impact on household debt. A 100-basis point (decrease) / increase in the year end collection rates would cause the impairment provision for unmetered and metered trade receivables to increase / (decrease) by £1.9m and £1.7m respectively.

See note 18 for the net carrying amount of the receivables and associated impairment provision and page 40 for further information about the

impact of the COVID-19 pandemic.

#### 5. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 16, 'Leases', on the financial statement and it discloses the new accounting policies that have been applied from 1 April 2019.

The Company has adopted IFRS 16 using the modified retrospective approach from 1 April 2019 but it has not restated comparatives for the period ended 30 September 2018 or the year ended 31 March 2019, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019.

##### a) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principals of IAS 17, 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 5.29%

The associated right-of-use assets were measured on a retrospective basis as if the new rules had always applied. These assets are included in property, plant and equipment (note 11).

For leases previously classified as finance leases, the Company recognised the carrying value of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. There were no re-measurements to lease liabilities or right to use assets immediately after the date of initial application. The right-of-use assets continue to be included in property, plant and equipment (note 11).

The change in accounting policy affected the following items in the balance sheet on 1 April 2019:

- Property, plant and equipment – increase by £0.6m
- Lease liabilities (borrowings) – increase by £0.7m

The net impact on retained earnings on 1 April 2019 was a decrease of £0.1m

##### b) Practical expedients applied

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the accounting for operating leases, with a remaining lease term of less than 12 months as at 1 April 2019, as short term leases;

- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and the use of a single discount rate to a portfolio of leases with reasonably similar characteristics.

#### 6. REVENUE

	2020 £m	2019 £m
<b>Appointed income</b>		
Household - measured	49.0	44.6
Household - unmeasured	45.2	46.2
Non-household - measured	25.5	25.0
Non-household – unmeasured	0.3	0.3
Contributions from developers	1.8	1.7
Third party services	1.9	1.8
Rental income	0.7	0.8
	124.4	120.4
<b>Non-appointed income</b>		
Recreations	0.7	0.7
Rental income	0.1	0.2
Other	0.3	0.3
	1.1	1.2
	125.5	121.6

Appointed income is that earned under Bristol Water's licence to supply water.

Non-appointed income relates to activities that do not require a water supply licence.

Please refer to notes 4 and 18 for disclosure of contract assets, also referred to as accrued income. Please refer to notes 22 and 23 for disclosure of contract liabilities, which comprise deferred income and receipts in advance.

## 7. OPERATING COSTS

### (a) Operating costs includes –

	2020 £m	2019 £m
Wages and salaries, including termination benefits	22.3	20.3
Social security costs	2.4	2.2
Defined contribution scheme costs (note 16)	2.3	2.1
Defined benefit scheme costs (note 15)	0.6	0.8
Total payroll cost	27.6	25.4
Less capitalised as tangible and intangible assets	(9.0)	(7.7)
<b>Net staff cost</b>	<b>18.6</b>	<b>17.7</b>
Inventory recognised as an expense	2.7	2.7
Depreciation of tangible assets including impairment (note 11)		
On owned assets	21.9	20.2
On leased assets	0.5	0.3
Amortisation of intangible assets (note 12)		
On owned assets	2.9	2.7
Other operating charges		
Auditors' remuneration	0.2	0.2
Profit on disposal of tangible assets	(0.7)	-
Other charges less recoveries	44.6	47.1
Operating costs excluding impairment losses on trade receivables	90.7	90.9
Impairment of trade receivables (note 18)	4.8	3.9
<b>Total operating costs before exceptional items</b>	<b>95.5</b>	<b>94.8</b>
Provision for legal and similar costs	7.3	-
Profit on disposal of assets and liabilities held for sale	-	(3.1)
<b>Total exceptional items in the income statement</b>	<b>7.3</b>	<b>(3.1)</b>
<b>Total net operating costs</b>	<b>102.8</b>	<b>91.7</b>

The provisions for legal costs relate to two separate legal processes the Company has entered into during the year. See note 24.

The profit on disposal of assets and liabilities held for sale in the prior year arose following the sale of an operational depot which was sold in December 2018.

### (b) Employee details –

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

	2020 No.	2019 No.
Water treatment and distribution	310	274
Support services	127	119
Administration	118	110
Non-appointed activities	15	15
	<b>570</b>	<b>518</b>

### (c) Directors' emoluments –

	2020 £m	2019 £m
Aggregate emoluments of Directors, being remuneration, bonus, pension, LTIP and benefits in kind	0.9	0.8
	<b>0.9</b>	<b>0.8</b>

The highest paid Director during the year was Mr Karam; full details of his, and all other Directors' emoluments, are disclosed in the Remuneration Committee Report on pages 87-105.

### (d) Independent auditors' remuneration –

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

	2020 £'000	2019 £'000
Fees payable for the audit of the Company's annual statutory financial statement	79.1	82.9
Fees payable for other services:		
Services pursuant to legislation, principally assurance and audit of regulatory accounts and returns	37.7	36.0
Assurance over PR19 process	60.3	118.6
'PwC Inform' subscription	-	1.1
Total non-audit fees	<b>98.0</b>	<b>155.7</b>

## 8. NET INTEREST PAYABLE AND SIMILAR CHARGES

	2020 £m	2019 £m
Interest payable and similar charges relate to:		
Bank borrowings	2.2	2.2
Term loans and debentures:		
Interest charges	10.0	9.9
Indexation	5.0	5.6
Termination of swap	-	0.5
Capitalisation of borrowing cost	(0.3)	(0.4)
Dividends on 8.75% irredeemable cumulative preference shares	1.1	1.1
	18.0	18.9
Less interest receivable and similar income:		
Interest income in respect of retirement benefit scheme (note 15)	(0.4)	(1.3)
Loan to Bristol Water Holdings UK Ltd – interest receivable	(4.0)	(4.0)
Other external investments and deposits income	(0.1)	(0.1)
	(4.5)	(5.4)
Total net interest payable and similar charges	13.5	13.5

The rate used to determine the amount of borrowing costs eligible for capitalisation was 4.2% (2019: 4.7%), 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 IFRS 9.

## 9. TAXATION

	2020 £m	2019 £m
<b>Tax expense included in Income Statement</b>		
<b>Current tax:</b>		
Corporation tax on profits for the year	1.2	1.5
Adjustment to prior years	(0.2)	(0.5)
Total current tax	1.0	1.0
<b>Deferred tax:</b>		
Origination and reversal of timing differences*	0.7	0.8
Adjustment to prior years	0.2	-
Effect of change in accounting standard	-	0.3
Effect of change in UK corporation tax rate	6.8	-
Total deferred tax (note 14)	7.7	1.1
Tax expense on profit	8.7	2.1
<b>Tax expense income included in other comprehensive income</b>		
Deferred tax: Remeasurement of post employment benefit liability	0.1	(12.9)
Total tax expense / (income) included in other comprehensive income / (expense)	0.1	(12.9)

\* Included within the £0.8m prior year figure is £0.1m credit relating to the termination of the swap. This was reclassified to current tax in the prior year.

The UK government substantively enacted legislation on 17 March 2020 to maintain the future UK corporation tax rate at 19%. Previously tax rates were due to reduce to 17% from 1 April 2020. This change is reflected in the above deferred tax charge resulting in a one off impact of £6.8m (2019 £nil).

## 9. TAXATION (Continued)

### Reconciliation of the tax on profit on ordinary activities

The current tax rate for the year is higher (2018/19: lower) than the standard rate of tax. A reconciliation between tax expense and the product of accounting profit multiplied by United Kingdom corporation tax rate is as follows:

	2020 £m	2019 £m
Profit before tax	9.2	16.4
At statutory income tax rate of 19% (2019: 19%)	1.7	3.1
Adjustments in respect to prior periods	-	(0.5)
Non-deductible expenses for tax purposes:		
8.75% irredeemable cumulative preference share	0.2	0.2
Pension adjustment	-	(0.1)
Other	0.1	0.1
Utilisation of rollover relief	(0.1)	(0.6)
	1.9	2.2
Effective tax rate before change in UK corporation tax rate	20.7%	13.4%
Effect of tax rate change on opening balances	6.8	-
Effect of tax rate change on current year movement	-	(0.1)
<b>Total taxation expense included in income statement</b>	<b>8.7</b>	<b>2.1</b>
Effective tax rate after change in UK corporation tax rate	94.6%	12.8%

The current tax charge in the prior year was lower than the standard corporation tax rate due to the gain on the sale of an operational depot rolled over into new operational assets.

### 10. EARNINGS PER ORDINARY SHARE

	2020 £m	2019 £m
Basic earnings per ordinary share have been calculated as follows –	£0.5	£14.3
Earnings attributable to ordinary shares	6.0	6.0
Weighted average number of ordinary shares	8.3p	238.3p

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

## 11. 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
<b>At 1 April 2018</b>					
Cost	332.3	37.0	467.2	18.6	855.1
Accumulated depreciation	(142.8)	(25.3)	(82.9)	(4.7)	(255.7)
<b>Net book amount</b>	<b>189.5</b>	<b>11.7</b>	<b>384.3</b>	<b>13.9</b>	<b>599.4</b>
<b>Year ended 31 March 2019</b>					
Opening net book amount	189.5	11.7	384.3	13.9	599.4
Additions	-	-	-	50.6	50.6
Disposals	-	-	(0.1)	-	(0.1)
Capitalisation of completed assets	18.0	5.6	26.6	(50.2)	-
Depreciation charge (note 7)	(11.0)	(3.7)	(5.8)	-	(20.5)
<b>Closing net book amount</b>	<b>196.5</b>	<b>13.6</b>	<b>405.0</b>	<b>14.3</b>	<b>629.4</b>
<b>At 31 March 2019</b>					
Cost	349.7	41.0	493.7	19.0	903.4
Accumulated depreciation	(153.2)	(27.4)	(88.7)	(4.7)	(274.0)
<b>Net book amount</b>	<b>196.5</b>	<b>13.6</b>	<b>405.0</b>	<b>14.3</b>	<b>629.4</b>
Effect of adoption of IFRS 16: Leases (note 5)	-	0.6	-	-	0.6
<b>Year ended 31 March 2020</b>					
Opening net book amount	196.5	14.2	405.0	14.3	630.0
Additions	-	-	-	64.2	64.2
Disposals	-	-	-	-	-
Capitalisation of completed assets	9.2	11.1	29.8	(50.1)	-
Depreciation charge (note 7)	(11.9)	(4.2)	(6.2)	-	(22.3)
Impairment	(0.1)	-	-	-	(0.1)
Closing net book amount	193.7	21.0	428.6	28.4	671.8
<b>At 31 March 2020</b>					
Cost	358.9	52.2	523.5	33.1	967.7
Accumulated depreciation	(165.2)	(31.1)	(94.9)	(4.7)	(295.9)
<b>Net book amount</b>	<b>193.7</b>	<b>21.1</b>	<b>428.6</b>	<b>28.4</b>	<b>671.8</b>

## 11. PROPERTY, PLANT AND EQUIPMENT (Continued)

Included within disposals are assets with a nil net book value at time of disposal. The original cost of these assets was £0.2m (2019: £2.3m).

The impairment of fixed assets arose following fire damage at a treatment works.

The net book value of property, plant and equipment includes £6.0m (2019: £5.8m) of borrowing costs capitalised in accordance with IAS 23. During the year ended 31 March 2020 £0.3m (2019: £0.4m) was capitalised using a weighted average interest rate of 4.20% (2019: 4.73%). 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 in the above at 1 April 2019 and 31 March 2020 is freehold land, not subjected to depreciation in the year, of £1.7m.

## 12. INTANGIBLE ASSETS

	Computer Software £m	Assets under construction £m	Total £m
<b>At 1 April 2019</b>			
Cost	30.1	0.9	31.0
Accumulated amortisation	(22.4)	-	(22.4)
<b>Net book amount</b>	<b>7.7</b>	<b>0.9</b>	<b>8.6</b>
<b>Year ended 31 March 2019</b>			
Opening net book amount	7.7	0.9	8.6
Additions	-	4.6	4.6
Capitalisation of completed assets	3.0	(3.0)	-
Amortisation charge (note 7)	(2.7)	-	(2.7)
<b>Closing net book amount</b>	<b>8.0</b>	<b>2.5</b>	<b>10.5</b>
<b>At 31 March 2019</b>			
Cost	33.0	2.5	35.5
Accumulated amortisation	(25.0)	-	(25.0)
<b>Net book amount</b>	<b>8.0</b>	<b>2.5</b>	<b>10.5</b>
<b>Year ended 31 March 2020</b>			
Opening net book amount	8.0	2.5	10.5
Additions	-	6.4	6.4
Capitalisation of completed assets	5.1	(5.1)	-
Amortisation charge (note 7)	(2.9)	-	(2.9)
Closing net book amount	10.2	3.8	14.0
<b>At 31 March 2020</b>			
Cost	38.1	3.8	41.9
Accumulated amortisation	(27.9)	-	(27.9)
<b>Net book amount</b>	<b>10.2</b>	<b>3.8</b>	<b>14.0</b>

## 13. OTHER INVESTMENTS – LOANS TO GROUP UNDERTAKINGS

	£m
At 1 April 2019	68.5
Loan repayment	(3.0)
At 31 March 2020	65.5

On 31 March 2020 BWHUK repaid £3 million of the loan advanced in 2005.

Other investments comprise loans advanced to BWHUK. The details are as follows:

Agreement date	Loan advance date	Fixed interest rate*	Loan repayment date	Principal outstanding	
				2020 £m	2019 £m
4 December 2003	12 February 2004	6.042%	30 September 2033	47.0	47.0
10 June 2005	13 July 2005	5.550%	30 September 2032	18.5	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.

## 14. DEFERRED TAXATION

	2020 £m	2019 £m
Provision for deferred tax comprises:		
Accelerated capital allowances and capital element of finance leases	71.6	63.2
Deferred income	(5.8)	(5.1)
Short-term timing differences	(0.1)	(0.1)
<b>Net deferred tax liability</b>	<b>65.7</b>	<b>58.0</b>
Reflected in the statement of financial position as follows:		
Deferred taxation asset	(5.9)	(5.2)
Deferred taxation liability	71.6	63.2
<b>Deferred tax liabilities net</b>	<b>65.7</b>	<b>58.0</b>

### Deferred tax liabilities

	Accelerated capital allowances £m	Total £m
<b>At 1 April 2018</b>	62.2	62.2
Charged to the income statement	1.0	1.0
<b>At 31 March 2019</b>	63.2	63.2
Charged to the income statement	1.0	1.0
Charged to the income statement – change of rate	7.4	7.4
<b>At 31 March 2020</b>	<b>71.6</b>	<b>71.6</b>

### Deferred tax assets

	Deferred income £m	Fair value gains £m	Other £m	Total £m
<b>At 1 April 2018</b>	(5.3)	(0.1)	-	(5.4)
Reclassification to current tax	0.3	-	-	0.3
Credited to the income statement	(0.1)	-	(0.1)	(0.2)
Reclassification of swap to current tax	-	0.1	-	0.1
<b>At 31 March 2019</b>	(5.1)	-	(0.1)	(5.2)
Credited to the income statement	(0.1)	-	-	(0.1)
Credited to the income statement – change of rate	(0.6)	-	-	(0.6)
<b>At 31 March 2020</b>	<b>(5.8)</b>	<b>-</b>	<b>(0.1)</b>	<b>(5.9)</b>

The accelerated capital allowance pool relates to the difference in capital allowances that are allowed under corporate tax law compared with depreciation recognised for accounting purposes. The above timing differences reflect the fact that the Company's assets have received higher tax relief for tax purposes than the associated accumulated depreciation.

Deferred income relates to the write off of contributions in relation to capital assets which for tax are written off in line with the capital allowance rates and not the accounting lives.

Fair value gains relates to the movement in the interest rate swap during the prior year.

## 15. 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, "LCP"). The details of the last triennial valuation and current update on the funding position are provided on page 15 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 also ceased.

On 7 June 2018, the Trustees of the Bristol Water Section of the WCPS purchased a bulk annuity policy to insure the benefits for members in the Section. Following this, the method for valuing the liabilities of the pension scheme has remained the same. However, the scheme assets, in the form of the insurance policy, now match the value of the liabilities. The insurance policy was purchased at a premium which has reduced the scheme's surplus. The change in the value is reflected in the movement in other comprehensive income.

On 26 October 2018 the High Court issued a ruling in the Lloyds Banking Group court case requiring them to equalize benefits payable to men and women under its UK defined benefit pension plans. The inequalities arose from statutory differences in the retirement ages and rates of actual of benefits for men and women related to Guaranteed Minimum Pension ("GMP") benefits that were included in UK defined benefit pension plans. This is a minimum level of benefit that certain pension schemes had to provide in order to benefit from paying reduced National Insurance Contributions. In its ruling the High Court also provided details on acceptable

alternative methods of amending plans to equalise the pension benefits. Following advice from LCP £1.0m for estimated GMP equalisation costs is included within the scheme liabilities. This estimate was made before the High Court ruling was issued and was therefore reflected in the movement in other comprehensive income in the prior year.

### Risks of the scheme

Following the purchase of the bulk annuity policy, the balance sheet asset is now largely only exposed to changes in the value of the invested assets. This is because the value of the insurance policy is set equal to the value of the corresponding obligations meaning that any changes in financial conditions or other assumptions will affect the value of the insurance policy and the corresponding obligations by broadly the same amount.

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

### Basis of valuation

The formal actuarial valuation of the Company's section of the WCPS as at 31 March 2017 was updated to 31 March 2019, by LCP, using the following major assumptions in accordance with IAS 19 'Employee Benefits':

Assumptions:	2020	2019
RPI Inflation	2.9%	3.5%
CPI Inflation	1.9%	2.5%
Pension increases in payment (uncapped CPI)	2.1%	2.6%
Pension increases in payment (CPI capped at 5% pa)	2.0%	2.5%
Discount rate	2.3%	2.3%

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:

Life expectancy at age 60 at the balance sheet date	2020	2019
Men	27.6	27.5
Women	29.8	29.7
Life expectancy at age 60, 25 years from balance sheet date		
Men	30.4	30.3
Women	32.1	32.0

## 15. RETIREMENT BENEFIT SURPLUS (Continued)

### Reconciliation of scheme assets and liabilities:

	Assets £m	Liabilities £m	Total £m
Pension scheme surplus at 1 April 2018	223.0	(171.6)	51.4
Section expenses	(0.8)	-	(0.8)
Interest income (note 8)	5.5	(4.2)	1.3
Remeasurements:			
Return on plan assets, excluding amounts included in interest income	(32.0)	-	(32.0)
Changes in financial assumptions	-	(8.7)	(8.7)
Changes in demographic assumptions	-	3.0	3.0
Experience adjustments on obligation	-	0.4	0.4
	(32.0)	(5.3)	(37.3)
Benefits paid	(7.9)	7.9	-
<b>Pension scheme surplus at 31 March 2019</b>	<b>187.8</b>	<b>(173.2)</b>	<b>14.6</b>
Pension scheme surplus at 1 April 2019	187.8	(173.2)	14.6
Section expenses	(0.6)	-	(0.6)
Interest income (note 8)	4.3	(3.9)	0.4
Remeasurements:			
Return on plan assets, excluding amounts included in interest income	(13.0)	-	(13.0)
Changes in financial assumptions	-	12.2	12.2
Changes in demographic assumptions	-	-	-
Experience adjustments on obligation	-	1.3	1.3
	(13.0)	13.5	0.5
Benefits paid	(7.5)	7.5	-
<b>Pension scheme surplus at 31 March 2020</b>	<b>171.0</b>	<b>(156.1)</b>	<b>14.9</b>

### Total amount recognised on the statement of financial position:

	2020 £m	2019 £m
Fair value of plan assets	171.0	187.8
Pension scheme obligation	(156.1)	(173.2)
Pension scheme surplus	14.9	14.6
Less: restriction of surplus	(5.2)	(5.1)
Net pension scheme surplus	9.7	9.5

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 obligation at 31 March 2020	Change in assumption	Increase in assumption £m	Decrease in assumption £m
Discount rate	0.5% pa	(10.9)	12.3
Inflation assumption (CPI)	0.5% pa	9.6	(8.3)
Life expectancy	1 year	7.1	(7.0)

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 year.

Following the purchase of the bulk annuity policy, any changes in the value of the obligations would largely be matched by a corresponding change in the value of the Section's assets.

### Total cost recognised as an expense / (income):

	2020 £m	2019 £m
Interest income (note 8)	(0.4)	(1.3)
Section expenses	0.6	0.8
	0.2	(0.5)

### The market value of the plan assets was:

	2020				2019			
	Quoted	Unquoted	2020 £m	%	Quoted	Unquoted	2019 £m	%
Liquidity funds	15.5	0.2	15.7	9.2	14.2	1.6	15.8	8.4
Insurance policy	-	155.1	155.1	90.7	-	172.2	172.2	91.7
Cash	-	0.2	0.2	0.1	-	(0.2)	(0.2)	(0.1)
	15.5	155.5	171.0	100	14.2	173.6	187.8	100

### The return on the plan assets was:

	2020 £m	2019 £m
Interest income	4.3	5.5
Remeasurements	(13.0)	(32.0)
Total return on plan assets	(8.7)	(26.5)

The current weighted average duration of the expected benefit payments from the Section is around 15 years.

## 16. DEFINED CONTRIBUTION PENSION 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 £2.3m (2019: £2.1m) represents contributions payable to the scheme. As at 31 March 2020 and 31 March 2019, all contributions due have been paid over to the scheme.

## 17. INVENTORY

Inventory comprises consumable stores. The replacement cost of inventory is not considered to be materially different from its carrying value in the balance sheet.

## 18. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise:

	2020 £m	2019 £m
Trade receivables	25.2	23.6
Less bad debt provision (a)	(15.3)	(13.7)
	9.9	9.9
Amounts owed by group undertakings (b)	3.8	2.4
Other receivables	3.2	1.6
Prepayments and accrued income	13.7	13.9
Corporation tax	1.4	-
	32.0	27.8

(a) The aging of net trade receivables was:

	2020 £m	2019 £m
Past due by 0-30 days	1.7	1.5
Past due by 31-120 days	1.6	1.2
Past due by more than 120 days	6.6	7.2
	9.9	9.9

Bad debt provision:

	2020 £m	2019 £m
Opening balance	13.7	14.0
Provision for trade receivables impairment (note 7)	4.8	3.9
Trade receivables written off during the year as uncollectible	(3.2)	(4.2)
<b>Closing balance</b>	<b>15.3</b>	<b>13.7</b>

As at 31 March 2020, £15.3m (2019: £13.7m) of trade receivables were considered impaired and have been provided for. See note 4 for further details.

The Group's policy is to consider the trade receivables impairment to be allocated on a collective basis and only impaired for the purposes of IFRS 7, 'Financial Instruments: 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 2020 and 31 March 2019 have not been impaired.

(b) The sum of £0.4m (2019: £0.4m) is included within the heading "Amounts owed by group undertakings" in respect of amounts advanced to BWBSL, a joint venture company between Bristol Water Holdings Limited, a parent company, and Wessex Water Services Limited, to fund the purchase of tangible assets. This amount has no fixed repayment date.

## 19. CASH AND CASH EQUIVALENTS

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

	2020 £m	2019 £m
Cash and cash equivalents	4.0	11.0
Restricted cash	6.1	6.1
	10.1	17.1

Restricted cash is funds the Company is required to maintain, under the terms of the Company's Security Trust and Intercreditor Deed ("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.

## 20. LEASES

The Company has lease contracts for various assets. The amounts recognised in the financial statements in relation to the leases are as follows:

### a) Amounts recognised in the Statement of Financial Position

The Statement of Financial Position shows the following amounts relating to leases:

#### Included in Property, Plant and Equipment

	Freehold land, operational properties and structures £m	Plant and equipment £m	Infrastructure assets £m	Total £m
<b>At 31 March 2020</b>				
Cost	10.0	3.3	1.2	14.5
Accumulated depreciation	(9.4)	(1.1)	(1.0)	(11.5)
<b>Net book value</b>	<b>0.6</b>	<b>2.2</b>	<b>0.2</b>	<b>3.0</b>
<b>At 31 March 2019</b>				
Cost	10.0	0.8	1.2	12.0
Accumulated depreciation	(9.1)	(0.8)	(1.0)	(10.9)
<b>Net book value</b>	<b>0.9</b>	<b>-</b>	<b>0.2</b>	<b>1.1</b>



## 20. LEASES (Continued)

### Included in Intangible assets

	Computer software £m	Total £m
<b>At 31 March 2020</b>		
Cost	1.3	1.3
Accumulated depreciation	(1.3)	(1.3)
<b>Net book value</b>	-	-
<b>At 31 March 2019</b>		
Cost	1.3	1.3
Accumulated depreciation	(1.3)	(1.3)
<b>Net book value</b>	-	-

### Lease liabilities

	31 March 2020 £m	31 March 2019 £m
Current	0.9	-
Non-current	1.9	-
	2.8	-

In the prior year, the Company only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 'Leases'. The assets were presented in property, plant and equipment and the liabilities as part of the Company's borrowings. For adjustments recognised on adoption of IFRS 16 on 1 April 2019, please refer to note 5.

Additions to property, plant and equipment relating to assets under leases were £2.5m.

### b) Amounts recognised in the income statement

The Income Statement shows the following amounts relating to leases:

#### Depreciation charge relating to assets under leases

	2020 £m	2019 £m
Freehold land, operational properties and structures	0.3	0.3
Plant and equipment	0.2	-
	0.5	0.3
Interest expense (included in finance cost)	-	-
Expense relating to short-term leases (included in administrative expenses)	0.1	-
The future minimum finance lease payments are as follows:		
Within one year	1.0	0.5
Between one and five years	1.7	0.5
Later than five years	0.7	-
Total gross payments	3.4	1.0
Impact of finance expenses	(0.6)	-
Carrying value of liability	2.8	1.0

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. To determine the incremental borrowing rate, the Company

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the company, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, currency and security.

The Company used incremental borrowing rates specific to each lease and the rates range between 4.7%-8.7% translating to an average rate of 4.9%. A 100-basis point increase/(decrease) in the rate would cause the lease liabilities to (reduce)/increase by £0.1m and a corresponding (decrease)/increase in the right-of-use assets by the same amount.

The Company initially applied IFRS 16 on 1 April 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Thus, the comparative future minimum lease payments presented are based on IAS 17 whilst the current year are based on IFRS 16.

The total cash outflow for leases in 2020 was £0.8m (2019: £0.4).

## 21. BORROWINGS AND DERIVATIVES

	2020 £m	2019 £m
<b>Amounts falling due within one year</b>		
Finance leases – secured (note 27)	-	0.5
	-	0.5
<b>Amounts falling due after more than one year</b>		
Bank and other term loans – secured	50.0	23.0
Finance leases – secured (note 27)	-	0.5
	50.0	23.5
<b>Amounts falling due after more than five years</b>		
Bank and other term loans – secured	326.3	321.3
Net unamortised premiums arising on issue of term loans	1.1	1.2
	327.4	322.5
<b>Irredeemable</b>		
Debentures	1.6	1.6
8.75% irredeemable cumulative preference shares (note 26)	12.5	12.5
	14.1	14.1
<b>Total</b>	<b>391.5</b>	<b>360.6</b>

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

Finance lease liabilities were included in borrowings and derivatives until 31 March 2019 after which they were classified to lease liabilities on 1 April 2019 in the process of adopting the new lease standard. See note 5 about the adoption of IFRS 16.

## 21. 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 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 2020 £m	Total 2019 £m
<b>Current loans and borrowings</b>				
Finance leases		10 May 2020	-	0.5
Total current loans and borrowings			-	0.5
<b>Non current loans and borrowings</b>				
£9,000,000 bank loan	1.07%	2 Dec 2021	9.0	4.0
£16,000,000 bank loan	1.30%	2 Dec 2023	16.0	3.0
£25,000,000 bank loan	1.19%	21 Jun 2023	25.0	16.0
£25,000,000 bank loan	2.61%	24 Aug 2028	25.0	25.0
£50,000,000 bank loan	1.58%	14 Jun 2028	50.0	50.0
Finance leases		10 May 2020	-	0.5
£91,109,686 indexed linked term loan	3.64%	30 Sept 2032	143.1	139.3
£57,500,000 term loan	6.01%	30 Sept 2033	57.5	57.5
£40,000,000 indexed linked term loan	2.70%	25 Mar 2041	50.7	49.5
Net unamortised premiums			1.1	1.2
£1,405,218 Consolidated debentures	4.00%	irredeemable	1.4	1.4
£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			391.5	360.1

Finance lease liabilities were included in borrowings and derivatives until 31 March 2019 after which they were classified to lease liabilities on 1 April 2019 in the process of adopting the new lease standard. See note 5 about the adoption of IFRS 16.

## Borrowing facilities

Unutilised borrowing facilities are as follows:

	2020 £m	2019 £m
Expiring in December 2021	6.0	11.0
Expiring in June 2023	25.0	34.0
Expiring in December 2023	19.0	32.0
	50.0	77.0

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

## 22. DEFERRED INCOME

	2020 £m	2019 £m
Net book value, beginning of year	81.6	79.6
Additions	3.8	3.7
Recognised as income in the year (note 6)	(1.8)	(1.7)
Net book value, end of year	83.6	81.6
Current	1.8	1.7
Non-current	81.8	79.9
	83.6	81.6

## 23. TRADE AND OTHER PAYABLES

	2020 £m	2019 £m
Trade and other payables		
Receipts in advance	11.4	11.5
Trade payables	11.7	14.3
Amounts owed to group undertakings	1.4	1.8
Other taxation and social security	0.7	0.7
Corporation tax payable	-	0.2
Payments received on account	0.5	1.1
Accruals	10.8	10.8
	36.5	40.4

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

## 24. PROVISIONS FOR LIABILITIES

	Legal and similar costs £m	Total £m
<b>1 April 2019</b>	-	-
Additions	7.3	7.3
Utilised in the year	(0.9)	(0.9)
<b>At 31 March 2020</b>	6.4	6.4

In November 2019, the Company entered into a formal arbitration process with the Canal and River Trust ("CRT") concerning charges for the supply of raw water to the Company from the Gloucester and Sharpness Canal. Bristol Water is supplied raw water from the Gloucester and Sharpness Canal, under an agreement with CRT. The agreement provides for charges payable to CRT to be reviewed periodically and during 2018/19 CRT triggered a charges review seeking a substantial increase. Bristol Water does not believe such an increase is supportable and is challenging the claim. Charges could increase or decrease under the terms of the agreement and there is uncertainty over the outcome of the review. Until the matter is determined, the charges continue to be payable at previous levels, and are accrued accordingly. A provision was recognised during the year, to cover the estimated costs associated with the arbitration, principally being legal and expert witness costs, of which £1.6m remains outstanding as at 31 March 2020. The arbitrator is expected to reach his conclusion in the second half of 2020/21.

Following the publication of Ofwat's 2019 Final Determination, which sets the price and services the Company must deliver over the 2020-2025 regulatory period, the Company requested a referral of this Determination to the Competition and Market Authority ("CMA") in February 2020. The Company is seeking a re-determination of the outcomes, in order to ensure they reflect a sustainable, financeable position for the business. A provision was recognised during the year in respect of the estimated costs associated with this process, of which £4.8m remains outstanding as at 31 March 2020. The process is expected to be completed by December 2020.

## 25. SHARE CAPITAL

	2020 No.	2020 £m
<b>Ordinary shares of £1 each</b>		
<b>Issued and fully paid</b>		
As at 1 April and 31 March	5,998,025	6.0
All shares rank pari passu in all respects.		
	2020 No.	2020 £m
<b>Preference shares of £1 each</b>		
<b>Issued and fully paid</b>		
As at 1 April and 31 March	12,500,000	12.5

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.

The preference shares are classified as liabilities in the balance sheet.

## 26. 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.

### Fair values of financial assets and financial liabilities

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

### Fair values of non-current financial assets and liabilities

	31 March 2020		31 March 2019	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
<b>Primary financial instruments issued to finance the Company</b>				
Long-term borrowings	(379.0)	(528.4)	(347.6)	(474.8)
8.75% irredeemable cumulative preference shares	(12.5)	(17.5)	(12.5)	(18.6)
Leases	(1.9)	(1.4)	-	-
<b>Primary financial instruments issued to finance Bristol Water Holdings UK Limited</b>				
Long-term loans	65.5	96.0	68.5	90.8
	(327.9)	(451.3)	(291.6)	(402.6)

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.

## 26. FINANCIAL INSTRUMENTS (Continued)

### Fair values of other financial assets and liabilities

	31 March 2020		31 March 2019	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
<b>Financial assets</b>				
Cash and cash equivalents	10.1	10.1	17.1	17.1
Trade and other receivables	32.0	32.0	27.8	27.8
<b>Financial liabilities</b>				
Current portion of long-term borrowings	-	-	(0.5)	(0.5)
Trade and other payables	(36.5)	(36.5)	(40.4)	(40.4)
Current portion of leases	(0.9)	(0.8)	-	-
	4.7	4.8	4.0	4.0

Finance lease liabilities were included in borrowings and derivatives until 31 March 2019 after which they were classified to lease liabilities on 1 April 2019 in the process of adopting the new lease standard. See note 5 about the adoption of IFRS 16.

## 27. FINANCIAL RISK MANAGEMENT

### Financial risk factors

The Company's main financial instruments comprise:

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

The Company'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 £65.5m (2018/19: £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'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, 23% (2019: 25%) of the Company's gross financial liabilities, excluding the 8.75% irredeemable cumulative preference shares, were at fixed rates. 74% (2019: 79%) of the Company's gross financial liabilities, excluding the 8.75% irredeemable cumulative preference shares, were at fixed or index-linked rates. The remainder was at floating rates.

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

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

### Interest rate sensitivity

The following table demonstrates the sensitivity to 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 2020		31 March 2019	
	Profit before tax £m	Profit after tax £m	Profit before tax £m	Profit after tax £m
Movement in interest rate of 100bp	1.0	0.8	0.7	0.6

### Inflation rate sensitivity

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

	2020 £m	2019 £m
Index-linked debt	193.8	188.8

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 2020		31 March 2019	
	Profit before tax £m	Equity £m	Profit before tax £m	Equity £m
Movement in Retail Price Index by 1%	1.9	1.5	1.9	1.5

#### (c) Credit risk

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

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

Debt investments at amortised cost are considered to be low risk, and therefore the impairment provision is determined as 12 months' expected credit losses. Applying the expected credit risk model resulted in an immaterial loss allowance at 31 March 2020 and 31 March 2019.

## 27. FINANCIAL RISK MANAGEMENT (Continued)

### (c) Credit risk (Continued)

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:

	2020 £m	2019 £m
Long-term loans	65.5	68.5
Cash and cash equivalents	10.1	17.1
Trade and other receivables, net of bad debt provisions made	32.0	27.8
	107.6	113.4

Collateral of £0.2m, held as security from retailers, is included in cash and cash equivalents.

### (d) Liquidity risk

It is the Company policy to maintain continuity of funding. At the year-end 87% (2018/19: 93%) of its financial liabilities, including 8.75% irredeemable cumulative preference shares, mature after five years or are irredeemable.

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

The Company has undrawn facilities of £6.0m expiring in December 2021, £25.0m expiring in June 2023 and £19.0m expiring in December 2023. All the facilities are floating rate and incur non-utilisation fees at market rates.

Under the terms of the STID the Company is required to maintain sufficient funds in a nominated account to cover estimated debt service payments arising during the following year. These funds, currently amounting to approximately £6.1m (2018/19: £6.1m), are therefore not available for other operational use or distribution to shareholders.

The table below details the Company's remaining contractual payments until maturity for its non-derivative financial liabilities. The table is based on the undiscounted cash flows, and includes estimates of future interest payments and loan indexation on financial liabilities. At 31 March 2020 we have assumed that indexation will be applied at the rate of 1.7% p.a. At 31 March 2019 we assumed that indexation would be applied at the rate of 2.5% p.a. These are the latest forecast rates for inflation on index linked loans to be applied at 31 March 2020 and have been applied for each year until maturity.

	Due within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	Total £m
<b>Year ended 31 March 2020</b>					
Trade creditors	11.7	-	-	-	11.7
Due to group and associated companies	1.4	-	-	-	1.4
Other taxation and social security	0.7	-	-	-	0.7
Corporation tax payable	-	-	-	-	-
Accruals	1.6	-	-	-	1.6
Interest bearing loans and related interest	12.6	21.1	68.2	483.5	585.4
	28.0	21.1	68.2	483.5	600.8
<b>Year ended 31 March 2019</b>					
Trade creditors	14.3	-	-	-	14.3
Due to group and associated companies	1.8	-	-	-	1.8
Other taxation and social security	0.7	-	-	-	0.7
Corporation tax payable	0.2	-	-	-	0.2
Accruals	2.0	-	-	-	2.0
Interest bearing loans and related interest	12.5	12.7	60.2	543.1	628.5
	31.5	12.7	60.2	543.1	647.5

### (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.

## 28. COMMITMENTS

Capital commitments at 31 March 2020 contracted for but not provided were £5.7m (2018/19: £5.8m).

## 29. CASHFLOW INFORMATION

### (a) Net debt reconciliation

#### Analysis of net debt:

	31 March 2020 £m	31 March 2019 £m
Cash and cash equivalents	10.1	17.1
Borrowings and leases – repayable within one year (including overdraft)	(0.9)	(0.5)
Borrowings and leases – repayable after one year	(393.4)	(360.1)
Net debt	(384.2)	(343.5)
Cash and liquid investments	10.1	17.1
Gross debt – fixed and indexed interest rates	(100.5)	(97.8)
Gross debt – variable interest rates	(293.8)	(262.8)
Net debt	(384.2)	(343.5)

#### Movements in net debt

	Other assets Cash / bank overdraft £m	Liabilities from financing activities				Total £m
		Finance leases due within 1 year £m	Finance leases due after 1 year £m	Borrowings due within 1 year £m	Borrowings due after 1 year £m	
Net debt as at 1 April 2018	15.0	(0.5)	(1.0)	-	(336.9)	(323.4)
Cash flows	2.1	0.4	-	-	(16.6)	(14.1)
Other non-cash movements	-	(0.4)	0.5	-	(6.1)	(6.0)
<b>Net debt as at 31 March 2019</b>	<b>17.1</b>	<b>(0.5)</b>	<b>(0.5)</b>	<b>-</b>	<b>(359.6)</b>	<b>(343.5)</b>
Cash flows	(7.0)	0.7	-	-	(27.0)	(33.3)
Other non-cash movements	-	(1.1)	(1.4)	-	(4.9)	(7.4)
<b>Net debt as at 31 March 2020</b>	<b>10.1</b>	<b>(0.9)</b>	<b>(1.9)</b>	<b>-</b>	<b>(391.5)</b>	<b>(384.2)</b>

## 30. RELATED PARTY TRANSACTIONS

Throughout the year, related parties include members and joint ventures of the Bristol Water Group Limited (formerly known as CSE Water UK Limited) group of companies, members of the iCON Infrastructure LLP companies and members of Itochu Corporation, and key management personnel.

The principal related parties are:

**Bristol Water Group Limited**, registered in England and Wales, whose yearend 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 Bristol Water 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 has a retail water and sewerage supply licence and provides retail water services to non-household customers.

#### 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	
	2020 £m	2019 £m	2020 £m	2019 £m
<b>Joint ventures and associates of the Bristol Water Group Limited group</b>				
<b>BWBSL</b>				
– management charges	-	-	2.6	2.6
– capital expenditure	-	-	0.2	0.3
– other recharges	-	-	0.2	0.2
<b>W2B</b>				
– non-household supply of water	21.5	22.6	-	-
	21.5	22.6	3.0	3.1

At the year end the balances held with related parties were:

	Amounts due from		Amounts due to	
	2020 £m	2019 £m	2020 £m	2019 £m
<b>Joint ventures and associates of the Bristol Water Group Limited group</b>				
<b>BWBSL</b>	0.8	0.2	1.0	1.4
<b>W2B</b>	2.6	1.8	-	-
	3.4	2.0	1.0	1.4

The amounts outstanding are unsecured and will be settled in cash. As a retailer in the non-household market, W2B supplies collateral under the market codes, no guarantees have been given or received.

No provisions have been made, or are considered necessary, for doubtful debts in respect of the amounts due from related parties.

#### Remuneration of key management personnel

Information about the remuneration of individual Directors is provided in the audited part of the Remuneration Committee Report on pages 97-104.

### 31. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

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

As at 31 March 2020, the Directors considered the ultimate parent and controlling party of the Company to be iCON Infrastructure Partners III, L.P. acting through its Managing General Partner, iCON Infrastructure Management III Limited.

The smallest and largest group in which the Company is consolidated is Bristol Water Group Limited (formerly known as CSE Water UK Limited) and copies of its consolidated annual report are available from Suite 1, 3rd Floor, 11-12 St James's Square, London, SW1Y 4LB.

### 32. EVENTS AFTER THE YEAR END

As at the time of reporting, the developing and uncertain situation in respect of the COVID-19 pandemic continues to be closely monitored. The impact of COVID-19 on the Company's ability to provide essential water services and improve operational performance has been mitigated through the Government's recognition that these services are essential. The Company responded quickly to enable effective working practices in the challenging operational environment.

Management has assessed the likely impact of COVID-19 to the financial position of the Company, with particular focus on operating cashflows and debt recoverability. Management predicts a short term reduction in cash receipts and a potential worsening in cash collection rates. To mitigate the impact of this, management are closely reviewing operating cashflows, assessing and implementing changes to the collections process as well as closely managing the cost base, to ensure optimal financial and operational performance. There remains a risk that the impact of COVID-19 is greater than that modelled by the Company (see also the Long Term Viability Statement on page 49).

## Independent auditors' report to the members of Bristol Water Plc

### Report on the Audit of the Financial Statements

#### Opinion

In our opinion, Bristol Water Plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 March 2020; the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the company in the period from 1 April 2019 to 31 March 2020.

### Our audit approach



#### Overview

- Overall materiality: £598,500 (2019: £675,000), based on 5% of profit before tax, capped by the level of group materiality.
- The Company is structured as a single reporting unit and the audit was carried out by a single audit team.

Our assessment of the risk of material misstatement also informed our views of the areas of particular focus of our work which are listed below:

- Provision for impairment of domestic accounts receivable.
- Classification of expenditure on infrastructure assets.
- Valuation of the pension scheme.
- The impact of COVID-19.

**The scope of our audit**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

**Capability of the audit in detecting irregularities, including fraud**

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of licence conditions granted to the Company under the Water Industry Act, 1991, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, the Listing Rules, Pensions legislation and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries to manipulate financial performance, and management bias in accounting estimates and judgements. Audit procedures performed by the engagement team included:

- Discussions with management, internal audit and the company's legal advisors, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Challenging assumptions and judgements made by management in their significant accounting estimates;
- Identifying and testing journal entries that met our predefined risk criteria, in particular journal entries posted with unusual account combinations.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

**Key audit matters**

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p><b>Provision for impairment of domestic accounts receivable</b></p> <p>As at 31 March 2020, the Company held a provision for impairment of domestic accounts receivable amounted to £15.3m (2019: £13.7m).</p> <p>The recoverability of customer debts is always a key issue for water companies. The assessment of recoverability is very sensitive to changes in economic circumstances for individual households and as there are limited steps that a water company can take to recover debt from domestic customers, there is an ongoing risk of aged debts not being collected.</p> <p>Management makes assumptions based on historical trends relating to non-payment of invoices including comparisons of the relative age of the individual balance. These historical trends are used as a basis to assess expected credit losses in the future. These assumptions are then used to compute the provision for bad and doubtful debt.</p> <p>COVID-19 has heightened this risk in the current period, as it has required management to exercise judgement in a period of heightened uncertainty where there is limited precedent to rely on. An additional overlay has been included in the provision to address this risk. Refer to Note 4 for details of the impact of COVID-19 on management's impairment provision.</p>	<p>We evaluated the expected credit loss model used to calculate the provision and confirmed its consistency with prior years, except for the additional overlay included for the impact of COVID-19.</p> <p>We 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.</p> <p>In respect of the overlay for the impact of COVID-19, we assessed management's calculations by considering the previous experience of the Company during the 2008 financial crisis, as well as post year end collection rates and our understanding of the business and the industry. Based on this we found that the level of provision to be acceptable.</p> <p>We assessed the adequacy of disclosures in the notes to the financial statements of the key judgements and estimates involved in the provision for bad and doubtful debts, and the sensitivity of the provision to changes in these judgements and estimates, particularly in relation to COVID-19.</p>
<p><b>Classification of expenditure on infrastructure assets</b></p> <p>Expenditure on infrastructure assets is either capitalised as an addition to plant, property and equipment ('PPE') or written off to the income statement, depending on the nature of the work done.</p> <p>The allocation of costs between capital and non-capital spend can be judgemental and has a direct impact on profit in any one year. The key judgement is management's assessment of what constitutes enhancement compared to maintenance expenditure and the allocation of overheads.</p> <p>Given the size and complexity of the capital programme and how it relates to the company's assessed performance for regulatory purposes, the classification of expenditure requires management judgement. Additions to PPE during the year amounted to £64.2m (2019: £50.6m).</p>	<p>We reviewed the process for allocating costs to capital projects and are satisfied that this allocation has been made on a consistent basis and is in line with IAS 16.</p> <p>We have tested a sample of live capital projects to validate that they have been authorised and that an assessment of the capital / non-capital planned expenditure had been performed.</p> <p>We also tested a sample of expenditure on infrastructure items in the year to supporting documentation, such as invoices or payroll records in the case of capitalised labour costs.</p> <p>From these procedures, we are satisfied that the expenditure on infrastructure assets has been classified in accordance with the company's accounting policy and have been appropriately capitalised in line with IAS 16.</p>



Key audit matter	How our audit addressed the key audit matter
<p><b>Valuation of the pension scheme</b></p> <p>The valuation of retirement benefit obligations requires significant levels of judgement and technical expertise, including the use of actuarial experts to support the directors in selecting appropriate assumptions. Small changes in a number of the key financial and demographic assumptions used to value the retirement benefit obligation, (including discount rates, inflation rates, salary increases and mortality) could have a material impact on the calculation of the liability.</p> <p>The defined benefit pension scheme surplus as at 31 March 2020 is £9.7m (2019: £9.5m).</p>	<p>We used our own actuarial experts to evaluate the assumptions made in relation to the valuation of the scheme assets and liabilities.</p> <p>We benchmarked the various assumptions used (e.g. discount and inflation rate) and compared them to our internally developed benchmarks; assessed the salary increase assumption against the group's historical trends and expected future outlook; considered the consistency and appropriateness of methodology and assumptions applied compared to the prior year end.</p> <p>We obtained third party confirmations to support the valuation of the liquidity fund which forms part of the pension asset. In respect of the bulk annuity policy, we considered the detailed contract terms to ensure it has been accounted for correctly. We have no exceptions to report from this.</p> <p>We also obtained appropriate evidence for the competency and qualifications of the actuary who performed the valuation, and checked the information provided by the actuary to the financial statements.</p> <p>We assessed the impact of COVID-19 on the scheme assets and concluded there was no material impact. In addition COVID-19 had no impact on the liability as the financial assumptions were all based on market conditions at the reporting date and the impact of the pandemic at that time would have been included in bond yields and inflation curves.</p> <p>Overall, we concur that the methodology and assumptions used by management at 31 March 2020 are reasonable.</p>

Key audit matter	How our audit addressed the key audit matter
<p><b>The impact of COVID-19</b></p> <p>As set out on pages 28-29, COVID-19 has had a number of financial, as well as operational, impacts, some of which are expected to have a more sustained, longer-term impact than others. Management have considered the impact of this on the financial statements in relation to a number of areas. We considered the potential impact for the Company to be the following:</p> <ul style="list-style-type: none"> <li>Recoverability of trade receivables as domestic households may face difficulties paying as we move into an economic downturn;</li> <li>Going concern through its impact on the Company's cash flows, both due to macro-economic factors affecting demand and the availability of external finance; and</li> <li>Disclosure of the impact on the business in the financial statements.</li> </ul>	<p>Having revisited our risk assessment as a result of COVID-19, we did not consider it to represent a significant risk in itself. Notwithstanding this, we have considered the impact of COVID-19 on the financial statements, and designed and performed procedures to address any heightened risks on individual financial statement areas as follows:</p> <p>Regarding the impact on the recoverability of trade receivables, refer to 'Provision for impairment of domestic accounts receivable - Key audit matter' above.</p> <p>In respect of the impact on going concern, we have understood how management have factored in the potential impact of COVID-19 on future cash flows, bank facility covenant compliance and the Company's credit rating which is a condition of the licence and the availability of financing. Specific impacts include: lower non-household consumption, delays in cash collection of domestic accounts receivable, the profiling of capital expenditure and resulting impact on the cost base. In doing this we have validated management's assumptions by looking at the actual impact on operating cash flows since year end. We have assessed the availability of financial resources and the ability of the Group to absorb potential adverse circumstances over the going concern period.</p> <p>We have read management's disclosures in the financial statements and the relevant narrative disclosures within the "other information" to confirm it is consistent with the financial statements and our knowledge based on our audit.</p> <p>Overall, we consider management's assessment of the impact of COVID-19 on the financial statements to be reasonable.</p>

**How we tailored the audit scope**

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

**Materiality**

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

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

<b>Overall materiality</b>	£598,500 (2019: £675,000).
<b>How we determined it</b>	5% of profit before tax, capped by the level of group materiality.
<b>Rationale for benchmark applied</b>	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 £31,500 (2019: £67,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

**Going concern**

In accordance with ISAs (UK) we report as follows:

<b>Reporting obligation</b>	<b>Outcome</b>
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	<p>We have nothing material to add or to draw attention to.</p> <p>However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.</p>

**Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

**Strategic Report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06) In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

**Corporate Governance Statement**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 65-73) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the company. (CA06)

**The directors' assessment of the prospects of the company and of the principal risks that would threaten the solvency or liquidity of the Company**

As a result of the directors' reporting on how they have applied the UK Corporate Governance Code (the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding:

- The directors' confirmation on page 37 of the Annual Report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on pages 47-48 of the Annual Report as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

**Other Code Provisions**

As a result of the directors' reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the directors, on page 117, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the company's position and performance, business model and strategy is materially inconsistent with our knowledge of the company obtained in the course of performing our audit.
- The section of the Annual Report on pages 76-82 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

## Responsibilities for the Financial Statements and the Audit

### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of Directors' Responsibilities set out on page 117, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### *Use of this report*

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

## Other Required Reporting

### *Companies Act 2006 exception reporting*

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### *Appointment*

Following the recommendation of the audit committee, we were appointed by the directors on 12 November 2012 to audit the financial statements for the year ended 31 March 2013 and subsequent financial periods. The period of total uninterrupted engagement is 8 years, covering the years ended 31 March 2013 to 31 March 2020.

### *Other Voluntary Reporting*

#### *Going concern*

The directors have requested that we review the statement on pages 110-112 in relation to going concern as if the company were a premium listed company. We have nothing to report having performed our review.

#### *The directors' assessment of the prospects of the company and of the principal risks that would threaten the solvency or liquidity of the company*

The directors have requested that we perform a review of the directors' statements on pages 47-52 that they have carried out a robust assessment of the principal risks facing the group and in relation to the longer-term viability of the company, as if the company were a premium listed company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge and understanding of the company and its environment obtained in the course of the audit. We have nothing to report having performed this review.

## Other Code provisions

The directors have prepared a corporate governance statement and requested that we review it as though the company were a premium listed company. We have nothing to report in respect of the requirement for the auditors of premium listed companies to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

### *Directors' remuneration*

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

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

Colin Bates (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Bristol  
13 July 2020

Glossary of Acronyms	
ACIP	Annual Cash Incentive Plan
ACT	Advance Corporation Tax
AMP	Asset Management Plan
ARAC	Audit and Risk Assurance Committee
BWBSL	Bristol Wessex Billing Services Limited
CEO	Chief Executive Officer
CFO	Chief Financial Officer
C-MEX	Customer Measure of Experience
DWI	Drinking Water Inspectorate
EBITDA	Earnings Before Interest Tax Depreciation and Amortisation
GDPR	General Data Protection Regulation
GMP	Guaranteed Minimum Pension
HR	Human Resources
IAP	Initial assessment of the plan
iCON	iCON Infrastructure LLP
iCON Bristol	iCON Infrastructure Partners III (Bristol) LP
iCON III	iCON Infrastructure Partners III LP
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
INED	Independent Non-Executive Director
ITOCHU	Itochu Corporation
KPI	Key Performance Indicator
LTIP	Long Term Incentive Plan
MSA	Modern Slavery Act
NED	Non-Executive Director
ODI	Outcome Delivery Incentive
PR19	Price Review 2019
RCV	Regulatory Capital Value
RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013
RORE	Return on Regulatory Equity
SIM	Service Incentive Measure
SOSI	Security of Supply Index
STID	Security Trust and Intercreditor Deed
WCPS	Water Companies' Pension Scheme
W2B	Water 2 Business Limited



BRISTOL  
WATER