BRISTOL WATER PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

Registered Number: 02662226

Welcome to our Annual Report and Financial Statements for the year ended 31 March 2022.

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.

In this Annual Report and Financial Statements references to 'Company' or 'Bristol Water' shall mean Bristol Water plc and references to 'Group' or 'Pennon Group' shall mean the Pennon Group plc.

Links to external reports and documents included within our Annual Report do not form part of the Annual Report.

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

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Bristol Water plc
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What's in this report?

CHAIR'S WELCOME

On behalf of the Board, I am pleased to welcome Bristol Water to the Pennon Group.

This year has been a defining one for Bristol Water, celebrating its 175th anniversary, building on a strong heritage of providing clean, drinking water to the citizens of Bristol and the surrounding area, and providing a perfect opportunity for the business to pause, and look back in history at the many milestones and achievements over the years.

It was also the year in which the Pennon Group continued to deliver on our strategy, driving sustainable growth in the UK Water sector and expanding our reach across the South West, with our acquisition of Bristol Water in June 2021 and a 30% stake in Water2business. We were delighted to welcome circa 500 dedicated Bristol Water colleagues to the Group, enabling Pennon access to a new, wider and diverse talent pool in the South West, and supporting our ambition to become a recognised employer of choice in the region. I'd like to thank everyone who works for and with Bristol Water for their continued loyalty and support delivering for customers and communities, and especially in a year where Covid continued to dominate all our lives.

We bid farewell to Keith Ludeman in March 2022, the outgoing and highly respected Chair, who over a distinguished 10-year period, had led the Bristol Board. Tim Tutton, Jeremy Bending and Jim McAuliffe, Independent Non-Executive Directors of Bristol Water, stepped down at the same time, as we transitioned the governance arrangements to Pennon. Their careful stewardship, particularly whilst the CMA referral was ongoing, and now concluded successfully, was appreciated.

Bristol Water, in continuing to deliver for customers and communities, both operationally and financially, has achieved a robust set of results. Operating expenditure has reduced and the business is meeting or exceeding targets across a range of key performance measures, with strong performance notably in respect of supply interruptions, leakage and customer service. One key area of ongoing focus is Bristol Water's Health and Safety performance which, whilst improving is not where it needs to be, and a great example of where we will be able to share learnings from across the wider Group.

Everyone I have met at Bristol Water has an enthusiasm and passion for what they do, and I'm looking forward to building on the best of the best as we integrate the business into the Pennon Group over the coming months, for the benefit of customers, communities and all our stakeholders.

Gill Rider
Chair
30 June 2022

STRATEGIC REPORT

CHIEF EXECUTIVE OFFICER'S UPDATE

It is with pride that I look back over the last year and reflect on how much the business has achieved, despite another year of uncertainty and change. We welcome the merger of Bristol Water into the Pennon Group, and look forward to supporting the integration of the business. We are excited about the opportunities the merger will bring for our staff, with benefits from sharing experiences, best practice and plans for the future. Working together, and by sharing the best from across the Group, we will strive to continually improve our service to our customers, communities and wider stakeholders. We are now working as a Board to consider the strategic and operational options and plans for the business to move the integration forward and in the context of the wider Group. We look forward to delivering on our ambitions

Whilst the year has seen a change in shareholder, our focus has remained on delivering for our customers and looking to improve our performance both operationally and financially. The skill, dedication and professionalism shown by the Bristol Water team over the last year has been outstanding. They should all be proud of what they have achieved through embracing change whilst keeping the focus on the communities we serve which makes Bristol Water so special. We have seen continued excellence in our leakage performance, with our 3 year average leakage performance now at 36.0 Ml/day (2020/21: 37.9Ml/day). This is the lowest level in the industry, and we know we have a tough challenge over future years in striving to meet a continued reduction.

I am particularly proud of our performance in respect of supply interruptions. This is a critical measure for our customers, as it reflects amount of time for which customers have had their water supply interrupted over the year. Our performance reflects 2 minutes 31 seconds across the year (2020/21: 30 minutes 17 seconds) – a huge improvement year on year, and reflective of improvements in process, ways of working, and approach from our operational and support teams across the business. Whilst we have experienced operational challenges - such as the burst main at Colliters Way last summer, which is one of our key mains to supply a large area of Bristol – the customer impact of these incidents has been mitigated by using approaches such as infusion into the network. Despite 11 pumping stations losing power during Storm Eunice, we kept supply interruptions to a minimum with advanced planning, mobilising our technology and our smart network monitoring. It is great to see the enthusiasm and innovation with which our teams have embraced the challenge.

Water quality performance has not achieved our targets this year. Appearance contacts did not reduce as our stretching targets required, but by the end of the year we were back on track. Although we aim for 100% water quality compliance, and the number of standard failures has remained low, we are determined to take action to continuously improve our performance. Our action and improvement plans have reduced the risks to water quality during the year, and we are increasing our focus on this area at a time that many of our performance measures have delivered record good performance for Bristol Water.

Health and safety performance is another area where we have not met our goals. We have seen a high number of hazards and near misses reported both by our employees and our contractors; whilst it is good that issues are identified, there is much more to do to avoid accidents. We are focussed on doing more to minimise risks and maintain focus and vigilance, to ensure all our staff go home to their families without injury at the end of every day.

CHIEF EXECUTIVE OFFICER'S UPDATE (continued)

Our focus on delivering excellent customer service in everything we do has resulted in continued good performance on the critical C-Mex performance measure. Although we were disappointed not to improve beyond 6th place overall, I am delighted by the fantastic 3rd place on the billing component. This demonstrates the hard work undertaken with Pelican, our billing joint venture with Wessex Water. Our operational customer service has also seen a focus and dedication from across the business, with our operational teams going out of their way to deliver tailored, supportive service to our customers. It was great to be highlighted by the Institute of Customer Service as one of the top 10 organisations across all sectors for complaint handling last year.

It was a great privilege to celebrate 175 years of Bristol Water, and the heritage that comes with this. Our social contract, the first of its kind by any utility company, continues that work to this day, with 93% satisfaction over the last year amongst the community stakeholders who work with us on its delivery. It was an honour to meet His Royal Highness the Duke of Gloucester in October, and to be able to share with him the incredible work our people do, and have done over our history.

With this in mind, I look forward to a future that builds and celebrates this past, but also allows our business to flourish and grow through collaborating with our peers across the Pennon Group. I am excited to find out what the future holds.

Mel Karam,
Chief Executive Officer
30 June 2022

Chief Finance Officer's update

Our business relies on strong financial foundations to remain resilient for the future. Our focus in 2021/22 was on stabilising and consolidating the business after the transformational changes of the prior year. These changes will enable us to deliver efficient outcomes for our customers and stakeholders over the 5 year regulatory period to March 2025. I am pleased that our financial results for the year reflect strong results, with reduction in underlying operating costs, as well as increased revenue. The cost savings delivered have been achieved despite material inflationary pressures, notably in respect of power, chemical and materials prices and these remain a challenge as we move forward.

Financial Key Performance Indicators ("KPI"s)

For the year ended 31 March 2022

	2022 £m	**2021 £m**
Turnover	124.2	119.5
EBITDA	61.4	48.6
Operating profit	32.6	21.0
Profit before tax	13.7	8.9
(Loss)/Profit after tax	(9.7)	6.8
Net debt (excluding 8.75% irredeemable cumulative preference shares) at 31 March	389.2	379.1
Regulatory Capital Value ("RCV")	586.0	550.5
Ratio of net debt (excluding 8.75% irredeemable cumulative preference shares) to RCV	66.4%	68.9%
Capital investment before grants and contributions	42.1	38.1

Financial performance summary

A sustainable business is underpinned by strong financial performance. Our improved financial performance in the year reflects an ongoing focus on delivering commercial value throughout our business, focussing on reducing our costs but ensuring we work with our supply chain and delivery partners to deliver excellent operational performance.

I am proud that the efforts of all our people in delivering our financial transformation process have resulted in: material reductions to our cost base in the current year; a repositioning of the business to deliver efficiently over the 2020-25 regulatory period; and supported improved operational performance, in order to mitigate the risk of financial penalties. This has significantly improved our financial resilience through improving our EBITDA and operating profit allowing us to absorb cost shocks much more effectively especially in the context of high inflation.

STRATEGIC REPORT (continued)

Revenue

Revenue in the year reflects an increase in regulated tariffs based on Ofwat's final determination plus inflation of 0.6%. The redetermination from the CMA which was published in March 2021 will be reflected in the tariffs for the financial years ending March 2023-2025; as a result revenue is expected to increase at a higher level for the rest of the regulatory cycle. However, despite low allowed revenues in the current year, we have delivered strong financial performance, which allows us to ensure a financially resilient business.

We were also pleased to see that non-household revenue, having suffered as a result of business closures in the prior year, has seen some recovery, improving our overall revenue performance. The underlying mix of household and non-household revenue remains impacted as a result of COVID-19 reflecting sustained levels of home working and non-household revenue improving but still at lower levels than prior to the pandemic. Our non-appointed revenues including fishing and recreational income has seen improvement after the initial disruption brought about by lockdowns.

Operating costs

Our operating costs have reduced by 7% to £91.6m (2020/21: £98.5m), including exceptional costs of £0.1m (2020/21: £2.2m). This decrease in cost base reflects a reduction in underlying costs excluding depreciation of 11%, as a result of the significant transformation programme which we underwent in 2020/21, and a reduced cost from impairment of customer receivables, as the impact of COVID-19 on our cash collection rates has become clearer. This has partially been offset by high inflation in chemicals, power and materials, which have impacted our cost base.

COVID-19 has had a significant impact on our customers, our communities and the economy, and whilst we believe that we have not yet seen the full impact of the pandemic on the economy as a whole, we estimated at the start of the pandemic that it would have a material impact on our customers' ability to pay their bills. We have already seen this crystallising in deteriorating cash collection rates since the beginning of the pandemic and continue to monitor closely the impact of the cost of living crisis on affordability of bills for customers. These costs are fully reflected in our impairment charge in respect of receivables, albeit the charge is lower in the current year compared with prior year, as a result of the mix of both customer debt and cash collection rates.

Interest charges

While financing has been stable in the year with minimal levels of draw down on debt facilities, high levels of inflation impacted our finance costs as around 40% of our debt is RPI linked. This resulted in an indexation charge of £9.6m in the year (2020/21: £3.2m) reducing the impact our improved operating costs had on our profit before tax.

Taxation

Finally as a result of the government's enactment of increases to the UK corporation tax rate, our deferred taxation increased by £18.1m resulting in a one-off charge to the P&L of £20.5m. This has resulted in a loss after taxation of £9.7m for the year (2021: £6.8m profit).

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 £16.1m (2021: £14.4m). The largest contributors are shown in the graph below.

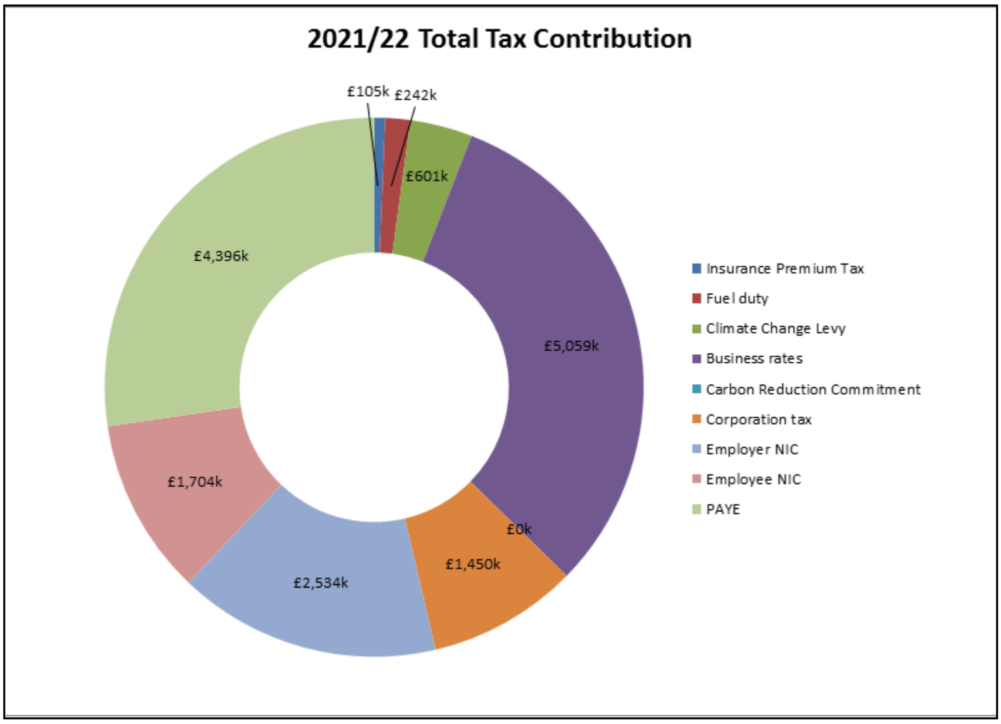


Figure 1: Bristol Water's total tax contribution 2021/22

Capital investment

We continue to invest in our capital programme to enhance and improve our network and infrastructure. Our current investment programme focuses heavily on maintaining our assets efficiently by carefully balancing maintenance and replacement programmes. The most significant capital outlay has been:

- 5,237 properties were added to the network (2020/21: 4,586).
- The commencement of the Wells to Glastonbury mains scheme, intended to strengthen our resilience in this part of our network;
- Ongoing renovation of our mains, to optimise its performance and extend its life; and
- Continuing to drive investment in stop taps, meters and similar assets that are key to the performance of our network.

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 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 (two facilities of £50m and £35m of which £42m and £16m is currently drawn down respectively) which will need to be repaid in the year 2023/24. As part of the Pennon Group, we will work collaboratively to ensure efficient and timely replacement of these facilities.

We drew down an additional £11.0m of debt during the year predominantly to allow repayment of a revolving credit facility of £9.0m which matured in the year. The remainder was used to finance our capital investment programme. This has left headroom of £27m of revolving credit facilities.

STRATEGIC REPORT (continued)

We actively manage our gearing ratio and maintain a headroom margin to mitigate adverse impacts from risks and uncertainties. Our RCV increased to £586.0m in the year (2020/21: £550.5m) reflecting inflation of £39.8m and net runoff of RCV during the year of £4.3m. This had the impact of decreasing our gearing slightly from 68.9% to 66.4% (excluding our preference shares).

Dividends
Our dividend policy is to pay a level of ordinary dividends that reflect efficiency, management of economic risk and delivery of performance commitments to customers, comprising:

- An annual level reflecting the dividend yield (3.2%, with 1.3% p.a. real growth) assumed in our Business Plan.
- Adjustments to reflect the level of gearing variation from the level of equity return in our Business Plan (4.5%) where this level is above 70%, where this reduces the amount of dividend below the level described above.
- Adjustments to reflect the actual outcome and expenditure performance of the business, with reference to our agreed Business Plan.
- An amount equal to the post-tax interest receivable from Bristol Water Holdings UK Limited, a UK parent company, in respect of intercompany loans.
- In addition, annual dividends paid on irredeemable preference shares which are considered debt on the balance sheet will be paid, but are shown within finance costs rather than dividends.

Further, we will not pay out dividends if:
1. They impair the ability to finance Bristol Water's appointed activities;
2. They impact on key financial ratios consistent with the need to maintain an investment grade credit rating;
3. They adversely impact employees.

Our cumulative Return on Regulated Equity ("RORE") for the year was around 4.9% (2020/21: 3.1%) as a result of higher levels of gearing than the notional company set by Ofwat, timing of payments to developers and good Outcome Delivery Incentive ("ODI") performance in the year. Our dividend policy therefore, after the adjustments detailed above, would imply a regulated dividend of around £6.6m net of any intercompany interest would be appropriate, however the dividend paid is calculated on a cumulative basis and so an adjustment of £0.8m was made to this relating to prior year resulting in a net implied regulated dividend of £5.8m or £6.0m including non-regulated dividend (2020/21: £4.0m regulated and £4.4m total).

In addition:
- Each year, a dividend is paid equal to the post-tax interest receivable from Bristol Water Holdings UK ("BWHUK"), in respect of intercompany loans. As BWHUK then pays the related interest back to Bristol Water, this transfer does not result in any cash impact on the Company. In 2021/22 the dividend amounted to £2.9m (2020/21: £1.6m) (In 2020/21 the dividend amounted to only one payment in respect of the intercompany interest due. The remaining payment to the Company was met by funds held within the group); and
- Annual dividends of £1.1m (2020/21: £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.

Further details of how our regulatory performance links to the dividend we pay based on this policy will be set out in our Annual Performance Report.

STRATEGIC REPORT (continued)

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 2018/19, 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 affect 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 process has taken longer than anticipated as a result of a number of judgements required to determine methodology and scope of the Guaranteed Minimum Pensions ("GMP") equalisation requirements which sought to ensure that all members receive a GMP on a consistent basis. As a result the pension scheme has not yet been wound up and bought-out and this is expected to complete over the forthcoming year.

The actuarial valuation under International Accounting Standard 19 (IAS 19), and therefore Financial Reporting Standard 101 at 31 March 2022 shows a net pension surplus of £8.1m which has been recognised in the financial statements (2021: £9.1m). 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 notes 14 and 15 to the financial statements.

L Flowerdew
Chief Financial Officer
30 June 2022

STRATEGIC REPORT (continued)

Our role in the Pennon Group

On 3 June 2021, Bristol Water plc became a subsidiary of Pennon Group plc , a FTSE 250 company, whose principal significant trading businesses are shown below:

As the Company is integrated into the Pennon Group, we will look to align with their purpose and values, whilst retaining our own sense of heritage, community and social purpose. As a purpose-led business, Pennon Group, Bristol Water and our sister businesses operating within the Group, are committed to the effective stewardship of the environment. As such, we are:

- Shaped by our values and culture;
- Informed by our engagement with stakeholders
- Driven by our strategy

Our purpose isn't just what we believe in, it's what we do every day. Continuing to ensure we are doing the right thing for our customers and stakeholders, delivering fresh clean drinking water, protecting the environment and continuing to innovate will help us look after the Great South West now and into the future.

Our Key Strengths and Resources

Our Customers Rely on us

We provide safe, clean drinking water, to an estimated population of c.1.2 million people every day.

We have expanded our support to vulnerable customers in these difficult times with over 21,000 customers benefitting from one or more of our affordability initiatives.

Our Team

We are a dedicated team of over 500 people, working 24 hours a day, 365 days a year to deliver essential services for our customers.

Living our Values

We know it's not only what we do, but how we do it that matters to our customers and communities and to ourselves. That's why we live our values across the Company, every day.

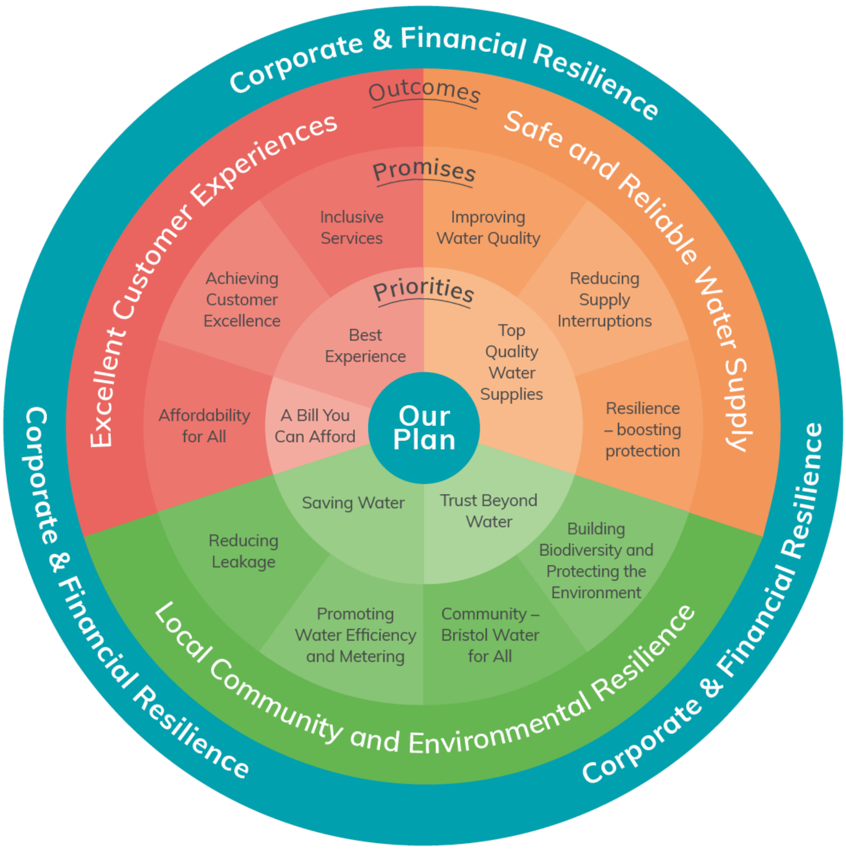
Investing in our Future

We're proud to be investing in future talent through graduate and apprenticeship schemes across the Group. These schemes will give over 600 talented people the opportunity to join us by 2025.

We were also one of the first companies to sign up to the Government's Kickstart Programme, offering young people the chance to gain training, support and valuable work experience. Over half of our Kickstarters have now joined our team.

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.



Our Performance including non-financial KPIs
Our performance against our business plan commitments is set out below.

Safe and Reliable Water Supply

Improving water quality

	2021/22 target	2021/22 actual	2020/21 actual	Target achieved
Number of negative customer contacts regarding water quality - Appearance Number / 1000 population	0.73	1.11	1.07	No
Number of negative customer contacts regarding water quality – Taste and Smell Number /1000 population	0.36	0.28	0.35	Yes
Turbidity Number	0	0	0	Yes

Water quality is vitally important to our customers, who rely on it being safe and clean. Water Quality performance was not as strong as we had hoped, impacted by the number of negative customer contacts regarding appearance of water. These contacts are often caused by network disturbance from bursts resulting in aeration of the water. Water quality measures are reported to the Drinking Water Expectorate (DWI) for a calendar year, and therefore these measures are reported for the calendar year of 2021.

The appearance contacts for the year were above target as a result of various issues including third party network activity, burst mains, and valve operations. We have worked hard to improve this trend with training for standpipe users, A WRC zonal study of sensitive areas of the network and improved on site investigation and response, with every contact triggering attendance by site staff to determine root cause for issues. This has been very successful and the first three months of 2022 have shown an improved trend and performance.

Reducing Supply interruptions

	2021/22 target	2021/22 actual	2020/21 actual	Target achieved
Supply Interruptions Minutes per customer	6.13	2.52	30.29	Yes
Mains repairs Repairs per 1,000km	136.5	106.4	154.2	Yes
Risk of low pressure Number of properties	61	11	57	Yes
Unplanned non-infrastructure maintenance Number of events	3,272	3,026	3,134	Yes

Supply interruptions
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 longer than three hours and divide this by the average total number of properties in the year.

STRATEGIC REPORT (continued)

We have made fundamental changes in our approach over the past three years to ensure that we perform better in this area and we are pleased with the impact these changes have had, with a significant out-performance of our target. This is especially pleasing when compared to our performance last year which was a significant under-performance resulting in a large financial penalty under our regulatory regime.

The improvements we have implemented include:

- Investment in our smart network and increased the coverage of pressure loggers to allow us to proactively recognise when incidents may be about to occur;
- Development of mapping tools to include pressure and flow information;
- Use of quick response 'grab-packs' for high-risk sections of the network;
- Development of alternative ways to ensure customers still get water, even when an operational incident arises. These continuous water supply techniques include on-demand bowsers, infusion tankering, rezoning and over-land connections; and
- Creation of additional roles, including dedicated incident managers, to support these changes with a 24hr monitoring and support service to our operational and maintenance teams.

We continue to invest in replacing old mains pipes to ensure that the risk of incidents is reduced. Our severe weather taskforce continues to plan to minimise the impact of weather events on customers supplies. In previous years these have included freeze-thaw events; this year our proactive planning maintained supplies to customers during the three named storms that hit in February which had led to the biggest power supply outage levels recorded in our area with the use of mobile generators, infusion tankering and the huge dedication of our operational teams.

In the unfortunate situations when Bristol Water cannot achieve these high standards, whilst supply interruption solutions are being sought Alternative Water Supply options are in place, for example using tankers or delivering bottled water. These activities help protect the vulnerable and provide an interim solution for the community.

Mains repairs
When our mains get damaged or fail, it is vitally important that these are repaired to ensure that we do not waste valuable water and that customers are kept in supply. We measure the number of mains that we have reactively repaired in the year and divide it by the total length of mains to indicate the performance of our mains network.

We minimise the likelihood of mains bursts by replacing targeted sections or whole areas of poorly performing pipes. We minimise high pressure risks where we can and monitor the network for 'transient' pressure spikes that can lead to mains failures. Alongside this, our network teams employ calm network operational techniques.

This year, these interventions and the mild winter weather have meant that we have outperformed the challenging target set for the year.

Properties at Risk of Receiving Low Pressure
Water pressure determines the water flow from customer taps. This is measured as the total number of properties in our area of water supply which, at the end of the year, have received, and are likely to continue to receive, a pressure or flow below the reference level. Our standard of service for mains water pressure is ten metres head (1 bar) at the property boundary of a home or business.

This normally means that in our customers' home or business, water pressure should be strong enough to fill a 4.5 litre (one gallon) container in 30 seconds from a ground floor tap. This is the minimum level of pressure we expect each house or business to receive, although pressure can be higher.

This year we have made a determined effort to minimise the properties at risk of receiving low pressure and commissioned several targeted interventions to improve our customers' experience. These have included new mains, network configuration changes and enhancing some common private supply pipe arrangements. Despite having been made aware of an additional 23 properties being at risk of receiving low pressure, we have been able to remove 69 properties from our Low Pressure Register and end the year outperforming our targeted performance by a significant margin.

Unplanned Non-Infrastructure Maintenance
Unplanned events mean potential interruptions to the treatment and supply of clean and wholesome water. The more we can reduce the occurrence of unplanned events at our treatment works, the more reliable the supply of water.

We aim to provide the right maintenance and whole-life care to our assets to ensure that they are reliable and efficient. By providing the right level of care and investment to our assets, we are able to provide a resilient supply of quality water with minimal interruptions.

The number of unplanned maintenances during the year outperformed our target and followed expected trends which peak in the summer and are associated with increased outputs of water into supply.

Resilience-boosting protection

	2021/22 target	2021/22 actual	2020/21 actual	Target achieved
Risk of severe restrictions in a drought 25-year average percentage of customers at risk of experiencing severe restrictions in a 1-in-200 year drought	29.75	32.93	56.86	No
Unplanned Outage Percentage temporary loss of peak week production capacity	2.34	1.74	0.20	No

Drought Risk
The drought risk measure did not meet our target due to the ongoing higher than forecast outturn distribution input and the higher than forecast outturn outage. The increased outage in the year is due to a number of planned outages that would not have been carried out had the year been drier.

Unplanned Outage
Unplanned outage measures remain low and within our performance commitment requirement. We continue to aim to fix all outages within the 8-hour working day however, due to some extreme weather events (such as storm Eunice) and supply chain issues in obtaining replacement parts, there has been an increase in unplanned outage over the 2021/22 reporting period. In addition, our outage capture and reporting process has continued to be improved and it now ensures that we identify any outages that are small, but fall across the date change (i.e. over midnight). This has resulted in us identifying and categorising more smaller outages and a subsequent increase in our volume of unplanned outages.

Excellent Customer Experiences

Affordable for All

	2021/22 target	2021/22 actual	2020/21 actual	Target achieved
Percentage of customers in water poverty Percentage	0	1	1	No
Value for Money Percentage	80	77	83	No
Void Properties Percentage	1.90	1.80	1.80	Yes

Customers in water poverty
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'. Water poverty is defined as the percentage of customers within the Company's supply area for whom their water bill represents more than 2% of their disposable income (defined as gross income less income tax).

We offer three discounted tariffs to make sure we can help customers who find it hard to pay their water charges, with 21,209 customers receiving assistance through these measures, an increase of 3% over last year. In addition to the social tariff schemes, 3,918 households are currently benefiting from our 'Restart' scheme to help clear their water bill debt. During 2021 we have introduced 'COVID-19 Assist'. This encourages customers who have been unexpectantly thrown into severe financial hardship apply for our Assist scheme without needing to be in debt or see a 3rd part debt advice. They can then receive help with their bill for 6 months, before applying for Assist on a longer-term basis if needed.

We have amended our promotion of our financial support scheme for low-income pensioners, providing them a 20% discount off their bill and registered an additional 200 customers onto this scheme.

Our work with our debt advice partners continues to be key to promoting the help available, alongside marketing and key messages on the bill. We are aware that from the debt sector that many of our customers are struggling with their energy bills and putting off looking at their water bill. We are committed to keeping the message of help as easy as possible for all who need it.

January 2022 saw our first financial data share with South Gloucestershire Council. Customers in Council Tax crisis are now able to be highlighted to us to approach for support with their bills.

We also offer metering and water efficiency support to help reduce customers' bills and flexible payment plans to customers who may also need support paying but do not need as much assistance as a social tariff. In particular, the money back guarantee which gives customers the option to try a meter 'risk free' for two years. If they choose to revert after the two years, any extra cost will be refunded.

Value for money
Overall, 77% of our customers rated the service they receive from Bristol Water as either very good or good compared to the 2021/22 target of 80%. The rating of 77%, whilst below target, is in line with our trend since 2019, with last year's result of 83% much higher than all the other years.

With only 4% of our customers rating the value for money of the service they receive as either 'poor' or 'very poor' and 18% (183 customers) of the respondents rating it as 'neither good nor bad' there is an opportunity to convert those who stayed neutral in the coming years.

Bristol Water is determined to continue supporting its customers by promoting Social Tariffs and PSR, affordability and vulnerability services, water saving devices, etc.

Void properties

For the second year of the regulatory cycle we have achieved a lower level of void properties than the business plan target. 1.80% of our properties were void compared to a target of 1.90%. This ensures that customers pay lower bills overall as our revenues are spread over a higher number of customers.

Achieving Customer excellence

	2021/22 target	2021/22 actual	2020/21 actual	Target achieved
Customer Measure of Experience ("C-MeX") Score	82.93	82.86	83.31	No
Developer Services Measure of Experience ("D-MeX") Score	88.57	85.26	83.30	No
Total Customer Complaints Per 10,000 customers	60.4	34.8	58.9	Yes

C-MeX

We achieved 6th in the industry on our C-Mex measure of customer service. Disappointingly this meant we narrowly missed our target of 5th and remain consistent year on year.

C-MeX is split into a customer service survey and a perception survey. Our service survey rank was 4th, an increase from 5th last year. Our perception score has improved to 7th in 2021/22, this is an increase from 10th in the previous year. Unfortunately, overall C-Mex rank did not improve because it is based on the average of the two scores. We have restarted several community projects such as the drinking water fountains, as well as issuing our customer magazine WaterTalk to all customers in January 2022.

We have managed a variety of projects to achieve this performance, and this will continue into the next financial year. Our 'In their shoes' campaign has become embedded within the culture of our customer facing operational teams and they are consistently speaking with every customer after each visit to check the wider satisfaction of the customer.

We have seen our customer feedback which we collect through Customersure double in volume in the last 12 months which has helped us to reduce our operational customer complaints by c.60%.

The final quarter saw increased focus on our messages to help customers with their bill, this included the launch of the 2 year 'Money Back Guarantee'. This has helped our customer teams provide confidence to customers to try a meter 'risk free' for 2 years, any who spend more on the rateable value charge will be contacted and given a refund if they revert back to the original charge.

D-MeX

Our D-MeX performance was 9th in the year which was one place lower than our rank in 2020/21. This was below our target of 5th but allows us to avoid a penalty. Our measures in this area have shown improvement in the latter part of the year, following targeted focus on improving performance across the 56 metrics we measure and report. A focus on data, workflow and meeting customer service levels and expectations has already seen benefit. Looking forward work is underway to review and improve the customer journey, with communication with customers a specific area of focus.

Total Customer Complaints

We are delighted with our complaints performance which was almost half of our targeted level at 34.8 complaints per 10,000 customers. Complaint resolution and handling is a key focus of our customer experience strategy; every complaint is handled by our Customer Care Team where a designated member of staff ensures that the complaint is resolved on a timely and complete basis. The team provide root cause information which feeds into our learnings and future improvements to prevent repeat complaints. This in turn ensures we are industry leading and reducing the chance of causing customers to complain.

Inclusive Services

	2021/22 target	2021/22 actual	2020/21 actual	Target achieved
Priority Services Register ("PSR") Reach Percentage	4.1	4.1	2.6	Yes
Percentage of satisfied vulnerable customers Percentage	85	89	82	Yes

PSR

We have registered an additional 7,760 households on the PSR in 2021/22, taking the number registered from 13,406 to 21,167. This 50% increase in registered households results in us now being back on track after not delivering our targeted performance in prior year. We have successfully completed the required cleanse and check of the accuracy of the data this year.

We have built on the projects and plans we had the previous year this has covered a range of activities such as the data share with Weston Power Distribution, advertising our services on prescription bags, support for our field teams to enable easy capturing for households wanting to register, multi-channel promotional campaigns, starting our work to make our content fully accessible for all and having vulnerability heroes to support training needs across the business.

Percentage of satisfied vulnerable customers

89% of our vulnerable customers rated the service they receive through the PSR as either very satisfied or satisfied compared to the 2021/22 target of 85%. This is an increase of 7 percentage points from the previous year.

This measure is in line with the progress made against our published Vulnerability Action Plan, which is updated during our mid-year report and reviewed by the Bristol Water Challenge Panel. Our latest Vulnerability Action Plan update can now be found in our Annual Performance Report 2021/22

STRATEGIC REPORT (continued)

Local Community and Environmental Resilience

Building Biodiversity and Protecting the Environment

	2021/22 target	2021/22 actual	2020/21 actual	Target achieved
Biodiversity Index Index	17,678	17,678	17,668	Yes
Raw Water Quality of Sources Kg of phosphorus	216	239	155	Yes
Waste Disposal Compliance Percentage	100	98	98	No
Water Industry National Environment Programme ("WINEP") Compliance Percentage	100	100	100	Yes

Biodiversity Index
The 2022 Biodiversity Index KPI target has been achieved. Over the year there were -10.91 Biodiversity Index point losses and +20.92 Biodiversity Index point gained. Additional work was delivered to mitigate the negative impact of asset losses and degradation due to capital delivery projects and the impact of invasive plant species. A net enhancement was achieved through maintaining the current condition of wetland assets which would otherwise have declined in condition, and delivery of the installation of new assets such as hedgerows, plantation woodlands, and the improvements to grass cutting schedules which promotes the growth of diverse grass and flower species at our sites.

Raw Water Quality of Sources
As a result of our work with farmers in our water supply catchments over the course of 2020/21 and 2021/22, the annual loss of phosphorus from the land into the water environment has been reduced by 239 kg. This has been achieved by providing advice to farms, for example around soil and nutrient management, and by supporting farms to improve their infrastructure where this will reduce pollution risk, for example by improving slurry storage capacity. This means we have exceeded our target.

Waste Disposal Compliance
Although we have not met our 100% compliance target for this year, we did achieve full compliance in January, February, June, July, August, September, October, and 98% of the samples collected overall were fully compliant with the discharge consent conditions, which is consistent with our performance in previous four years. We are constantly reviewing the reasons for the small number of failures that are preventing our ability to achieve full compliance, with a view to implementing remedial measures to drive our compliance higher.

WINEP Compliance

Work to deliver on our WINEP obligations and projects has progressed well through Years 1 and 2. We have completed and had signed off by the EA (and Natural England for certain investigations) 26 projects, which was the stated target at this stage. We are therefore 100% compliant at the end of year reporting period, achieving target. Projects we have completed and had signed off include abstraction sustainability investigations at six sites, catchment water quality investigations at Barrow WTW and at Forum Springs WTW, and 18 invasive species and biosecurity investigations.

Reducing Leakage

	2021/22 target	2021/22 actual	2020/21 actual	Target achieved
Leakage Three Year Average Total leakage in million litres per day (Ml/d)	36.1	36.0	37.9	Yes

Efficient use of resources by the Company

We saw a very good performance on leakage in 2021/22 thanks to fairly clement weather throughout the year and especially in the winter period, resulting in an overall low number of bursts. Additionally, weekend work has played a significant part in driving stubborn leakage areas down, thanks to being able to survey at time of calmer traffic. This has resulted in a significant number of additional leaks identified and repaired, that would have otherwise run for longer. Unfortunately, despite this, we did not hit our stretching in-year target on leakage, although we did achieve our ODI – three-year average – target. This means that we have more to do in the upcoming year to ensure we are able to continue to achieve our ODI which becomes more and more difficult to achieve.

Promoting Water Efficiency and Metering

	2021/22 target	2021/22 actual	2020/21 actual	Target achieved
Per Capita Consumption Index	143.3	154.7	161.1	No
Domestic Meter penetration Percentage	62.33	62.41	60.26	Yes

Per Capita Consumption ("PCC")

PCC is still showing a significant impact from the pandemic and the work from home effect, despite signs of a progressive recovery throughout the year. A strategic analysis is being implemented, looking at a number of options to explore, including additional metering, and proposed plumbing losses repairs.

Efficient use of water by customers

Metering is generally regarded as being the fairest and most accurate way to pay for water allowing customers to pay for what they use offering our customers the opportunity to benefit both financially and environmentally.

We measure this by meter penetration, which is the percentage of customers who have a water meter installed at their property. We achieve this through Free Meter Option applications or Change of Occupier installations.

STRATEGIC REPORT (continued)

In 2020/21 we paused our promotion of metering, as COVID-19 restrictions meant we were unable to install as many meters as our customers would have liked. Since the staged easing of lockdown restrictions our focus has been on managing and developing our communication and marketing plan, which has seen improvement in the application uptake through all media channels and allowed customers to apply at first opportunity including online and over the phone. To assist with improving confidence, incentives have also been introduced to allow customers to make the most informed choice around retaining their Meter Option. Any meter fitted up to May 2021 will benefit from an extended reversion period of a further year and from April 2022 a "Money back Guarantee" to ensure the customers can explore the choice of a meter without the risk of paying any more than their existing bill and the benefit of potentially saving.

The Metering team delivered against our operational target of 62.41%, however our regulatory target is to achieve 75% by the end of March 2025 which remains challenging.

Community – Bristol Water for All

	2021/22 target	2021/22 actual	2020/21 actual	Target achieved
Local Community Satisfaction Percentage	85.0	92.6	88.2	Yes

Our local community satisfaction target recognises the importance of working together with local stakeholders to tackle jointly the issues which the city faces. For us this means challenging ourselves on the way that we work to deliver a safe and reliable supply to customers, so that we can maximise additional economic, environmental and social value. This approach is underpinned by our social contract, which provides the framework and governance process for the delivery of this wider public value. The process is overseen by the Board and is independently challenged through designated quarterly meetings with our stakeholder panel, known as the Bristol Water Challenge Panel.

In the 2021/22 survey, 92.6% of the social contract stakeholders who completed the survey were either fairly or very satisfied with Bristol Water's contribution to the communities. This is compared to the committed performance level of 85% and last year's result of 88.2%

Following the results of the Local Community Satisfaction survey 2020/21, we implemented certain measures to ensure both a sufficient number of responses and the satisfaction target are achieved. This resulted in a significant increase in the number of responses: from 17 in 2020/21 to 26 in 2021/22.

Whilst a number of initiatives have continued to be on hold as a consequence of the COVID-19 pandemic, we have progressed more projects in 2021/22 than the previous year, including restoring our drinking water fountains, partnership working across the vulnerability sector, working with Crimestoppers and completing our second annual virtual Youth Board.

STRATEGIC REPORT (continued)

Our social contract
We have continued to deliver additional value to our communities through our social contract – which provides a governance framework for social and environmental value, linked to a specific set of projects. Some examples of the projects included in our social contract are provided below. Further detail can be found in our published Social Contract Benefit and Transparency Report at www.bristolwater.co.uk/about-us/our-story/social-contract/

Resource West
We are taking a community leadership role for broader issues of resource efficiency and have created partnerships with the University of the West of England, Wales and West Utilities, Western Power Distribution and Bristol Pay CIC. We've kicked off a three-year project starting with a planned series of trials across our supply area, which are focused on testing different messages and approaches. This messaging promotes the need for cultural change in resource consumption, together with combined support for customers who struggle to pay their bills.

Our Youth Board
We host an annual Youth Board programme which brings the views of young people into our decision making, as well as providing development opportunities and business experience for the young people involved. We used our Youth Board this year to explore with six formers why they think the views of their generation may differ from water customers in general. As we found previously, young people perceived themselves to be more conscious of the environment than older generations. We tested the concept of intergenerational fairness and found that the youth board expected investment costs to be spread over multiple generations and were concerned about these being deferred into the future due to concerns around uncertainty or affordability.

Supporting vulnerable customers
In response to the pandemic, we increased our focus on providing a service to all those vulnerable customers who need our support the most. It has heightened our awareness of vulnerabilities and will continue to shape our work. We have continued to work with our partners to reach those customers who are most in need but unaware of the extra services which we offer. We have seen an increase of households on our Priority Services Register by 7,760 households.

Working with our communities and stakeholders
We have continued to play an active role in the Bristol One City Plan through our role in the Environmental Sustainability Board and by working with Bristol Green Capital Partnership to link our own strategies to those of the city. We are now working to explore the benefits of a combined infrastructure planning approach.

We have provided learning experiences to university students through work-based placements. We have also completed our on our Sustainable Urban Nexus (SUNEX) project, which explores the circular economy in relation to water, energy and food in urban regions through an international academic partnership.

This is a monthly competition which provides £500 to a charity or community scheme – so over the year we supported 12 different projects which benefit our local communities. Some examples of charities and community groups which we supported are Brigstowe (who deliver local HIV support services), Migrateful (who help refugees and asylum seekers on their journey to independence) and Grief Encounter (who support those suffering from grief).

Bristol Water the Foundation

Since launching Bristol Water the Foundation in January 2021, we have continued to add resources to this learning and development portal. The Foundation now offers 50 free learning resources, together with information on mentoring opportunities and community learning partnerships.

Our 175th Anniversary

Last year we celebrated our birthday on 16th July 2021, the 175th anniversary of the passage through Parliament of the Bristol Waterworks Act. We marked this occasion with a range of activities, including the publication of a new social history of Bristol Water to reinvigorate our story for future generations. In our celebrations we reflected the philanthropic purpose of our founders including Francis Fry, Sir John Kerle Haberfield and Dr William Budd, whose connection of public health to clean drinking water was ground-breaking. Our birthday was a good reminder that solving the challenges faced by society, climate and ecological emergencies, still depend on local community-based solutions.

As part of our celebrations, we were also delighted to host a visit from His Royal Highness the Duke of Gloucester in recognition of our birthday. His Royal Highness visited us to learn about our history, thank our staff for their hard work and commitment throughout COVID-19, open our new staff water saving vegetable allotment, and to plant the first of 1,200 trees as our contribution to the Queen's Green Canopy.

STRATEGIC REPORT (continued)

Sustainable Environmental Impact

Taskforce for Climate Related Financial Disclosures (“TCFD”)
As part of the Pennon Group, Bristol Water TCFD reporting is included within the Pennon Group plc Annual Report, and is not reported separately in the Bristol Water PLC annual report.

Protecting our environment for the future
In the UK we are 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 are 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 are updating our assessment of the impact of climate change on the long-term resilience of water resources in our supply area, and working with other partner companies in regional water resource management groups, to ensure that resilient water management can be a principle applied across the whole West Country region.

Climate change is a huge challenge for society, and as the science and understanding of this develops we expect big changes to how we work in order to keep water costs affordable.

Our carbon footprint
The majority of our carbon footprint is from the energy required to treat water to a safe standard and transport it to our customers. While we continue to find new ways to treat and distribute water more efficiently, such as through our latest pump optimisation software, the greatest opportunity for us to reduce carbon emissions is to encourage and support our customers to use less water – in particular less hot water in their homes and businesses. With rising energy prices, supporting customers to use water efficiently provides wider benefits than saving water.

We think that longer term behavioural and cultural change, rather than shorter term behavioural change, is required to address 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 on water, energy and waste. Through such actions, we hope to encourage younger generations, their parents, landlords, employers and education providers to make lasting changes to their water usage.

The aim of the water industry is to achieve net zero carbon emissions during operations 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.

2021/22 performance

As part of the Pennon Group, Bristol Water's Streamlined Energy and Carbon Reporting (SECR) is included within the Pennon Group Report, however the Company's emissions are also detailed below to provide additional context.

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 2021/22 were equivalent to 20,198 tonnes CO_2, defined by the scopes below:

- Scope 1 (direct emissions): Fuel use from transport we own, fuels used for heating and electrical generation.
- Scope 2 (indirect emissions): Electricity purchased and used for operations.
- Scope 3 (other indirect emissions): Electricity transmission and distribution, transport fuel use of our contractors, water treatment waste disposal, and public transport use.

Scope 1,2 & 3 carbon emissions				
Source	2021/22		2020/21	
	tCO_2e	tCO_2e	tCO_2e	Percentage
Electricity - grid	15,518.6	76.8%	18,855.2	90.7%
Gas*	2,939.5	14.6%	33.3	0.2%
Transport	1,478.2	7.3%	1,585.8	7.6%
Diesel/gas oil	262.0	1.3%	317.0	1.5%
Process & fugitive	0.0	0.0%	0.0	0.0%
Total	**20,198.3**		**20,791.3**	
Energy consumption	**89,543,995**	**kWh**	**82,675,302**	**kWh**
Intensity ratio - kg of CO2 equivalent per capita	**16.19**	**$kgCO_2e$/capita**	**16.85**	**$kgCO_2e$/capita**

*** The increase in gas related emissions is due to a gas-fired generator which was completed in the year to reduce our reliance on grid electricity**

Methodology

The Company uses a combination of reports from various sources including the vehicle fleet management team, network maintenance contractors, on site heating oil consumption measures, and annual reporting from electricity and gas suppliers. This data is entered into the UKWIR Carbon Accounting Workbook which creates a standard output for use in our annual reporting. Company performance is reported to senior management on a monthly basis.

Looking forward to 2022/23

We continue to implement our programme of improvements to deliver operational efficiency including a number of significant capital investment schemes that aim to reduce overall energy consumption. This includes extending the operation of a network of automated pump scheduling and optimisation systems to reduce the amount of energy we use to produce and move water to our customers. Additionally, a programme of pump replacements and refurbishment is planned to improve pump efficiency and therefore reduce energy consumption.

STRATEGIC REPORT (continued)

Corporate and Financial resilience

Our corporate and financial resilience underpins the delivery of our plan, maintaining customer trust by: providing effective corporate governance and being transparent on how we are performing; looking after and developing our people; managing our finances in a prudent and careful way, and providing a framework for resilient and innovative services.

Investor Confidence

	2021/22 target	2021/22 actual	2020/21 actual	Target achieved
Proportion Independent Non-Executive Directors ("INED") Percentage	50	50	50	Yes
Credit rating **Moody's rating**	Baa2 (stable)	Baa2 (positive)	Baa2 (stable)	Yes
Financial Resilience - Gearing – Debt (Excluding preference shares) divided by RCV Percentage	70.0	66.4	68.9	Yes
Fair returns to investors - Percentage RORE (average for AMP period) Percentage	4.44	4.87	3.06	Yes

Investor confidence is essential for our business and industry. The profile and type of spend means that it is important that we finance some of our expenditure through loans and shareholder equity rather than through our customers' bills, so maintaining financial health to attract such investment is an important outcome.

An important measure of confidence is our credit rating which is undertaken by Moody's. Last year our rating was stabilised from Baa2 (negative) to Baa2 (stable) as a result of the completion of the CMA's redetermination of our business plan which indicated an improved outlook coming from the new final determination. This year following the announcement of the acquisition of Bristol Water by Pennon, our outlook was further improved to Baa2 (positive).

The regulation of the water industry determines both an efficient level of gearing, as well as efficient levels of financing costs for debt and equity returns. As a result of higher inflation during the year and the impact that had on our RCV, our gearing has fallen this year. Our gearing remains slightly higher than the "efficient" level assumed by Ofwat but remains at a relatively low level compared with the many companies in the industry.

To be a sustainable business, it is important that returns are fair and sufficient to attract investors to fund the investment required. Ofwat measures 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. RORE has performed well in the year as a result of improved ODI performance, efficiencies through our financial structure and from improvements in our cost base. As a result RORE for 2021/22 was 6.7% (2020/21: 3.1%) and the average for the AMP now stands at 4.9% compared to the 4.4% assumed in the CMA redetermination (2020/21: 3.1%).

Staff Confidence

	2021/22 target	2021/22 actual	2020/21 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

Health and Safety

Over the past year, our Health & Safety performance has improved with the number of RIDDOR reports decreasing by half to two, and accident numbers reducing by 16% on the previous year. Our performance continues to improve with the suite of leading indicators demonstrating our proactivity in ensuring the health, safety and wellbeing of our people. All targets for near miss reporting, hazard reporting, site safety inspections and senior leadership visits were either met or exceeded. These successes complement our sustained emphasis on continual improvement, our renewed focus on communication and our commitment to a just and fair culture.

Skilled workforce

One of our objectives is to “Develop our People and our Business”, as we recognise that our people are key to the delivery of our strategy, they are the source of our customer excellence and innovation. Therefore, our aim is to have the "right people, in the right place, with the right experience, at the right time".

We are working hard to ensure that we are seen as an ‘employer of choice’ and that our people share our values and objectives. Our appraisal process continues to provide all employees with an opportunity to agree meaningful personal objectives to support the wider business objectives, all whilst demonstrating our key behaviours. In addition, everyone in the Company shares the same business targets for the annual bonus scheme, ensuring our people are all pointing in the same direction.

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 Talent team deliver many different opportunities for learning and development through structured courses, such as our management L.E.A.D (Learn-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. This year also saw the launch of the LEAD aspire programme, a bespoke programme aimed at the leaders of tomorrow, equipping them with the skills and tools to not only progress their career, but perform in whatever the new role they find themselves in.

Employee volunteering in support of our social contract initiatives is another way in which we support our people to develop, and staff across the business have been active volunteers in their communities, despite the challenges COVID-19 has sometimes brought.

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 men's earnings.

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 2021 and 2020.

Snapshot Date: 5 April 2021	**Snapshot Date: 5 April 2020**
Mean Gender Pay Gap – 11.18%	Mean Gender Pay Gap – 13.3%
Median Gender Pay Gap – 14.41%	Median Gender Pay Gap – 15.0%
Mean Bonus Gender Gap – 25.6%	Mean Bonus Gender Gap – 48.9%
Median Bonus Gender Gap – 19.4%	Median Bonus Gender Gap – 29.8%

Our gender pay gap performance has continued to improve year-on-year which is pleasing. This result has arisen due to an increase in female representation in senior roles and a continued focus on increasing female representation in our field workforce.

However, there remains a gap which needs addressing in the coming years. Whilst significant progress has been made in the two areas highlighted above, there is still a lack of overall female representation in senior roles, which is a common issue within the utility sector which we are trying to address, and our field operations are heavily male dominated. Field based roles come with additional allowances, such as overtime, stand by and shift premiums, and are included in the figures where consolidated pay agreements are in place. Excluding these elements, and therefore comparing base pay only, our mean gap would stand at only 2%. More work is required to increase gender diversity in our field operations.

It is 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.

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

- Gender neutral advertising to attract male and female candidates equally to roles.
- Competency based interviewing to ensure candidates are scored against consistent and objective measures.
- Training through our LEAD management programme which includes competency interview guidance to highlight the issues of unconscious bias and the steps available to mitigate but also how to be an inclusive leader.
- Company-wide engagement to support diversity, equality and inclusion awareness which includes mandatory training during the onboarding journey.
- Engagement with local schools and educational establishments to inform students of prospective career opportunities in the Water sector and at Bristol Water.
- Mentoring of students at local colleges and universities and offering work experience placements and Internships.
- Partnering with local charities to support social mobility and opportunities for all.
- Creating work placements via Charities such as Women's Lab.

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

Diversity
We aim to be a fully inclusive employer and our focus internally is on promoting equity and inclusion throughout our people policies, procedures and practices which align to our core values. As a local 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 are 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. We are a member of the 'Social Mobility Pledge' and the 'Energy and Utility Skills Inclusion Commitment'.

Over the past 12 months, we have continued our Diversity, Equality and Inclusion B-Talks with a number of guest speakers talking with business on a range of topics covering Menopause, Inclusive Cultures, Mental Health, & wellbeing to name a few. We have also set up a Women's Network group and a LGBTQ+ Network both of which are chaired by 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. Our Inclusive Leadership module also supports the creation of an inclusive culture and allows our managers to reflect on their own experiences and develop their understanding on the topic.

We regularly review our policies relating to flexible working practices, and the 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. These changes have now been embedded into our policies to ensure we remain a flexible and inclusive employer. This year also saw us update all of our people related policies to ensure they reflect our values, but also our ED&I commitments, one example of this is removing gender pronouns from our policies.

Looking forward, we have recently linked up with two local charities; Key4Life which aims to create opportunities for young offenders or those at risk of offending and Women's Work Lab, which aims to support unemployed mums return to the work or become work ready. We are delighted that the first two placements are already lined up for the summer of 2022.

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 have several key contract partners who work with us to help us deliver services for our customers in our supply chain including, amongst others, Bristol Wessex Billing Services Limited ("BWBSL") (trading as Pelican Business Services ("Pelican"), Network Plus, 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.

STRATEGIC REPORT (continued)

SLAVE-FREE ALLIANCE MEMBERSHIP

The Pennon Group are members of the Slave-Free Alliance, which is part of Hope for Justice, the global anti-slavery charity. The group's membership demonstrates commitment to the highest employment standards for both our direct employees and those within our supply chain.

Section 172(1) statement

Our section 172(1) statement is on page 108, and is incorporated into this Strategic Report by reference.

RISK MANAGMENT

Managing our risks

The Bristol Water Board are committed to the effective management of risks and opportunities to ensure the long-term success of the Company. As part of the Pennon Group, risk management will also be supported by the wider risk management and internal control frameworks operating across the Group.

The Company operates mature and robust risk management and internal control frameworks which are aligned to strategic priorities and are embedded into our processes, culture and ways of working. These frameworks form a key part of our governance structure ensuring that there is robust review, challenge and assurance over the management of both our current and emerging risks and opportunities.

Governance of the risk management and internal control frameworks

The Company's risk management framework encompasses both a 'top down' and 'bottom up' approach. This allows risks and opportunities to be cascaded and escalated effectively, enables a common understanding of the risks and opportunities and their potential impact on the achievement of the Company's strategic priorities and provides a multi-layered approach to the review and challenge of risk.

A consistent methodology is applied in the identification and assessment of risks, which considers both the likelihood of the risk occurring over a long-term period and the potential impact across a range of categories aligned with our strategic priorities including: financial, safety, environmental and customer service. Principal and business-level risks are subject to regular review and challenge by the Bristol Water executive, the Bristol Water Board, the Group Risk Committee, Group Executive and the Pennon Board.

The Company mitigates its risk exposure in line with the desired risk appetite and tolerance levels, through the operation of a robust internal control and assurance framework which is aligned to the 'three lines' model. The Executive and the Board obtain assurance over the effectiveness of the internal control environment through a variety of internal and external assurance providers.

Key responsibilities and activities

The key responsibilities and activities which encompass the Company's risk management framework are:

RISK MANAGEMENT (continued)

<table>
<tr><td rowspan="4">Oversight</td><td colspan="2">Bristol Water Board</td></tr>
<tr><td>Key risk management responsibilities
• Sets the Company’s strategic objectives
• Establishes the Company’s risk appetite
• Determines the Company’s principal risks
• Ensures an effective internal control framework</td><td>Key assurance activities
• Six monthly review of the Company’s principal risks against the determined risk appetite
• Six monthly review of the Company’s emerging risk log</td></tr>
<tr><td colspan="2">Bristol Water Audit Committee</td></tr>
<tr><td>Key risk management responsibilities
• Reviews the effectiveness of the Company’s risk management framework
• Reviews the adequacy of the internal control framework</td><td>Key assurance activities
• Performs deep dive reviews on principal risks
• Approves the Internal Audit Plan
• Receives reports on the outcomes of key assurance activities</td></tr>
<tr><td rowspan="2">Third Line</td><td>Internal Audit</td><td></td></tr>
<tr><td>Key risk management responsibilities
• Provides independent, risk-based assurance on the effectiveness of the internal control framework
• Coordination of independent assurance activities</td><td>Key assurance activities
• Regular reporting to Audit Committee and Executive on the effectiveness of internal controls and the outcomes of key assurance activities</td></tr>
</table>

RISK MANAGEMENT (continued)

Second Line	**Executive Management**	
	Key risk management responsibilities • Day to day management of the Company's principal and operational risks • Establishes the relevant Company-wide risk management processes and procedures • Maintains the internal control framework	**Key assurance activities** • Performs a thorough appraisal of the Company's principal and emerging risk profile every six months • Monitors the Company's performance against KPIs and financial performance • Establishes and reviews policies, procedures and delegated authorities
	Audit and Risk Assurance Committee	
	Key risk management responsibilities • Provides review and challenge over subsidiary/ functional principal risks and mitigation strategies • Alignment of the top down and bottom up risk management process • Performs horizon scanning on emerging risks and opportunities	**Key assurance activities** • Six monthly review of principal risks and key functional risks • Undertakes deep dive reviews of specific risks
First Line	**Management teams**	
	Key risk management responsibilities • Identifies and assesses functional level risks • Implements and executes appropriate risk mitigation strategies, aligned with the agreed risk appetite • Monitors compliance with internal control framework • Review of functional principal risks on a six monthly basis by senior leadership teams	**Key assurance activities** • Functions provide assurance activities across key business processes including regulatory, legal, health & safety • Self-certification of compliance with the internal control framework

RISK MANAGEMENT (continued)

In addition, the Company also received assurances from a variety of external assessments, including from our regulators, which complements and further enhances the Company's overall assurance framework.

Bristol Water Risk Management Framework

During 2021/22 Bristol Water has continued to operate their established and embedded business-wide risk management framework, which includes regular review of the Bristol Water principal risks and mitigation strategies by both the Executive Management Team and the Board of Directors. In the coming year Bristol Water will be fully integrated into the Pennon Group's risk management framework.

Bristol Water technical (non- financial) data

In addition to the risk management framework detailed above, recognising the importance of the regulatory ODI framework, Bristol Water engage independent, third-party auditors to audit the accuracy of the technical (non-financial) data reported in the respective annual performance reports, including its performance commitments and environmental data.

Continuous improvements to risk management and internal control

The Company and Group are committed to continuously improving their ability to identify and respond to current and emerging risks. Examples of risk management improvements made by the Company during the year include:

- An assessment of controls over joiners and leavers has been completed with key outcomes reported to the Audit and Risk Assurance Committee
- A review of the Company's risks to ensure completeness of risk registers and adequacy of approach required by the Group

Management of Bristol Water within the Group's risk management framework

Pennon manages its risks in such a way that Bristol Water, as a regulated company, is protected from risk elsewhere in the Group. The Group's principal risks and uncertainties include those Group-level risks which could materially impact on Bristol Water.

Pennon's risk management and internal control frameworks ensure that it does not take any action that would cause Bristol Water to breach its licence obligations. Further, the Group's governance and management structures mean that there is full understanding and consideration of Bristol Water's duties and obligations under their licence, as well as an appropriate level of information sharing and disclosure to give Bristol Water assurance that it is not exposed as a result of activities elsewhere within the Group.

Risk appetite

The Company is required to determine the risk appetite considered appropriate in achieving its strategic priorities. Striking an appropriate balance between risk and reward is key to the success of the Company's strategy.

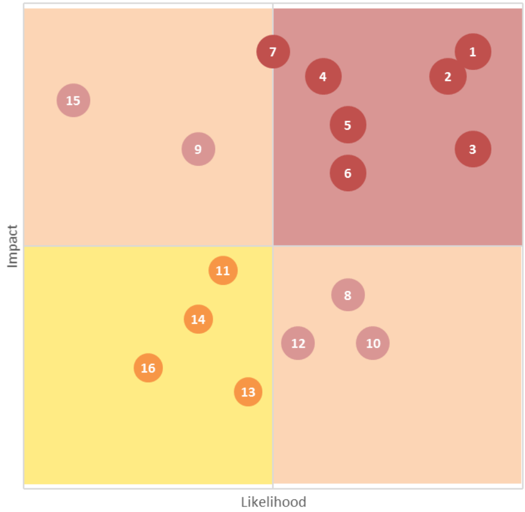
The Board has established its risk appetite for each risk category and also for each principal risk. This allows the business to pursue value-enhancing opportunities, while maintaining an overall level of risk exposure that the Board considers to be appropriate. The Board's evaluation of the comprehensiveness of the Company's internal controls in mitigating its principal risks to an acceptable level is considered with due consideration of the relevant risk appetite. The risk appetite for each risk category is detailed below:

RISK MANAGEMENT (continued)

RISK CATEGORY	RISK APPETITE STATEMENT
Legal and regulatory	The Board is committed to fully complying with, and being seen to be complying with, all relevant laws, regulations and obligations and has no appetite for non-compliance in this area. The Board acknowledges, however, that the Company operates in a complex environment influenced by Government policy and regulatory reform. Consequently, there is acceptance of increased inherent risk in these areas and the Company seeks to mitigate any potential downside and leverage opportunities that may arise from Government policy and regulatory change.
Corporate	The Company operates a prudent approach to our financing strategy to ensure our long-term financing commitments are met. The Board recognises that our activities are exposed to changes in macroeconomic and external market conditions. The Company seeks to take well-judged and informed decisions to mitigate these risks where possible but accepts that a level of residual risk may remain beyond the Board's control.
Operating performance	The Board has a low appetite for significant operational failure of our water and wastewater assets and seeks to reduce both the likelihood and impact through long-term planning and careful management of our operational assets. There is greater appetite for well-informed risk taking to develop further markets, subject to this not detrimentally impacting on the level of service expected of our regulators, customers and wider stakeholders.
Strategic	The Board places the highest level of importance on the welfare of our employees, the public and those who work with or on behalf of Company, and therefore has a low risk appetite for H&S related risks. The Board also has a low risk appetite for risk associated with the delivery of capital investment within our regulated business plan. Broader investment decisions are taken on an informed basis with risks weighted against the expected level of return on a case- by-case basis. The Company seeks to minimise technology and security risk to the lowest possible level without detrimentally impacting on the Company's operations.

RISK MANAGEMENT (continued)

Overview of Bristol Water's principal risk profiles



1 - Macro-economic near term risks
2.– Non-recovery of customer debt
3.– System Implementation
4.– Failure to maintain excellent service
5. - CRT, restricted or unaffordable access
6. - Insufficient skills and resources
7. - Health & Safety
8.– Regulatory Reform
9.– Risk to the DB pension scheme
10. - Significant operational failure, including pollution events
11.– Non-compliance with laws and regulations
12. - Cyber Security
13.– Ineffective or inefficient capital delivery
14.– Non-delivery of regulatory outcomes
15. - Ability to raise new debt
16. - Water resources and climate change

RISK MANAGEMENT (continued)

Category	Reference	Risk description	Net risk
Legal and Regulatory	5	Restricted or unaffordable access to CRT controlled water	Red reducing
	8	Regulatory reform	Amber stable
	11	Non-compliance with laws and regulations	Green stable
Corporate	1	Macroeconomic near term risks impacting on inflation, interest rates and power prices	Red stable
	2	Non-recovery of customer debt	Red stable
	6	Insufficient skills and resources to meet the current and future business needs and deliver the Group's strategic priorities	Red stable
	9	Risk to the DB pension scheme	Amber rising
	15	Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments	Green reducing
Operating performance	4	Failure to maintain excellent service or effectively engage with our customers and wider stakeholders	Red stable
	10	Failure of operational water treatment assets and processes resulting in an inability to produce or supply clean drinking water	Amber stable
	14	Non-delivery of regulatory outcomes and performance commitments	Green stable
	16	The Group's operations and assets are impacted as a result of climate change and extreme weather events	Green stable
Strategic	3	Systems implementation	Red stable
	7	Non-compliance or occurrence of an avoidable health and safety incident	Amber stable
	12	Inadequate technological security results in a breach of the Group's assets, systems and data	Green rising
	13	Inefficient or ineffective delivery of capital projects	Green stable

RISK MANAGEMENT (continued)

Principal risks and uncertainties

The Group's business model exposes the business to a variety of external and internal risks, which are influenced by the potential impact of macro political, economic and environmental factors. Specifically, the UK is currently experiencing a high inflationary environment as a result of a number of global factors.

While the ability of the Group to influence these macro level risks is limited, they continue to be regularly monitored and the potential implications are considered as part of the ongoing risk assessment process. The Group performs a range of scenario planning and analysis exercises to understand the risk exposure of one or a number of these events occurring.

The Directors confirm that during 2021/22 they have carried out a robust assessment of current and emerging risks facing the Group, including the consideration of risks associated with the activities of Bristol Water. The assessment of the Group's principal risks has considered the impact on its business model, future performance, solvency and liquidity. These principal risks have been considered in preparing the viability statement on pages 49 to 52.

RISK MANAGEMENT (continued)

Legal and Regulatory				
Principal Risk	**Strategic Impact**	**Mitigation**	**Net Risk**	**Appetite**
5: Restricted or unaffordable access to CRT controlled water	Strategically, and over the long term, the Canal & Rivers Trust has the potential to restrict our water supply through unaffordable increases or lack of cooperation. Developing an effective relationship with CRT is critical over the coming years and therefore, despite the favourable conclusion to the arbitration and an improving relationship with the CRT, this remains a top risk.	Executive Management Team – oversees the relationship with CRT. Monthly relationship meetings are held with CRT to discuss and agree operational and other issues and there is coordination of the relationship with CRT by the Company from across the business. Longer term planning for security of supply will be incorporated into the Water Resources Management Plan. The Company will engage with the Department for Environment, Food & Rural Affairs ("DEFRA") and other stakeholders as appropriate.	Red Reducing	The Company will ensure that all obligations are met in full but seeks to manage this without unnecessary costs to the Company.
8: Regulatory frameworks	Changes to regulatory frameworks may impact on the Company's priorities, performance and the service we provide to our customers which can impact shareholder value.	Certainty over the 2020-25 regulatory framework has been provided through Bristol Water's CMA Final Determination. The Company's regulatory team and the Group's Regulatory Affairs Steering Committee monitor changes in the regulatory environment. There remains the potential that regulatory mechanisms within the next Price Preview period do not provide sufficient funding to achieve the environmental ambitions set out by the Government within the Environment Bill Internal PR24 planning has commenced and Bristol Water has actively responded to positioning papers from Ofwat which will inform the PR24 price review methodology which will be published in July 2022.	Amber Stable	We accept that regulatory reform occurs and seek to leverage opportunities where possible and minimise the potential risks, by targeting changes which are NPV neutral over the longer-term to protect customer affordability and shareholder value.

RISK MANAGEMENT (continued)

Legal and Regulatory				
Principal Risk	**Strategic Impact**	**Mitigation**	**Net Risk**	**Appetite**
11: Non-compliance with laws and regulations	The Company is required to comply with a range of regulated and non-regulated laws and regulations across our businesses. Non-compliance with one or a number of these may result in financial penalties having a negative impact on our ability to operate effectively and reputational damage.	The Company operates within robust and mature frameworks, ensuring compliance with licence and other requirements of Ofwat, the Environment Agency and other relevant regulators. These frameworks are subject to regular review and enhancement to ensure the Company remains compliant with the increasingly complex legal and regulatory landscape. The Company also maintains a comprehensive internal framework to ensure compliance with corporate laws and regulations. This is reinforced through key policies. Confidential whistleblowing processes exist which allows concerns to be raised confidentiality and appropriately investigated. Activity through the whistleblowing process is reported periodically to both the Bristol Water and Pennon Boards.	Green Stable	The Company maintains the highest standards of compliance and has no appetite for legal or regulatory breaches.

RISK MANAGEMENT (continued)

Corporate				
Principal Risk	**Strategic Impact**	**Mitigation**	**Net Risk**	**Appetite**
1: Macro-economic near term risks impacting on inflation, interest rates and power prices	Lower inflation or deflation could adversely impact on the Company's revenue and significant changes in interest rates and power prices could increase the Company's cost base.	The volatility currently being experienced in the global economy is impacting on the Company's near term cost base through increased operational costs, power prices and financing costs. Action is taken to mitigating these near term impacts through utilising the Company's in-house procurement function to drive value through competitive tendering, regularly review of the Company's debt portfolio and level of index linked debt, monitoring of forward power prices to manage the exposure to price volatility and increasing the level of renewable energy. Despite these mitigations, there remains a degree of exposure beyond the Company's control. Long-term protection from the increasing inflationary environment is provided through inflation linked revenues and RCV growth, along with regulatory true-ups.	Red Rising	The Company seeks to take well-judged and informed decisions while ensuring plans are in place to mitigate the potential impact of macroeconomic risks.
2: Non-recovery of customer debt	Reduced customer debt collection would adversely impact on the Company's revenue.	Bristol Water has robust collection strategies, which have continued to adapt in response to the impact of COVID-19 and the increasing inflationary environment on customers during the year. The effectiveness of these measures have resulted in collection rates and debt levels at levels broadly comparable with expectations. Continued support has also been provided to Bristol Water customers most in need by proactively promoting affordability measures and tariffs. Despite the effectiveness of mitigations in place, further increases in inflation and the cost of living may result in future affordability challenges for our customers.	Red stable	While seeking to minimise non-recoverable debt, we recognise customer affordability challenges and the inability to disconnect domestic customers results in a residual risk of uncollectable debt remaining.

RISK MANAGEMENT (continued)

Corporate				
Principal Risk	**Strategic Impact**	**Mitigation**	**Net Risk**	**Appetite**
6: Insufficient skills and resources to meet the current and future business needs and deliver the Company's strategic priorities	Failure to have a workforce of skilled and motivated individuals will detrimentally impact all of our strategic priorities. We need the right people in the right places to innovate, share best practice, deliver synergies and move the Group forward.	There remains high demand nationally for skills and experiences utilised across the Company. The acquisition of Bristol Water by the Pennon has further enhanced the skills and talent available across the Group. During the year, senior leaders have participated in Bristol Water's future leaders' programme. The Company's HR strategy enables the Company to attract, retain and develop our employees and a number of reward and recognition initiatives have been launched during the year reflecting the significant contribution that our people make.	Red Stable	While turnover of employees does occur, we ensure the appropriate skills and experience are in place with succession plans providing adequate resilience.
9: Risk to the DB pension scheme	The DB pension scheme is currently undergoing a second consultation prior to the winding up of the section. This has highlighted significant disagreement with the Trustees proposed treatment of the current surplus, which is expected to be returned to the company	We continue to fully engage in the consultation process currently underway for the winding up of the Bristol Water section of the Water Companies Pension Scheme, providing information requested by the Trustees.	Amber Rising	The Company will ensure that all obligations are met in full, but seeks to manage this without unnecessary costs to the Company.

RISK MANAGEMENT (continued)

Corporate				
Principal Risk	**Strategic Impact**	**Mitigation**	**Net Risk**	**Appetite**
15: Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments	Failure to maintain funding requirements could lead to additional financing costs and put our growth agenda at risk. Breach of covenants could result in the requirement to repay certain debt.	The acquisition of the Company by Pennon Group has provided significant mitigation to its ability to raise sufficient funding. Pennon Group has well established treasury, funding and cash flow arrangements in place, underpinned by a Treasury Management Policy endorsed by the Pennon Board. The impact of macro political, economic and regulatory risks on the Company's financing commitments and cash flow, funding and covenant compliance is regularly reviewed by the Company Executive and Pennon Board. The Company retains 32.9m of unrestricted cash and committed facilities as at 31st March 2022. and Bristol Water is fully funded for the 2020-25 regulatory period.	Green Reducing	The Company operates a prudent approach to our financing strategy in order to ensure our funding requirements are fully met.
Operating Performance				
4: Failure to maintain excellent service or effectively engage with our customers and wider stakeholders	Failure to maintain an adequate level of service and engagement could lead to financial penalties for Bristol Water and damage to the Company's reputation.	The Company continues to invest in its customer services teams and expand the channels by which it can interact with and support customers. Bristol Water hold the Institute of Customer Service's ServiceMark accreditation. Bristol Water's written complaints have almost halved during the year and were ranked 6th in the industry for C-Mex performance. The Company regularly engages with a wide variety of internal and external stakeholders including our people, customers, regulators, environmental stakeholders and our supply chain.	Red Stable	The Company continually seeks to engage with and increase customer and wider stakeholder satisfaction levels.

RISK MANAGEMENT (continued)

Operating Performance				
Principal Risk	**Strategic Impact**	**Mitigation**	**Net Risk**	**Appetite**
10: Failure of operational water treatment assets and processes resulting in an inability to produce or supply clean drinking water	An inability to produce or supply clean drinking water could result in financial penalties, regulatory enforcement and damage to the Company's reputation.	Whilst the region continues to experience high levels of demand, water resources have remained resilient during the year and are in a robust position ahead of the summer period. Asset health is managed through a well-established programme of planned and preventative maintenance works which has continued to assist in delivering further improvements within the Company's operations. In the event of a significant incident detailed contingency plans and incident management procedures are maintained which are regularly reviewed.	Amber Stable	The Company operates a low tolerance for significant operational failure of its water treatment assets and seeks to mitigate these risks where possible.
14: Non-delivery of regulatory outcomes and performance commitments	Bristol Water's regulatory outcomes and performance commitments cover key strategic focus areas. Non-delivery against these could result in financial penalties being applied as well as reputational damage to the Company.	The delivery of our regulatory outcomes and performance commitments is principally through our operational activities and initiatives. Bristol Water's ODI performance is subject to regular scrutiny and review by both the Executive and the Board. This is supplemented by comprehensive internal and external assurance over reported performance.	Green Stable	The Company is committed to achieving all performance commitments over the length of each regulatory period. Where performance in an individual year falls below expectations, action plans and targeted intervention are implemented to ensure performance returns to committed levels.

RISK MANAGEMENT (continued)

Operating Performance				
Principal Risk	**Strategic Impact**	**Mitigation**	**Net Risk**	**Appetite**
16: The Company's operations and assets are impacted as a result of climate change and extreme weather events	Failure of our operations to cope with short-term extreme weather or long-term implications of climate change may result in: an inability to meet customer needs; environmental impacts; increased costs: and reputational damage.	A low appetite remains amongst regulators and stakeholders for reduced performance arising from extreme weather and climate change. The assessment of both transitional and physical climate change related risks on the Company's assets and operations will inform the 25 year Water Management Plan, which will be published later in the year, and drought plans are subject to regular review. Proactive capital investment is undertaken on the Company's assets to ensure the continued resilience of both water and wastewater assets, particularly those located on or near flood plains or at risk of rising sea levels and costal erosion.	Green Stable	The Company seeks to mitigate the impact of climate change and extreme weather events through long-term planning, forecasting and investment.
Strategic				
Principal Risk	**Strategic Impact**	**Mitigation**	**Net Risk**	**Appetite**
3: Systems implementation	A number of systems are approaching obsolescence and the impact of this and/or the unsuccessful implementation of replacement systems poses a risk to the business including customer perception or inability to maintain service	Systems implementations are managed as part of the capital programme with steering groups and board engagement. Specific assurance work was undertaken in the year regarding the billing system used in our joint venture with Wessex water.	Red Stable	The Board has a low-risk appetite for risk associated with the delivery of capital investment within our regulated business plan

RISK MANAGEMENT (continued)

Strategic				
Principal Risk	**Strategic Impact**	**Mitigation**	**Net Risk**	**Appetite**
7: Non-compliance or occurrence of an avoidable health and safety incident	A significant health and safety event could result in financial penalties, significant legal costs and damage to the Company's reputation.	The effective management of health and safety risks continues to be a key priority for the Company Executive and Pennon Board. The review of health and safety performance is monitored regularly through the respective Board and Executive Health and Safety Committees. Improvement plans and initiatives are being consolidated within Bristol Water with Pennon group processes and a Bristol Water specific Homesafe Plan will be developed during 2022/23. Investment has also been accelerated for safety specific asset improvements, focused on operational sites and activities.	Amber Stable	The Company has no appetite for health and safety related incidents and maintains the highest standards of compliance for our staff, contractors and other third parties.
12: Inadequate technological security results in a breach of the Company's assets, systems and data	Failure of our technology security, due to inadequate internal processes or external cyber threats, could result in the business being unable to operate effectively and the corruption or loss of data. This could have a detrimental impact on our customers and result in financial penalties and reputational damage to the Company.	External threats, including additional risks resulting from the current conflict in Ukraine, are being regularly monitored by the Company's information security teams. The Company maintains a strong preventive and detective information security framework, aligned to guidance issued by the National Cyber Security Centre. A refreshed information security awareness programme has been launched during the year and Bristol Water IS certified to Cyber Essentials Plus. During the year Bristol Water has continued to progress actions as part of the roadmap to meet the requirements of the Network and Information Systems Directive (NIS), with activities aligned to the priorities identified by the Drinking Water Inspectorate. Disaster recovery plans are in place for both corporate and operational technology and are regularly reviewed.	Green Stable	The Company seeks to minimise technology and security risk to the lowest possible level without detrimentally impacting on the Company's operations.

RISK MANAGEMENT (continued)

Strategic				
Principal Risk	**Strategic Impact**	**Mitigation**	**Net Risk**	**Appetite**
13: Inefficient or ineffective delivery of capital projects	Inability to successfully deliver on our capital programme may result in increased costs and delays, detrimentally impacting our ability to provide top class customer service and achieve our growth agenda. In addition, a number of systems are approaching obsolescence and the impact of this and/or the unsuccessful implementation of replacement systems poses a risk to the business including customer perception or inability to maintain service.	Capital projects are subject to an established and robust business case process which includes challenge and modelling of key assumptions. Projects are delivered utilising skilled project management resource with Executive level oversight. The current volatility in the global economy is placing additional challenges on the Company's supply chain increasing the risk of reduced availability of goods and materials, increased costs and skills shortages. The Company works closely and regularly engages with its supply chain as well as monitoring the financial health of key partners. Established plans and alternative arrangements provide mitigation and early intervention where necessary.	Green Stable	The Board has a low-risk appetite for risk associated with the delivery of capital investment within our regulated business plan.

LONG TERM VIABILITY STATEMENT

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 which may impact viability.

The Board's consideration of longer-term viability of the Company is an extension of the Company's strategic business planning which is managed through regular long-term modelling and monitoring of key measures including gearing, debt covenant headroom and level of liquidity. The Company relies on maintaining an investment grade credit rating through adjusted interest cover and gearing ratios. The resilience of the business and these key viability measures are appropriately assessed by a number of mechanisms including a robust risk management assessment, sensitivity analysis and stress tests of financial performance.

The overall market context is a cornerstone of the viability assessment. Bristol Water is a long-term business characterised by multi-year investment programmes, with associated revenue streams with high levels of future visibility.

The viability assessment has been made with reference to the Company's current position and prospects, including consideration of the ongoing impacts of the COVID-19 pandemic, climate change, the cost of living crisis, its longer-term strategy, the Board's risk appetite and the Company's principal risks and how these are managed, as detailed on pages 32 to 48 of the risk report.

Period of assessment

The Board regularly considers the appropriate period for the viability assessment to be performed in line with the UK Corporate Governance Code. The Board considers the appropriate period to assess the Company's viability to be eight years, which recognises the longer-term visibility afforded the business in the regulatory environment, representing the period to the end of the next price setting period in 2030. The period of review has reduced to eight years from ten years to align with regulatory review periods, and therefore to allow for greater certainty in the assumptions made in the modelling.

Risks

The Board considers the preventative and risk management actions in place and the potential impact of the principal risks (as detailed on pages 32 to 48) against our ability to deliver the business plan. This assessment has considered the potential impact of these and other risks arising on the business model, future performance, solvency and liquidity over the period in question. The Company has a strong liquidity and funding position with £39.0m (2020/21: £54.9m) of cash and committed facilities as at 31 March 2022 and net assets of £199.7m (2020/21: £218.8m). The Company has a mixture of fixed, floating and index linked debt financing with a weighted average maturity of 10.0 years (2020/21: 11.1 years). In making their assessment, the Directors reviewed the principal risks and considered which risks might threaten the Company's viability.

Stress testing

The Company's business plan has been stress-tested. Whilst the Company's risk management processes seek to mitigate the impact of principal risks as set out on pages 32 to 48, individual sensitivities (shown in the table below) have been identified. These sensitivities, which are ascribed a value with reference to risk weighting, factoring in the likelihood of occurrence and financial impact, were applied to the baseline financial forecast which uses the Company's annual budget for FY 2022/23 and longer-term strategic business plan through to March 2030.

LONG TERM VIABILITY STATEMENT (continued)

The Company's strategic business plan includes the expected investment identified at this stage to meet climate changed adaptation. The stress testing scenarios applied during the viability assessment period do not include specific reference to climate change related risks alone as the sensitivities are not considered material during the period of assessment.

Principal risk	Viability sensitivities modelled
Macroeconomic risks impacting on inflation, interest rates and power prices (risk 1)	The adverse impact of higher operating and finance costs from increasing power prices and general inflation increases over and above increases assumed in base financial plans, including the impact on Total Expenditure ("Totex") underperformance on regulatory returns and impact on debt financing costs (modelled at 3% of Totex plus one off impact of 8% inflation in one year).
Non-recovery of customer debt (risk 2)	An application of reduced cash inflows from increased customer bad debt levels has been modelled (modelled at 25% increased bad debt). This includes an assessment of the residual impacts from COVID-19 and the affordability challenges arising from high inflation and rising power prices.
Restricted or unaffordable access to CRT controlled water (risk 5)	The adverse impact of higher operating and finance costs from increasing costs of water abstraction (modelled at 1% of Totex).
Non-compliance or occurrence of an avoidable health and safety event (risk 7)	The financial impact and cash outflows related to a major health and safety event has been applied as a sensitivity (modelled at 1% of Totex plus financial penalty of 1% of Revenue).
Regulatory reform (risk 8)	Potential changes in PR24 price review may impact allowed regulatory returns in Bristol Water. The estimated average adverse impact on the Company's cash flows from a range of potential policy changes has been applied as a sensitivity (modelled at reduction of revenue by 3%).
Risk to the DB pension scheme (risk 9)	The financial impact on the Company's gearing from reduced surplus returned to the company and impact of write off of the surplus (modelled at increased debt of 2%).
Non-compliance with laws and regulations (risk 11)	The estimated impact of financial penalties and reputational damage from failure to comply with laws and regulations has been modelled as a sensitivity (modelled at 1% of Revenue).
Inability to secure sufficient finance and funding to meet ongoing commitments (risk 15)	The impact of reduced availability of financing resulting in increased margins on new debt raised. A sensitivity of increased banking margins of 2% has been applied.

LONG TERM VIABILITY STATEMENT (continued)

Principal risk	Viability sensitivities modelled
Failure of operational water treatment assets and processes resulting in an inability to produce and supply clean drinking water (risk 10). Failure to maintain excellent customer service or effectively engage with our customers and wider stakeholders (risk 4) Insufficient skills and resources to meet the current and future business needs and deliver the Company's strategic priorities (risk 6). Non-delivery of Regulatory Outcomes and performance commitments (risk 14) Inefficient or ineffective delivery of capital projects (risk 13).	The adverse impact from non-delivery of regulatory performance targets which result in ODI penalties, other financial penalties and required additional investment reducing Company revenues and cash inflows have been applied as a sensitivity to the base plan (modelled at 1% of totex, financial penalty of 1% of revenue).
Inadequate technological security results in a breach of the Company's assets, systems and data (risk 12)	The adverse financial impacts of a cyber-attack resulting in operational disruption, potential loss of data, potential detrimental impacts on customers with potential for financial penalties have been included in the sensitivity analysis (modelled at 1% of Totex as a cost plus financial penalty of 1% of Revenue).
A combined stress testing scenario has also been performed to assess the overall impact of these scenarios impacting the Company collectively (modelled at 10% of totex, financial penalty of 5% of revenue, increased interest of 8%).	

Stress testing evaluation and mitigations

Through this testing, it has been determined that none of the individual principal risks would compromise the Company's viability over the eight-year period. Further testing was performed on combined scenarios, which resulted in high impact scenarios over a prolonged period. Such combined scenarios included modelling the impact of a number of individual scenarios taking place simultaneous, without management mitigation. Such scenarios are considered unlikely to take place given the cumulative and high impact of the scenarios. Two of the three scenarios could be mitigated through reduction in dividend payments to offset the impact of stressed financial performance on credit ratios. The final scenario, which effected the cumulative impact of all scenarios materialising simultaneously, could be mitigated if additional actions were taken to reduce gearing, increase covenant headroom and increase the adjusted interest cover ratio. Such actions included restricting dividends but also taking action to reduce operational and capital expenditure in the short term, and managing cash payments carefully, particularly non-contractual payments.

In making its assessment of the Company's viability, the Directors have taken account of the Company's credit rating and projected ratios, the Company's latest assessments of the consequential impacts of the COVID-19 pandemic as economic activity starts to return to pre-pandemic levels, the latest estimated impact of global supply chain pressures on power and other commodity prices, latest inflation forecasts, its ability to raise new finance and potential mitigating actions of restricting dividends, reducing expenditure or phasing non-contractual payments. In addition, acknowledgement has been made of the Company's role as part of the Pennon Group, and the potential benefits that may arise therefrom in respect of the ability to raise and manage funding.

LONG TERM VIABILITY STATEMENT (continued)

In assessing the prospects of the Company, the Directors note that, as the Company operates in a regulated industry which potentially can be subject to non-market influences, such assessment is subject to uncertainty, the level of which depends on the proximity of the time horizon. Accordingly, the future outcomes cannot be guaranteed or predicted with certainty. As set out in the Audit Committee's report on pages 79 to 85, the Directors reviewed and discussed the process undertaken by management, and also reviewed the results of the stress testing performed.

Viability assessment conclusion

The Board has assessed the Company's financial viability and confirms that it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over an eight-year period, the period considered to be appropriate by the Board in connection with the UK Corporate Governance Code.

Approval of Strategic Report

Our Strategic Report on pages 5 to 52 has been approved by the Board, and is signed on its behalf by:

Mel Karam,
Chief Executive Officer
30 June 2022

CORPORATE GOVERNANCE REPORT

Chair's introduction
Gill Rider

Dear Shareholders

I am pleased, as the new Chair, to introduce our Corporate Governance report for 2022 on behalf of the Board of Directors of Bristol Water plc. The pages which follow provide details on the activities and governance processes of the Board and its Committees in the financial year 2021/22.

2021/22 was a busy and challenging year for the Company. First and foremost, the Company continued to deliver safe and reliable water to its customers during the COVID-19 pandemic whilst at the same time safeguarding the health and wellbeing of its workforce during this difficult period.

On 3 June 2021, Pennon Group plc announced that it had acquired the Company (the "**Pennon Acquisition**"), which meant a change in the shareholder representatives on the Company's Board. The Pennon Acquisition was referred to the CMA for review (the "CMA Pennon Review") as required by law. During the period of the CMA Pennon Review, the Company was run as an independent company and business entirely separate from Pennon Group. On 7 March 2022, the CMA announced that it had accepted the undertakings offered by Pennon Group in lieu of a reference to a Phase 2 merger review. Following this announcement, the Pennon Group and the Company began discussions on the merger and integration of the Company into the Pennon Group. Work on integration continues with the oversight of the Board.

My role, along with the Board, during this period of integration, is to ensure that the Company continues to operate to the highest standards with a robust governance framework in order to deliver its objectives and meet the needs of our customers and stakeholder expectations.

As the new Chair, appointed on 2 April 2022, together with my other newly appointed Board colleagues, we are grateful for the strong stewardship of the previous Board and the executive management in delivering on the commitments made in our business plan particularly given the backdrop of the Pennon Acquisition and referral to the CMA.

More details on the scope of the Board's activities, discussions and actions are detailed on pages 68 to 70.

Gill Rider
Chair
30 June 2022

BOARD OF DIRECTORS

Gill Rider
Chair of the Board
Gill Rider was appointed to the Board of the Company on 2 April 2022. She was appointed to the Board of Pennon Group on 1 September 2012 and became Chair on 31 July 2020 and is also Chair of Pennon Group.

Gill has a wealth of experience in leadership and governance across a broad range of sectors including professional services, education, not for profit and government. Gill was the senior independent Director of Charles Taylor plc until its sale in January 2020. Formerly, Gill was head of the Civil Service Capability Group in the Cabinet Office reporting to the Cabinet Secretary and prior to that held a number of senior positions with Accenture LLP culminating in the post of Chief Leadership Officer for the global firm. Gill was previously president of the Chartered Institute of Personnel and Development and Chair of the Council of the University of Southampton.

Gill is currently a Non-Executive Director of Intertek Group plc where she is also Chair of their Remuneration Committee. In addition to her PLC roles, Gill is the President of the Marine Biological Association.

Mel Karam
CEO
Mel Karam joined the Company in April 2017 as CEO. Prior to joining the Company, he was Partner and Global Head of Asset Management at KPMG International leading their work across 25 countries. Mel 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
CFO
Laura Flowerdew was appointed to the Board of the Company on 1 October 2018. Laura is a Fellow of the Institute of Chartered Accountants and joined the Company from Bristol Energy where she held the role of Finance Director. Laura 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. Laura is also a Non-Executive Director of Bristol and Wessex Billing Services Limited.

Susan Davy
Executive Director
Susan Davy was appointed to the Board of the Company on 9 March 2022 and to the Boards of Bristol Water Core Holdings, Holdings and Bristol Water Holdings UK on 4 April 2022. She was appointed Chief Executive Officer of Pennon Group on 31 July 2020. She was appointed to the Board of Pennon Group in February 2015 as Chief Financial Officer, having joined the Group as Finance Director of South West Water in 2007.

Susan's knowledge of the industry, coupled with her financial and regulatory expertise, has underpinned the development of Pennon's strategy. Susan has led Pennon's strategic review which has included the value-creating acquisitions of Bournemouth Water, Bristol Water, and the Viridor disposal. In her 25+ years' experience in the utility sector, Susan has also held a number of other senior roles in the water sector, including at Yorkshire Water.

Under her guidance South West Water has become the only water company to have achieved fast-track status for two consecutive business plans – the first in 2014, the second in 2019.

Susan is highly respected in the City and has been instrumental in building Pennon's reputation. Susan is a Non-Executive Director and Audit Chair of Restore Plc, a member of the CBI President's Committee, and deputy Chair of the CBI South West, having served as its Chair from 2018-2021. She holds a place on the board of Water UK, is a member of the Energy & Utilities Skills Partnership Council and was previously a member of the A4S (Accounting for Sustainability) CFO leadership network.

BOARD OF DIRECTORS (continued)

Paul Boote
Executive Director
Paul Boote was appointed to the Board of the Company, and to the Boards of Bristol Water Core Holdings, Bristol Water Holdings and Bristol Water Holdings UK on 3 June 2021 on completion of the Pennon Acquisition. He acted as a shareholder representative until 7 March, when completion of the CMA review allowed him to take a role as Executive Director of the Company. Paul was appointed to the Board of Pennon Group on 8 July 2020, having joined Pennon on 1 January 2010.

Paul is a chartered accountant with over 20 years' experience, having also held senior finance roles at companies operating in the sport, construction and environmental industries. He has held a number of senior roles at Pennon, most recently as Pennon's Director of Treasury, Tax and Group Finance. During this time, he was responsible for the continuing development of Pennon's sector-leading sustainable debt portfolio, ensuring the Group maintains a responsible approach to tax, as well as leading on financial reporting matters. Paul has been instrumental in the successful implementation of the Group's strategic review. He holds a number of directorships with Group subsidiary companies and is a key member of the Group executive Finance Committee which he chairs. Paul's knowledge of the Group and relationships with key external stakeholders, coupled with his corporate finance and financial reporting experience, provides continuity to the Board as the Group evolves through this strategic review period.

Neil Cooper
Senior Independent Non-Executive
Neil Cooper was appointed to the Board of the Company, and to the Boards of Bristol Water Core Holdings, Bristol Water Holdings and Bristol Water Holdings UK on 3 June 2021 on completion of the Pennon Acquisition. Neil was appointed to the Board of Pennon Group on 1 September 2014 and became Senior Independent Director on 31 July 2020.

Neil brings to the Board extensive experience in a wide variety of corporate and financial matters. Previously, he was Group Finance Director of Barratt Developments plc and before that, Group Finance Director of William Hill plc and Bovis Homes plc. Neil also held senior finance positions at Whitbread plc, worked for PricewaterhouseCoopers as a management consultant and held a number of roles with Reckitt & Colman plc. As chair of the Group Audit Committee, Neil has been influential in directing Pennon's approach on a number of significant matters including internal control, governance and financial reporting.

He is currently Chief Financial Officer of Currencies Direct, a foreign exchange broker and international payment provider.

Iain Evans
Independent Non-Executive
Iain Evans was appointed to the Board of the Company, and to the Boards of Bristol Water Core Holdings, Bristol Water Holdings and Bristol Water Holdings UK on 3 June 2021 on completion of the Pennon Acquisition. Iain was appointed to the board of Pennon Group on 1 September 2018

Iain has 40 years of extensive global experience in advising companies and governments on issues of complex corporate strategy. In 1983, he co-founded L.E.K. Consulting in London and built it into one of the world's largest and most respected corporate strategy consulting firms with a global footprint active in a wide range of industries. Iain was appointed as a Non-Executive Director of Welsh Water plc in 1989 and served on the board for nearly ten years, including five years as chair. As chair of the group ESG Committee, Iain is leading the development of a sustainability programme that underpins the delivery of Pennon's strategy.

Iain is a Non-Executive Director of Bologna Topco Limited and HSM Advisory Limited and continues to act as a corporate strategy consultant.

BOARD OF DIRECTORS (continued)

Claire Ighodaro CBE
Independent Non-Executive
Claire Ighodaro was appointed to the Board of the Company on 2 April 2022. She was as appointed to the board of Pennon Group on 1 September 2019.

Claire has held a number of senior roles and directorships of UK and International organisations and has extensive board experience, serving on audit and governance committees. Claire is a past president of CIMA (the Chartered Institute of Management Accountants) and was the first woman to lead this organisation. She spent most of her executive career with BT plc. She has also held non-executive directorships across a diverse portfolio including Governance Committee Chair of Bank of America's Merrill Lynch International, Audit Committee Chair of Lloyd's of London, Flood Re, The Open University and various UK public bodies including UK Trade & Investment and the British Council. As chair of the Group Remuneration Committee, Claire continues to guide Pennon's approach to executive remuneration, ensuring that it is aligned with and supports the Group's strategy

Claire is non-executive Chair of the Board and the Governance Committee for AXA XL-UK entities and Non-executive Chair of the Audit Board of KPMG LLP.

Jonathan Butterworth
Independent Non-Executive
Jon Butterworth was appointed to the Board of the Company on 2 April 2022. He was appointed to the Board of Pennon Group on 8 July 2020.

Jon is the Chief Executive Officer of the UK Gas Business for National Grid Plc and a member of the National Grid Executive Committee. Jon has a distinguished track record and an immense depth of

experience and knowledge within the utility sector, having begun his career over 44 years ago as an apprentice in British Gas. He has been the Managing Director of Northwest Gas, Global Environment and Sustainability Manager of Transco, National Operations Director of National Grid, Group Safety, Resilience and Environmental Director of National Grid Plc and formerly CEO of National Grid Ventures, building (£3bn) of growth in renewables across the USA and Europe. Jon's Utility background makes him keenly aware of the importance of maintaining a balance between performance and safety, and he constructively challenges the Board and management to constantly raise the bar in this area.

Jon is a Fellow of the Institute of Directors and is a Director of National Grid Gas, National Grid Metering Limited, E.Tapp & Co Limited, Shopfittings Manchester Limited and TMA Property Limited. He is also an Ex-Chair of the CORGI Board, an Ex-Ambassador of the HM Young Offenders Programme and a trustee of the National Gas Museum Trust.

BOARD OF DIRECTORS (continued)

List of former Directors of the Company who served during the year to 31 March 2022

Keith Ludeman
Former Chair of the Board and Former Chair of the Nomination Committee
Keith Ludeman was appointed to the Board of the Company in July 2012. He is the Non-Executive Chair of the London Transport Museum, the Chair 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 acts as the Senior Independent Director of Eversholt Rail Group for governance purposes. He is also Chair of London Luton Airport and an advisor to Lloyds Development Capital. Formerly he was Chief Executive Officer of Go-Ahead Group plc and has over fifty years' experience in the transport industry. Keith resigned from the Board of the Company on 31 March 2022.

Tim Tutton
Former Senior Independent Non-Executive, Former Member of the Audit and Risk Assurance Committee ('ARAC'), the Nomination Committee and the Remuneration Committee
Tim Tutton was appointed to the Board of the Company in January 2015. He is an economic consultant specialising in economic regulation, especially in the energy sector. His previous roles have included UK Director of Regulation at National Grid, Director of UK Utility Regulation at PricewaterhouseCoopers LLP ("PwC"), a senior advisor at Oxera and a Panel Member at the Competition and Markets Authority. Tim resigned from the Board of the Company on 31 March 2022.

Jeremy Bending
Former Independent Non-Executive, Former Chair of the Safety Committee, Former Member of the ARAC, the Nomination Committee and the Remuneration Committee
Jeremy Bending joined the Board of the Company 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. Jeremy is a Non-Executive Director of Phoenix Natural Gas Limited, Glover Gas and Power BV and a Director and owner of Armco Solutions Limited. Jeremy resigned from the Board of the Company on 31 March 2022.

Jim McAuliffe
Former Independent Non-Executive, Former Chair of Remuneration Committee, Former Chair of the ARAC and Former Member of the Nomination Committee
Jim McAuliffe was appointed to the Board of the Company 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. Jim 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 Parish Councillor in his local village in Somerset. Jim resigned from the Board of the Company on 31 March 2022.

BOARD OF DIRECTORS (continued)

Paul Malan
Former Non-Executive, Former Member of the Nomination Committee and the Remuneration Committee
Paul Malan is the Senior Partner of iCON Infrastructure LLP, an independent infrastructure investment firm which he founded in 2011. Paul 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 of the Company on 7 July 2016. Until completion of the Pennon Acquisition on 3 June 2021 he was also a Director of Bristol Water Core Holdings Limited ("Bristol Water Core Holdings"), Bristol Water Holdings Limited ("Bristol Water Holdings"), and Bristol Water Holdings UK Limited ("Bristol Water Holdings UK"). Paul resigned from the Boards of the Company, Bristol Water Core Holdings, Bristol Water Holdings and Bristol Water Holdings UK on 3 June 2021 on completion of the Pennon Acquisition.

Indradoot Dhar
Former Non-Executive, Former Member of ARAC
Indradoot 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 of the Company on 8 May 2018.Until completion of the Pennon Acquisition on 3 June 2021 he was also a Director of Bristol Water Core Holdings, Bristol Water Holdings, and Bristol Water Holdings UK. Indradoot resigned from the Boards of the Company, Bristol Water Core Holdings, Bristol Water Holdings and Bristol Water Holdings UK on 3 June 2021 on completion of the Pennon Acquisition.

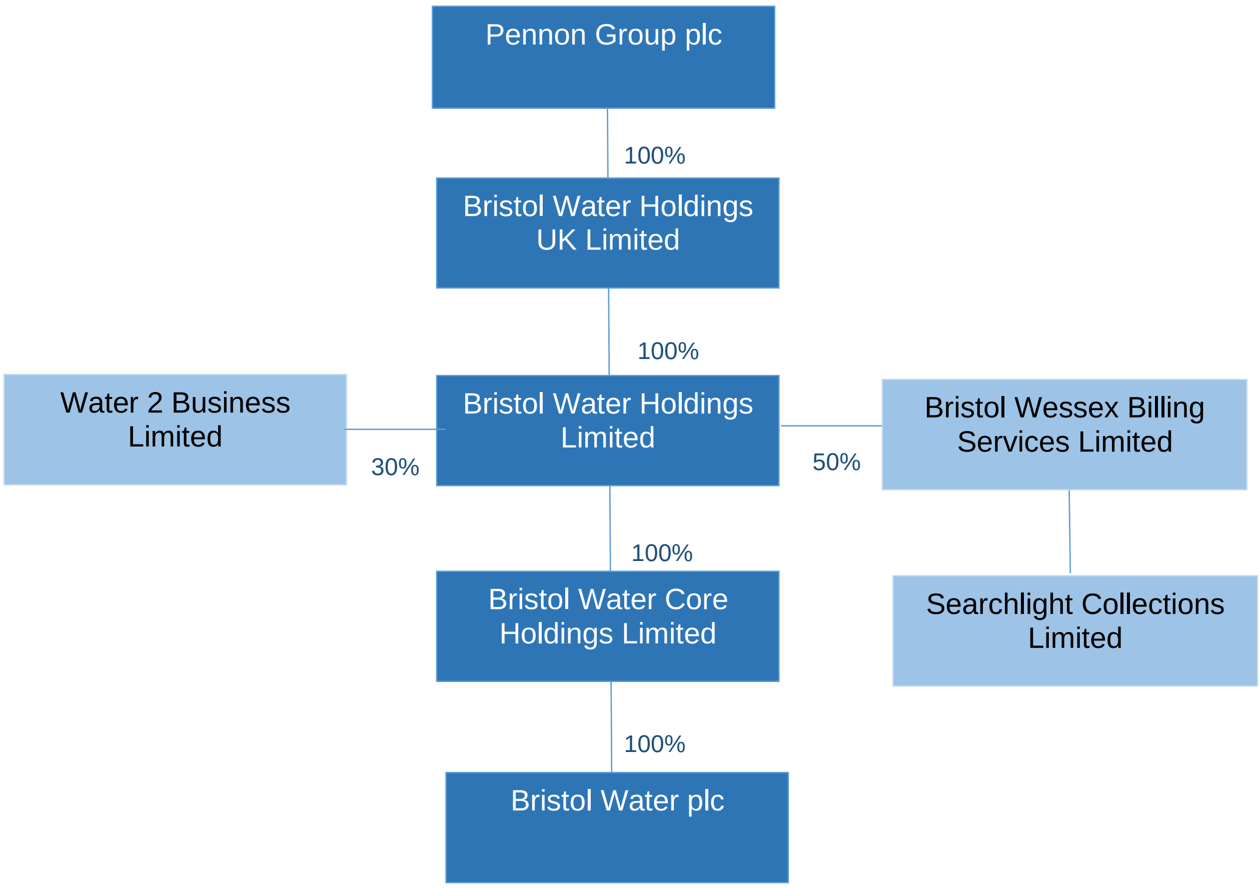
Hajime Ichishi
Former Non-Executive, Former Member of the ARAC, the Nomination Committee and the Remuneration Committee
Hajime Ichishi was appointed to the Board of the Company on 10 May 2012. He is a Manager at the ITOCHU Corporation of Japan, responsible for development of Itochu's water, environment, 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. Until completion of the Pennon Acquisition on 3 June 2021 he was also a Director of Bristol Water Core Holdings Bristol Water Holdings, and Bristol Water Holdings UK. Hajime resigned from the Boards of the Company, Bristol Water Core Holdings, Bristol Water Holdings and Bristol Water Holdings UK on 3 June 2021 on completion of the Pennon Acquisition.

Paul Francis
Former Independent Non-Executive, Former Chair of ARAC, Former Member of the Nomination Committee and the Remuneration Committee
Paul Francis joined the Board of the Company 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. Paul resigned from the Board of the Company on 24 June 2021.

OWNERSHIP AND CORPORATE STRUCTURE

The Board of the Company seeks to uphold the highest standards of transparency and openness in performing its functions and dealing with all our stakeholders. A key aspect of this relates to the ownership of the Company. On 3 June 2021, the Pennon Group acquired the entire issued share capital of Bristol Water Holdings UK Limited from the Bristol Water Group Limited (**'Pennon Acquisition'**).

With effect from the completion of the Pennon Acquisition, the Company became an indirect wholly owned subsidiary of Pennon Group. The new corporate structure from the completion of the Pennon Acquisition is set out below:



The structure chart above does not show any subsidiaries or affiliates of the Pennon group of companies other than those who have direct or indirect shareholdings in the Company or who are affiliates of a direct or indirect parent company of the Company. Details of Pennon Group's other subsidiaries and affiliates can be found in the latest published annual report and accounts of Pennon Group**.**

OWNERSHIP AND CORPORATE STRUCTURE (continued)

Ownership and Corporate Structure on and following completion of the Pennon Acquisition on 3 June 2021 (continued)

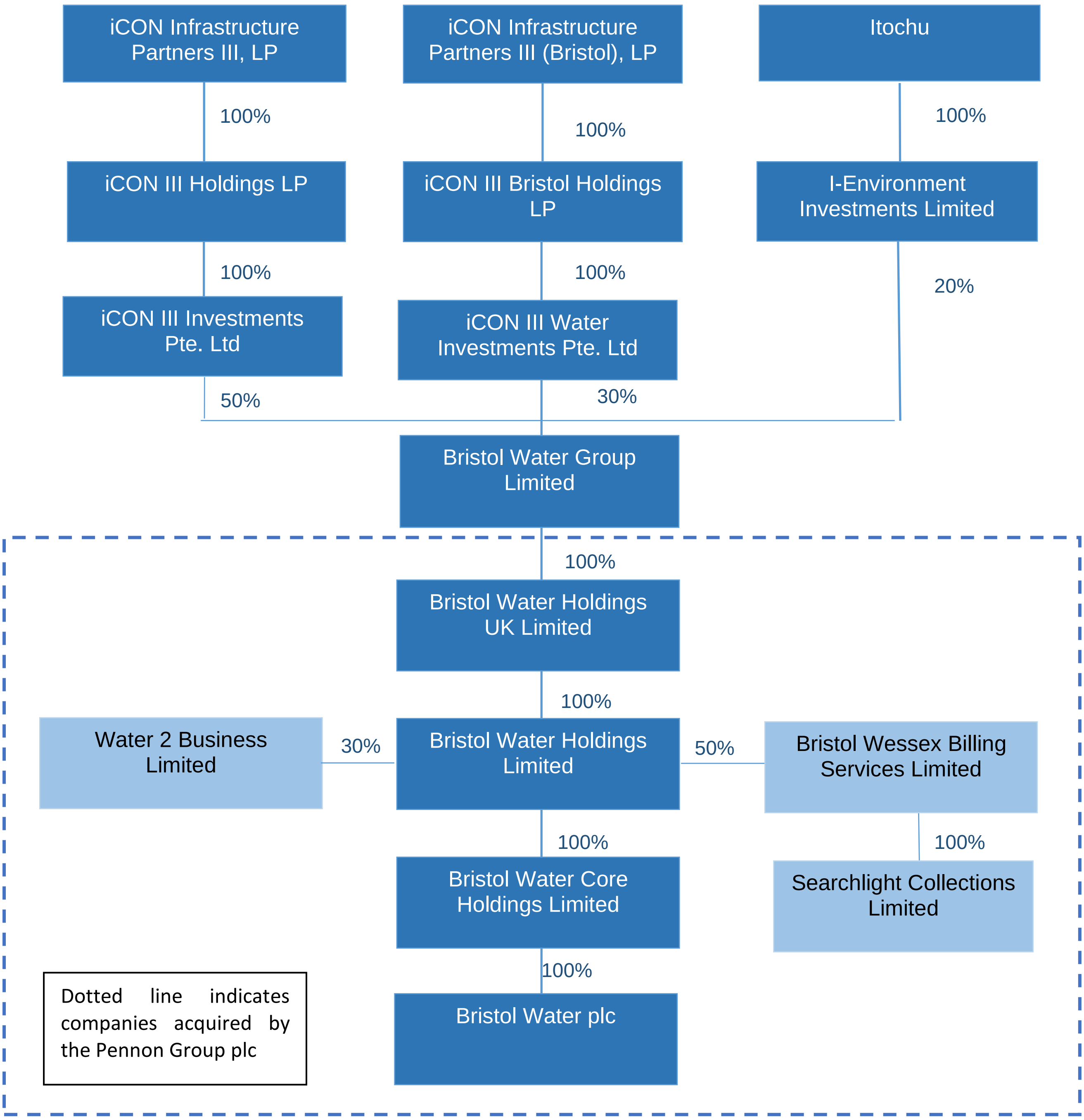
Company	Company Details	Directors
Pennon Group plc	Incorporated in England and Wales Holding company	Gill Rider Susan Davy Paul Boote Neil Cooper Iain Evans Claire Ighodaro Jon Butterworth
Bristol Water Holdings UK Limited Wholly owned by Pennon Group plc	Incorporated in England & Wales Holding company	Paul Boote* Neil Cooper* Iain Evans* Susan Davy** *Appointed on 3 June 2021 **Appointed on 4 April 2022
Bristol Water Holdings Limited Wholly owned by Bristol Water Holdings UK Limited	Incorporated in England & Wales Holding company	Paul Boote* Neil Cooper* Iain Evans* Susan Davy** *Appointed on 3 June 2021 **Appointed on 4 April 2022
Bristol Water Core Holdings Limited Wholly owned by Bristol Water Holdings Limited	Incorporated in England & Wales Holding company	Paul Boote* Neil Cooper* Iain Evans* Susan Davy** *Appointed on 3 June 2021 **Appointed on 4 April 2022
Bristol Water plc Wholly owned by Bristol Water Core Holdings Limited	Incorporated in England & Wales Holds Water Undertaker Licence under Water Industry Act 1991	Gill Rider **** Mel Karam Laura Flowerdew Susan Davy*** Paul Boote* Neil Cooper* Iain Evans* Claire Ighodaro**** Jon Butterworth**** *Appointed 3 June3 2021 ***Appointed 9 March 2022 ****Appointed 2 April 2022
Bristol Wessex Billing Services Limited 50% owned by Bristol Water Holdings Limited	Incorporated in England & Wales Joint venture billing company	Colin Skellett Andrew Pymer Laura Flowerdew Richard Price
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	Simon Pugsley* Alan Morgan Mark Watts *Appointed on 3 June 2021

OWNERSHIP AND CORPORATE STRUCTURE (continued)

Ownership immediately prior to the Pennon Acquisition
Immediately prior to the completion of the Pennon Acquisition, 80% of the Company was ultimately owned by two investment funds ("**iCON Funds**") which are affiliated with iCON Infrastructure LLP ("**iCON**"), with the remaining 20% of the Company then being owned by I-Environment Investments Limited, a UK subsidiary of Itochu Corporation ("**Itochu**"). The iCON Funds interests were split as follows: iCON Infrastructure Partners III, L.P. ("iCON III") owned 50% and iCON Infrastructure Partners III (Bristol), L.P. ("iCON Bristol") owned 30%.

The iCON Funds owned their interests in the Company since 2016 and were constituted as English limited partnerships domiciled in Guernsey. The iCON Funds employed 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.

Upon the sale of Bristol Water Holdings UK Limited to the Pennon Group plc, ownership of Bristol Water Group Limited remained with iCON Funds and Itochu.



OWNERSHIP AND CORPORATE STRUCTURE (continued)

Financing and dividend policy of the group with its ultimate shareholders:
During the financial year, the Company paid dividends of £8.9m (2020/21: £6.0 m) to its immediate holding company Bristol Water Core Holdings. Of this dividend, £2.9m was returned to the Company in respect of interest owing on intragroup debt facilities (see below under 'Group financing arrangements') (2020/21: £1.6m).

During the year there were no long term shareholder loans provided by the ultimate owners of the Company.

In December 2016, the iCON Funds and Itochu contributed £9.0m additional funds to the Company's group. In December 2021 the repayment date of these loans was extended to 30 June 2023 and the principal amount outstanding of the loans as at 31 March 2022 was £5.6m (2020/21: £5.6m). On completion of the Pennon Acquisition on 3 June 2021, Pennon Group became the lender of record of these loans in place of iCON Funds and Itochu.

As at 31 March 2022, the Company's net debt, excluding preference shares, was £389.2m (2020/21: £379.1m) corresponding to a ratio of 66.4% of its regulated asset base.

Group financing arrangements
There are two upstream loans from the Company to its intermediate 100% shareholder Bristol Water Holdings UK Limited: a £47.0m (2020/21: £47.0m) loan earning interest of 6.042% and a £14.1m (2020/21: £14.1m) loan earning interest of 5.550% (together the "**Upstream Loans**"). These loans were advanced by the Company in 2003 and 2005, respectively. The Company received interest payments of £2.9m net of tax in respect of the Upstream Loans from Bristol Water Holdings UK in the year ended 31 March 2022 (2020/21: £3.3m). These interest payments were funded by dividends received from the Company. These Upstream Loan are entirely internal to the consolidated group being as at 31 March 2022 headed by Bristol Water Holdings UK Limited.

Governance
Pennon Group as shareholder of the Company has confirmed they are aware and supportive of Ofwat's Principles of 'Board leadership, transparency and governance' published in January 2019 ("**Ofwat Principles**"), 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.

There is a list of matters that are reserved for the Board of the Company which indicates where shareholder approval may be required. This is available on our website[1]. Where shareholder approval is required, this is obtained prior to approval by the Board of the Company.

During 2021/22 all Board decisions were made by the Company's Board and no decisions were reserved for shareholders.

Pennon Group has confirmed that other than Pennon Group plc (as ultimate holding company), Bristol Water Holdings UK, Bristol Water Holdings and Bristol Water Core Holdings there were no other beneficiaries of the Company within the Pennon Group structure.

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

OWNERSHIP AND CORPORATE STRUCTURE (continued)

Condition P Undertaking

Pennon Group, in its capacity as the ultimate parent company of the Company, has confirmed that with effect from completion of the Pennon Acquisition, that:

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

Pennon Group has confirmed in its capacity as the ultimate parent company of the Company with effect on and from 3 June 2021 that for so long as it remains the ultimate controller and the Company retains its appointment as a water undertaker:

- It will give to the Company and will procure that each of its subsidiaries (other than the Company and its subsidiaries) will give to the Company all such information as may be necessary to enable the Company to comply with its obligations under the Water Industry Act 1991 or the conditions of the Company's instrument of appointment as a water undertaker; and
- It will refrain and will procure that each of its subsidiaries (other than the Company and its subsidiaries) will refrain, from any action which would or may cause the Company to breach any of its obligations under the Water Industry Act 1991 or its instrument of appointment as a water undertaker.

CORPORATE GOVERNANCE REPORT

Principles of Corporate Governance

The BW Corporate Governance Statement confirms the Board's commitment to maintaining trust in the Company'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 ("**UK Corporate Governance Code**") and 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.

The Corporate Governance Statement is available on our website[2]; and our Long-Term Viability Statement can be found on pages 49 to 52.

The Company 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 the Company to report as if it has a 'premium listing'.

The Company has complied with the provisions of the UK Corporate Governance Code, with two exceptions, that:

(i) the Company does not consult with the general workforce on matters of executive remuneration. Executive remuneration is approved by the Board of the Company on recommendation from the Remuneration Committee. The Remuneration Committee takes into account workforce remuneration in annual pay awards when recommending remuneration for executives. During the year Remuneration Committee appointed Deloitte to provide guidance in relation to the review and updating of the Executive Directors' Remuneration Policy; and

(ii) for a period during the year (1 April 2021 to 3 June 2021) the Board did not meet the requirement that at least half the Board, excluding the Chair, were considered by the Board to be independent. After 3 June 2021, we met the requirement as set out in provision 11 of the UK Corporate Governance Code.

The Board composition over the last 12 months has changed considerably and remains diverse and covers a mix of skills and expertise as well as regional connections. Of the ten Directors that comprised the Board as at year ended 31 March 2022, four were INEDs (Keith Ludeman, Tim Tutton, Jim McAuliffe and Jeremy Bending). There were two Executive Directors, Mel Karam (CEO) and Laura Flowerdew (CFO) and four Directors who are also appointed to the Board of the Pennon Group, two of which Neil Cooper and Iain Evans are Independent Non-Executive Directors of the Pennon Group. Susan Davy (Group CEO) and Paul Boote (Group CFO) are Executive Directors of the Pennon Group.

During the year the Company complied with the requirements of the Ofwat Principles, including that the INEDs comprise the largest group on the Board.

[2] https://www.bristolwater.co.uk/wp-content/uploads/2019/07/Bristol-Water-Corporate-Governancne-Statement-July-2019.pdf

CORPORATE GOVERNANCE REPORT (continued)

At the Company's Board meeting on 31 March 2022, Keith Ludeman, Tim Tutton, Jim McAuliffe and Jeremy Bending resigned from the Board. At that meeting Gill Rider, Claire Ighodaro and Jon Butterworth were appointed Directors of the Company with effect from 2 April 2022.

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 the Company.

	Keith Ludeman*****	Tim Tutton*****	Jeremy Bending*****	Paul Francis*	Jim McAuliffe*****	Indradoot Dhar**	Hajime Ichishi**	Paul Malan**	Mel Karam	Laura Flowerdew	Paul Boote***	Neil Cooper**	Iain Evans***	Susan Davy*****	Gill Rider******	Jonathan Butterworth*** ***	Claire Ighodaro******
Utility / Infrastructure industry or equivalent experience	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Finance				✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓
Regulation	✓	✓	✓	✓					✓	✓	✓	✓	✓	✓	✓	✓	✓
Customer Experience	✓				✓				✓	✓	✓			✓	✓		✓
Community	✓				✓				✓	✓	✓			✓	✓		✓
Health & Safety	✓		✓	✓					✓			✓	✓	✓	✓	✓	✓
Infrastructure investment	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Culture change			✓		✓				✓	✓	✓	✓	✓	✓	✓	✓	✓
Corporate Governance	✓	✓		✓		✓		✓		✓	✓	✓	✓	✓	✓	✓	✓

*Paul Francis resigned on 24 June 2021
**Paul Malan, Indradoot Dhar and Hajime Ichishi resigned on 3 June 2021
***Paul Boote, Neil Cooper and Iain Evans were appointed on 3 June 2021
**** Keith Ludeman, Tim Tutton, Jeremy Bending and Jim McAuliffe resigned on 31 March 2022
*****Susan Davy was appointed on 9 March 2022
******Gill Rider, Jon Butterworth and Claire Ighodaro were appointed on 2 April 2022

CORPORATE GOVERNANCE REPORT (continued)

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 the Company, 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. These strategic objectives and its Business Plan for AMP7 remain in place following the Pennon Acquisition on 3 June 2021 and continue to be executed.

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 Company's website. The Board delegates day-to-day and business management control to the Executive Directors in accordance with an approved scheme of delegation.

CORPORATE GOVERNANCE REPORT (continued)

Board and Board committees

The Chair

The Chair, is responsible for the leadership of the Board and its effectiveness. The Chair sets the agenda for the Board meetings, in consultation with management, providing adequate time for each agenda item. She is responsible for the culture of the boardroom which is one of openness, debate and constructive challenge, encouraging the effective contribution of all NEDs.

NEDs

The NEDs monitor the performance of the Executive Directors and senior management, and, except for the Safety Committee, form the majority of the members of the Board committees, namely:

- **Audit Committee** (formerly the Audit and Risk Assurance Committee[3]) which reviews the integrity of financial information, financial controls over the financial reporting process and risk management;
- **Nomination Committee** which oversees the Board composition and succession planning;
- **Remuneration Committee** which reviews company remuneration policy and Executive remuneration packages; and
- **Health and Safety Committee** (formerly the Safety Committee[4]) which 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, the Health and Safety Committee necessarily comprises a number of operational senior managers of the Company. As a result, whilst there is not a majority of INEDs appointed as members of the Health and Safety Committee, it is chaired by an INED.

We set out in our risk and compliance statement to Ofwat that we comply with Ofwat's Principles of Board Leadership, Transparency and Governance.

[3] On 2 April 2022, the name of the Audit and Risk Assurance Committee was changed to the Audit Committee so that there is consistency within the Pennon Group.
[4] On 2 April 2022, the name of the Safety Committee was changed to the Health and Safety Committee so that there is consistency within the Pennon Group.

CORPORATE GOVERNANCE REPORT (continued)

Board meetings and attendance
The following table sets out the attendance of Directors at scheduled Board meetings during the 2021/22 financial year:

Member of the Board	Meetings attended	Max possible	Percentage attendance during appointment period
Keith Ludeman***, Chair	9	9	100%
Mel Karam, CEO	9	9	100%
Laura Flowerdew, CFO	9	9	100%
Paul Malan*, NED	1	1	100%
Hajime Ichishi*, NED	1	1	100%
Tim Tutton***, INED	9	9	100%
Indradoot Dhar*, NED	1	1	100%
Paul Francis**, INED	1	2	50%
Jeremy Bending***, INED	9	9	100%
Jim McAuliffe***, INED	9	9	100%
Paul Boote	2	2	100%
Neil Cooper	2	2	100%
Iain Evans	2	2	100%
Susan Davy	1	1	100%

*Resigned from Board on 3 June 2021
**Resigned from Board on 24 June 2021
***Resigned from Board 31 March 2022
Note: Gill Rider, Jon Butterworth and Claire Ighodaro (all current INEDs of the Company) were appointed to the Board on 2 April 2022 and therefore were not Directors of the Company during the 2021/22 financial year to which this table relates.

Board Composition
With effect from 2 April 2022 the Board of the Company (the “Board”) comprises the Chair (NED), four Non-Executive Directors, the Company’s CEO and CFO and the Pennon Group CEO and CFO. Five of the NEDs (including the Chair) are, in the opinion of the Board, independent.

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

Independence of NEDs
Whilst the Board of Company has been recently restructured the business and the Board will continue to operate independently of its shareholder. Bristol Water has its own annual report and accounts on which to report on its operations and governance. Our system of governance remains appropriate and effective, whilst continuing to support the delivery of our strategy.

Our Board and Committee framework also allows us to remain efficient in our decision-making process through its independent Chair and its four Independent Non-Executive Directors together with the Company’s CEO and CFO and Group CEO and CFO.

CORPORATE GOVERNANCE REPORT (continued)

Notwithstanding their directorships of the Pennon Group, Gill Rider, Claire Ighodaro, Jon Butterworth, Neil Cooper and Iain Evans are considered, by the Company's Board, to be Independent Non-Executive Directors in character and judgement.

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

The Board considers the Chair to be the principal point of reference to whom concerns of whatever nature may be conveyed. Keith Ludeman was Chair during the year until his resignation on 31 March 2022. Gill Rider was appointed Chair on 2 April 2022.

If an individual does not wish to raise a concern with the Chair, such concerns may be raised with the Senior INED. Tim Tutton was the Senior INED on the Board until his resignation on 31 March 2022. Tim has been succeeded by Neil Cooper.

Board activities

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

Topic	Discussion
Safety	• Company Health & Safety KPIs • Company Health & Safety Strategy and Objectives • Contractor Health & Safety KPIs • Significant Safety Incidents • Safe Control of Operations Procedure implementation
Customers	• Customer Service Updates • C-MeX performance measures review • D-Mex performance measures review • Consumer Council for Water KPI performance • Feedback from the Challenge Panel
People	• Results of Employee engagement surveys • Wellbeing of employees • Impact of transformation programme on employees • Equality, Diversity and Inclusion Strategy and Board engagement • Gender Pay Gap • Senior management team selection and development • Negotiation with trade union of annual employee pay awards • Approval of annual employee pay awards • Succession planning • Employee training and development
Operating Performance	• Impact of COVID-19 • Continual review of performance to AMP7 performance commitments and ODIs • Review of general operating performance • Responses to incidents • Contractor performance • Capital Programme delivery • Leakage performance • Supply Interruptions and Customer Minutes Lost performance • Metering targets • Transformation and efficiency gains plans • Review of water resources schemes • Per Capital Consumption • Recreations and Fisheries (non-appointed business)

CORPORATE GOVERNANCE REPORT (continued)

Topic	Discussion
Finance	• Annual budget approval • Approval of Annual Report and Accounts for the previous year ended 31 March 2021 and interim accounts for six months ended 30 September 2021 • Annual Performance Report and Assurance 2020/21 • Review of Artesian cash flow and investor reports • Review of financial performance against budget and forecast • Review of impact of COVID-19 on cashflow and bad debt provisioning • External debt funding requirements • Review of long-term financial viability and going concern status • Review of financial and credit metric performance against covenant and rating agency methodology • Strategy for the period • Internal audit programme and results • Regular review of corporate risk register • Approval of dividends
Regulatory	• Social Contract Strategy and Programme • Annual Performance Report and Assurance • Interim Performance Report and Assurance • Water Resource Management Plans • Review of licence and other regulatory consultations • Condition R Compliance Statement • Review and approve the quarterly Ofwat Commitments Monitoring Report
Governance & Risk	• Major contract awards (of £1m or more value) • Monitoring and review of performance of Network Maintenance delivery partners • Review of billing platform • Review of measures associated with prescribed status • Review of principal risks • Review of governance • Board effectiveness review and Chair evaluation • Reappointment of external auditor and review of non-audit fees compliance with ethical standards • Effectiveness of internal controls and risk management processes • GDPR • Approval of Policies and Procedures • Approval of insurance policies

Accountability

The Board is responsible for presenting a fair, balanced and understandable assessment of the Company'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 ARAC 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 5 to 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.

During the year the Board undertook a formal process for the evaluation of the effectiveness of the Board and its Committees by an external provider of board evaluation services. Further details regarding the evaluation are in the Nomination Committee Report on page 77.

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.

Colin Caldwell and Simon Pugsley both act as Company Secretary of the Company. 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 their 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 2021/22 due to the constraints on Company imposed as part of the CMA investigation into the Pennon Acquisition, it was not possible to provide and induction and training for Paul Boote, Neil Cooper and Iain Evans. Induction will be scheduled in this current year. Susan Davy has already started her site visits to water treatment plants and network operations as part of her induction.

On-going training is provided as necessary. Directors may consult with the Company Secretary at any time on matters related to their role on the Board. The Chair 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 Chair 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 Risk and Assurance Committee for review. The Board has regular discussions on known and emerging risks and controls, as supported by the Committee;
- 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;
- a requirement for reporting to the Board of material litigation or arbitrations or reputational issues; and
- a robust whistleblowing procedure that is accessible to all employees, contractors, and suppliers. The board reviews, scrutinises and approves the whistleblowing policy and procedures of the Company annually, most recently in May 2021 and the Company Secretary is tasked with ensuring that the Board is notified and aware of any instances of whistleblowing promptly upon the Company becoming aware of the same.

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 has been updated following the Pennon Acquisition and which is available on our website: Company Information (bristolwater.co.uk)

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;
- robustly reviews the effectiveness of the risk management process, and significant and emerging risks;
- reviews and approves financial budgets and emerging financial results; and
- reviews and scrutinises the Company's Business Plans and responses in respect of the progress of the Ofwat Price Reviews.

The Audit Committee (formerly Audit and Risk Assurance Committee):

- 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;
- reviews the role of insurance in managing risks;
- 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 Chair of the Committee reports the outcome of the Committee meetings to the Board and the Board receives the minutes of all Audit Committee meetings.

The Health and Safety Committee (formerly 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;
- reviews changes to the Company's Health and Safety Policies and Procedures and new Health and Safety policies and procedures.

The Nomination Committee:

- identifies and recommends for approval candidates to fill Board vacancies when required;
- reviews the structure, size and composition of the Board (including knowledge skills and experience) in the light of the Company's current requirements and future developments;
- makes recommendations regarding the membership of the Audit Committee in consultation with the Chair of the Audit Committee to satisfy itself with regard to succession planning, that processes and plans are in place with regard to both Board and senior management appointments;
- reviews annually the time needed to fulfil the role of Chair, Senior Independent Director and each Non-Executive Director (taking into account committee memberships); generally, has regard to the UK Corporate Governance Code and to the Company's Corporate Governance Code in carrying out its duties.

The Audit and Risk Assurance Committee undertook an updated assessment of risk management and control arrangements, including the risk register, in October and November 2021 and concluded that the overall internal control framework remained effective.

The Remuneration Committee:
The Remuneration Committee's activities and terms of reference are detailed in the Directors' Remuneration Report on pages 88-107.

Environmental, Social and Governance Committee:
On 2 April 2022, the Board approved the creation of the Environmental, Social and Governance Committee. The role of the Environmental, Social and Governance Committee is to ensure robust scrutiny of key aspects of environmental, social and governance (ESG) performance and to oversee the Company's performance against its strategic sustainability objectives and to ensure consistency with the Pennon Group.

Members of Committee with effect from 2 April 2022
Iain Evans INED Chair of the Committee
Gill Rider INED
Jon Butterworth INED
Claire Ighodaro INED
Neil Cooper INED
Bristol Water Executive

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 2021, in accordance with the UK Corporate Governance Code, all Directors offered themselves for annual re-election by shareholders and were duly re-elected.

CORPORATE GOVERNANCE REPORT (continued)

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.

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 76-107.

The Board Equality, Diversity and Inclusion Policy is contained within the Nomination Committee Report on page 77.

NOMINATION COMMITTEE REPORT

Gill Rider, Chair of the Nomination Committee

Introduction
As the new 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, Bristol Water Executive team, the Head of HR and external advisors may attend, on an invitation only basis, as deemed appropriate.

With effect from 2 April 2022, the Committee is chaired by Gill Rider and comprises the following INEDs Neil Cooper, Iain Evans and Claire Ighodaro.

Attendance during the financial year

Member of Committee to 31 March 2022	Meetings attended	Maximum possible
Keith Ludeman*** Chair	1	1
T Tutton, iNED***	1	1
H Ichishi, NED*	1	1
Paul Malan, NED*	1	1
Paul Francis, INED**	1	1
Jeremy Bending, INED***	1	1
Jim McAuliffe, INED***	1	1
* Resigned from Committee on 3 June 2021 **Resigned from Committee on 24 June 2021 *** Resigned from Committee on 31 March 2022		

Member of Committee with effect from 2 April 2022
Gill Rider INED Chair of the Committee
Neil Cooper INED
Iain Evans INED
Jon Butterworth INED
Claire Ighodaro INED

Nomination Committees Responsibilities
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; and
- undertaking annual performance evaluations of the Board Members.

Gill Rider does not chair this Committee if it discusses the performance of the Chair or the appointment of a new Chair of the Board.

NOMINATION COMMITTEE REPORT (continued)

The Committee is formally constituted with terms of reference which were revised and updated on 2 April 2022. A copy of the terms of reference is available on the Company's website or by writing to the Company Secretary.

During the year, there was one meeting of the Nomination Committee.

The Committee met once during the year on 27 May 2021 to discuss the appointment of a new Chair of Bristol Water plc following an executive search conducted by Saxton Bampfylde. However, the Committee decided to defer the appointment until further information was available about the proposed acquisition of Bristol Water Holdings UK Limited by Pennon Group plc. On 3 June 2021, the Pennon Group plc acquired Bristol Water Holdings UK Limited and its subsidiary entities (including Bristol Water plc) following which, the appointment of a new Chair was terminated and Keith Ludeman agreed to continue in the role until his resignation on 31 March 2022.

The Board has established a formal process for the evaluation of the effectiveness of the Board and its Committees with an external and benchmarked review conducted every three years. In June 2021, the Company engaged a new provider, BoardClic[5], to conduct both a Board Effectiveness Evaluation and a Chair Evaluation. Both evaluations were designed by BoardClic to elicit an evaluation of and feedback on the effectiveness of the Board and the Chair, respectively, taking into account principles of good corporate governance and most particularly the UK Corporate Governance Code. The Board's overall Value (Effectiveness) Score was 86 against a benchmark index score of 80. The results were discussed by the Board in July 2021. The focus of the review and recommendations was to ensure that the relationships within the Board develop and strengthen based on the actions taken in prior years following prior Board effectiveness reviews and that the Board's effectiveness is enhanced further.

The Senior INED and the NEDs met on 29 July 2021 to appraise the Chair's performance. The discussion was informed by the outcome of an external Chair performance evaluation by BoardClic.

Meeting on 27 May 2021

- Succession planning for Chair

Diversity and succession planning

The Board has a 'Board Equality, Diversity Policy' which was updated and approved by the Board on 29 November 2018 and updated on 13 May 2019 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 (as amended) remains in effect.

Currently there are four female Board members. In our workforce of 561 at 31 March 2022 around 29% were women.

The Company's stated core values are those of Trust, Accountability, Pride, Ambition, Supportiveness, Professionalism and Respect and it continues to seek to embed those values in everything it does.

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[5] BoardClic provide Board Evaluation and benchmarking services. They have had no previous connections to the Company.

NOMINATION COMMITTEE REPORT (continued)

The Board is committed to the principle of equal opportunities and equal treatment for all employees set out in the Company's Equality, Diversity and Inclusion Policy. The full Board has discussed and reviewed the Company's strategy for promoting greater equality, inclusion and diversity across its employee workforce in its Board meetings and continues to actively promote and monitor the Company's strategy and actions to encourage greater diversity, equality and greater inclusion in the workplace and will continue to monitor developments in 2022/23.

AUDIT COMMITTEE REPORT (formerly Audit and Risk Assurance Committee)

Neil Cooper, Chair of the Audit Committee

Introduction

As newly appointed Chair of the Audit Committee, I am pleased to introduce our report on the role of the Committee and the work undertaken during this year. On 2 April 2022, the Board resolved to change the name of the Audit and Risk Assurance Committee to be the Audit Committee to align with the Pennon Group. The Board sees the Audit Committee as a critical component of our governance processes and sets out on the following pages details of our activities and discussions. In particular, the Committee continues to discharge its responsibility on the integrity of the Financial Statements, risk management, and internal controls as well as other risk and assurance matters.

Attendance during the financial year

The constitution of the Committee and attendance is summarised in the table below as at 31 March 2022.

Members of Committee	Meetings attended	Maximum possible
Paul Francis*, INED, (Chair until retirement on 24 June 2021)	1	2
T Tutton***, INED	6	6
H Ichishi**, NED	1	1
I Dhar**, NED	0	1
J Bending***, INED	6	6
J McAuliffe***, INED (appointed Chair 25 June 2021)	6	6
*Resigned from Committee on 24 June 2021 **Resigned from Committee on 3 June 2021 *** Resigned from Committee on 31 March 2022		

The Company considers that Jim McAuliffe possessed 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 54 to 58.

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

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.

On 31 March 2022, the members of the Audit and Risk Assurance Committee resigned from their roles and on the 2 April 2022 a new Audit Committee was formed which included the following Directors:

Members of Committee with effect from 2 April 2022
Neil Cooper INED Chair of the Committee
Jon Butterworth INED
Iain Evans INED
Claire Ighodaro INED

AUDIT COMMITTEE REPORT (continued)

Committee's responsibilities
The Committee'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 on the Company's website or by writing to the Company Secretary.

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

Meeting on 27 May 2021

- Review of the progress on the Risk Compliance Statement, Long Term Viability Statement and Going Concern Statement for the Annual Report and Annual Performance Report;
- Review of key accounting policies, judgements and matters incorporated into the 2020/21 Annual Report and Accounts of the Company;
- Report from the external auditors on initial audit work and findings in relation to the 2020/21 Annual Report and Accounts of the Company;
- Review of the Corporate Risk Register;
- Review of the Company's internal audit plan for 2021/22;
- Review of the non-audit services provided to the Company; and Review of compliance submissions under the Company's financing documentation.

Meeting on 24 June 2021

- Review of the draft final Annual Report and Accounts of the Company for the year 2020/21 prior to recommending the same for approval by the Board;
- Review of the Company's Annual Performance Report for 2020/21 for submission to Ofwat including Long Term Viability Statement prior to recommending the same for approval by the Board;
- Report from the external auditors on initial audit work and findings in relation to the 2020/21 Annual Report and Accounts of the Company;
- Further review of the draft Risk Compliance Statement, Long term Viability Statement and Going Concern Statement for the Annual Report and Annual Performance Report; and
- Review of related party transactions which that were subject to Ofwat's RAG5 disclosure requirements prior to recommending the same for approval and ratification by the Board.

Meeting on 28 October 2021

- Review of the Company's proposed half-year reporting arrangements; and
- Review of the Company risk register and associated mitigation action plans.

AUDIT COMMITTEE REPORT (continued)

Meeting on 26 November 2021

- Review and recommendation for approval by the Board of the interim financial statements of the Company for the six months ended 30 September 2021 and the related going concern statement;
- Review of Mid-year Performance Report;
- Review of the Company's defined benefit pension scheme particularly in respect of findings following actuarial review.
- Review of the Company risk register and associated mitigation action plans;
- Review of compliance submissions under the Company's financing documentation prior to recommending the same for approval by the Board; and
- Review of an update on the Company's internal audit plan for 2021/22.

Meeting on 22 February 2022

- Review the appointment of PwC as the Company's auditors for the year 2021/22 prior to recommending the same for approval by the Board;
- Review of the Company's proposed year-end reporting arrangements;
- Review of PwC's proposed external audit plan for the Company's 2021/22 Annual Report and Accounts prior to recommending the same for approval by the Board;
- Review of compliance submissions under the Company's financing documentation prior to recommending the same for approval by the Board;
- Review of progress on the Company's internal audit plan for 2021/22;
- Review of the Company's Tax Strategy document prior to recommending the same for approval by the Board;
- Review of the Company's policy on the corporate criminal offence for the failure to prevent the facilitation of tax evasion prior to recommending the same for approval by the Board;
- Review of the Company's Assurance Plan for 2022/23 (the purpose of which is to give customers and other stakeholders trust and confidence in how the Company reports on its operational and financial performance) prior to recommending the same for approval by the Board; and
- Review of cybersecurity risk faced by the Company.

Meeting on 31 March 2022

- Received a report in relation to the Company's approach to disaster response and incident planning in the context of cyber security
- Received a report in relation to an external audit of HR policies
- Received a report on and recommended for approval by the Board the annual insurance renewals by the Company.

Meeting on 18 May 2022

- Review a report from the CFO on the year end results 2021/22.
- Received a report from the auditors on the audit of the financial statements and annual report
- Review the long term viability of the Company and the report to be included within the Annual Report.
- Review a paper on Going Concern and noted that Pennon Group would be providing a letter of support.
- Review the press release to be submitted by RNS with the unaudited financial statement on 30 March 2022.
- Received update on Internal Control within the Company; and
- Received an update on the technical assurance audit on Outcome Delivery Incentives and the data used for the Annual Report and Annual Performance Report.

AUDIT COMMITTEE REPORT (continued)

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, balance and understandable and provided the information necessary for shareholders to access 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 table below. At the Committee's meetings throughout the year the Committee and the external auditor have discussed the significant accounting matters arising during the year and the areas of particular audit focus, as reported on in the independent auditors' report on pages 159 to 166. 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:
Capitalisation of costs	The Committee reviewed treatment of the costs as operating or capital in nature as well as in-house work capitalised to ensure the required criteria for capitalisation was met.
Accounting for defined benefit pension schemes	The Committee reviewed the assumptions underlying the valuations of the defined benefit pension scheme, as well as the recovery of the surplus, to ensure the pension asset was recoverable.
Expected credit losses	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.
Long term Viability Statement and Going Concern Statement	The Committee reviewed the draft Long-Term Viability and Going Concern outlook and risk scenarios and tested these with the CFO.

External Auditors

The Company's external auditors are PricewaterhouseCoopers LLP 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 five 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.

As a result of the acquisition by Pennon and the subsequent IEO, it was decided that it would be inappropriate to tender the audit as would otherwise have been required in the year, instead PwC was retained as auditor until a decision on future auditor is made.

AUDIT COMMITTEE REPORT (continued)

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 has 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, legislation was introduced which imposed 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.

AUDIT COMMITTEE REPORT (continued)

During the year, PwC received £188,000 (2021: £157,000) in fees relating to the audit services they provided to the Company and £200,000 (2021: £196,000) for the Group*, including audit related assurance work. Non-audit related work undertaken amounted to £76,000 (2021: £42,000) and significant work is set out below:

Nature of Service	Reason for PwC appointment	2020/21 fees £'000	2021/22 fees £'000
Audit related assurance services			
Assurance of regulatory returns	Audit of sections 1 & 2 of the Annual Performance report is closely linked to the Statutory Audit and the two are performed in parallel.	30	32
Other assurance services			
Assurance in connection with Ofwat regulatory reports	Agreed upon procedures relating to Wholesale Charges and RCV allocation.	3	3
	Agreed upon procedures relating to PR14 Reconciliation	9	10
Review of interim financial statements	Review of interim financial statements is closely linked to the Year-end Statutory Audit	-	31
Total non-audit fees		**42**	**76**
% of non-audit fees in respect of group audit fees		**21%**	**38%**

* For the year ended 31 March 2021 this included fees for the audit of Bristol Water Group Limited, BW's intermediate parent company of BW until 3 June 2021.

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

Internal auditors

The Company has a rolling internal audit plan which is reviewed and updated annually in order to align internal audit activities with the key risks affecting the Company as these evolve and are monitored through the corporate risk register (which is reviewed, at least, bi-annually by the Committee).

AUDIT COMMITTEE REPORT (continued)

Internal audit services are provided by a combination of internal risk and compliance resource with appropriate subject matter experience and specialist internal audit services providers 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 assurance by Mazars on HR related processes, Turner and Towner on operational compliance and reporting and Accenture on the billing systems implementation project progress and governance. In addition, Turner and Townsend provided assurance services on the accuracy of data in relation to our 2021/22 Annual Performance Report and assurance by PwC in relation to our Regulatory accounts comprised in our 2021/22 Annual Performance Report. The Committee 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.

The Terms of Reference for the Audit Committee were amended and approved by the Board with effect from 2 April 2022. The Terms of Reference for the Committee were amended to be consistent with the Pennon Group.

HEALTH AND SAFETY COMMITTEE REPORT (formerly Safety Committee)

Jon Butterworth, Chair of the Health and Safety Committee
As the newly appointed Chair of the Health and Safety Committee, I am pleased to introduce the Health and Safety Committee report detailing its role and the work undertaken by the Committee during the year. On 2 April 2022, the Board resolved to change the name of the Safety Committee to be the Health and Safety Committee to ensure consistency with the Pennon Group.

The role of the Health and Safety Committee is to focus on the responsibility for health and safety matters arising from the Company's activities and operations.

Attendance during the financial year

Members of the Committee	Meetings attended	Max Possible
Jeremy Bending, Chair Resigned 31 March 2022	6	6
M Karam, CEO	6	6
Richard Price (Chief Operating Officer)	5	6
Simon Fry, Head of Health and Safety Resigned on 30 September 2021	1	3
Adrian Tomsa, Head of Human Resources* Appointed to Committee on 27 May 2021	5	6
Zac Coley, Head of Procurement and Business Services* Appointed to Committee on 27 May 2021	6	6
Hannah Milliner, Head of Capital Delivery* Appointed to Committee on 27 May 2021	6	6

* Resigned from the Committee 31 March 2022

Members of Committee with effect from 2 April 2022
Jon Butterworth INED Chair of the Committee
Gill Rider INED
Iain Evans INED
Claire Ighodaro INED
Neil Cooper INED
Mel Karam CEO
Richard Price COO

Health and Safety Committee Responsibilities
The Health and 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 health and safety 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 and 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;

HEALTH AND SAFETY COMMITTEE REPORT (continued)

- 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 Health and Safety Committee were amended and approved by the Board with effect from 2 April 2022. The Terms of Reference for the Committee were amended to be consistent with the Pennon Group.

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.

The Company Secretary acts as secretary to the Committee.

The Safety Committee (now the Health and Safety Committee) met 6 times during 2021/22. At those meetings it considered the following items amongst others:

Meeting on 27 May 2021
- Report on performance of the Company on key Health and Safety performance indicators
- Review of significant Health and Safety incidents
- Co-option of new members to the Committee

Meeting on 10 August 2021
- Review of significant Health and Safety incidents
- Report on performance of the Company on key Health and Safety performance indicators

Meeting on 25 November 2021
- Update on Safe Control of Operations Procedures
- Review of significant Health and Safety incidents
- Report on performance of the Company on key Health and Safety performance indicators
- Update on DSEAR Regulations
- Review of Health and Safety Corporate Risk Register

Meeting on 27 January 2022
- Review of significant Health and Safety incidents
- Report on performance of the Company on key Health and Safety performance indicators
- Review of the revision to the Health and Safety Manual
- Update on the procurement of a new system for COSHH assessments
- Review of Electrical Safety Projects

Meeting on 21 February 2022
- Review of significant Health and Safety incidents
- Report on performance of the Company on key Health and Safety performance indicators
- Review of Occupational Health Reporting

Meeting on 30 March 2022
- Review of significant Health and Safety incidents
- Report on performance of the Company on key Health and Safety performance indicators
- update on Occupational Health Reporting

DIRECTORS' REMUNERATION REPORT

Annual Statement by Claire Ighodaro, Chair of the Remuneration Committee

Introduction
I am pleased as the newly appointed Chair of the Remuneration Committee to present, on behalf of the Board, our Directors' Remuneration Report in respect of the year ended 31 March 2022 together with our approach to remuneration for Executive Directors for 2022/23.

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

Key matters
The year under review was the second in the current five-year regulatory cycle and continued to be an important time for delivery of the Company's commitments. The Company had previously implemented a new organisation structure and continued to embed the new ways of working.

During the year the Company changed ownership and became part of the Pennon Group although this was subject to a review by the CMA with the final outcome being received on 7th March 2022. The Company also celebrated its 175th Anniversary, responded well to incidents as a result of Storm Eunice and the recent employee engagement survey saw the Company increase its' engagement scores in all areas under review.

We continued to be faced with the challenge of the global COVID-19 pandemic which affected every part of society and the economy both in the United Kingdom and globally. The Company continued to respond vigorously to this challenge during the year, prioritising the safety and wellbeing of its employees and customers, focusing particularly on essential services. Inevitably the COVID-19 pandemic impacted on the way in which the Company served its customers, and in some cases resulted in non-essential services being suspended.

The long-term impact of the pandemic on the Company were monitored closely and saw a change in customer behaviours and their financial position, which has impacted revenue trends and bad debt levels but not to the extent that was previously thought.

Given all the changes and challenges the Company faced during the year, the Remuneration Committee was therefore particularly aware of the need to ensure that it exercised its judgment and discretion wisely in relation to remuneration levels and awards in 2022/23.

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 took place and after negotiation an increase of 4.6% for all employees was agreed for the year commencing 1 April 2022. The Executive Management Team also received a 4.6% increase effective from 1 April 2022. An increase in employer pension contribution was also agreed with effect from 1 April 2022. The Company will double match employees' contribution to a maximum of 8%.
- **Annual employee bonus** - the Committee gave consideration to the objectives and targets of the Company's annual bonus scheme for 2021/22, in which employees (with the exception of the CEO Mel Karam, the CFO, Laura Flowerdew, and the Chief Operating Officer, Richard Price) participated during the year. The committee feel it is appropriate to pay employees their annual bonus for 2021/22 in line with the scheme rules, in recognition of the continued commitment and hard work in responding to the COVID-19 pandemic, as well as the performance and delivery on company objectives.
- **Long Term Incentive Plan ("LTIP")** – a summary of the agreed Measures and Targets which comprise the 2020 – 2023 LTIP is included within the Directors' remuneration policy on pages 101 to 102.

- **Annual CEO/CFO Incentive Plan** - the following sets out the annual bonus payments for Executive Directors awarded in respect of 2021/22 pursuant to the Annual Cash Incentive Plan ("ACIP") 2021/22. A summary of the annual bonus performance measures and the extent to which performance was achieved is set out on pages 99 to 101.

Directors	Proportion of maximum bonus achieved	Bonus Payment
Mel Karam - CEO	74%	£108,363
Laura Flowerdew - CFO	73%	£68,538

- **Pension -** the Company continues to operate a company stakeholder (defined contribution) scheme. All employees of the Company are enrolled in this scheme with employer contributions (to a maximum employer contribution of 6%), unless they have opted out. The employer level of contribution increased to 8% effective from 1 April 2022 with employees contributing 4%.

  LTIP – With effect from the beginning of AMP7, a new three-year LTIP was put in place. The first period for measurement covers 1 April 2020 to 31 March 2023.

  The 2020-2023 LTIP performance measures are designed to ensure alignment between executive remuneration and customer outcomes. There is no linkage to shareholder dividends. Across service performance, financial efficiency, and wider customer experience, measures relating to customer outcomes will account for over 80% of the maximum total LTIP award.

- **Departing Directors** – Paul Francis, INED, stepped down from the Board on 24 June 2021 and due to the completion of the Pennon Acquisition on 3 June 2021 Paul Malan, Indradoot Dhar and Hajime Ichishi resigned from the Board. On 31 March 2022, Keith Ludeman, Tim Tutton, Jim McAuliffe and Jeremy Bending resigned from the Board.

- **New appointments** –With the completion of the Pennon Acquisition on 3 June 2021 Paul Boote, Neil Cooper and Iain Evans were appointed to the Board as Pennon Group designated NEDs. Susan Davy (Pennon Group Chief Executive) was appointed to the Board as Pennon Group designate on 9 March 2022. On 2 April 2022, Gill Rider, Claire Ighodaro and Jonathan Butterworth were appointed to the Board.

- **Implementation of remuneration policy in respect of 2021/22** – the remuneration policy was fully implemented with no changes and remains appropriate. The policy is set out in the table on page 93.

DIRECTORS’ REMUNERATION REPORT (continued)

- **Remuneration and Standards of Performance** – NEDs’ basic salary is not linked to performance targets. However, the annual bonuses awarded and payable by the Company to employees under the 2021/22 ACIP (in relation to the CEO and CFO), and longer term awards under the 2020–2023 LTIP are based on performance against certain targets linked to the standards of performance of the Company. Details of bonus outcomes and performance for 2021/22 can be found on pages 100 to 101 and 102 to 103.

Claire Ighodaro CBE
Chair of the Remuneration Committee
30 June 2022

DIRECTORS' REMUNERATION REPORT (continued)

Role and composition of the Remuneration Committee
The Committee makes recommendations to the Board on the overall remuneration strategy, and on the remuneration of the Executive Directors and senior executives of the Company, in consultation with the Chair and/or CEO as appropriate.

The membership of the Committee during the year comprised Jim McAuliffe, Chair until 31 July 2021, Tim Tutton, Chair from 1 August 2021, Jeremy Bending, Paul Francis (resigned 24 June 2021), Paul Malan (resigned 3 June 2021). Hajime Ichishi (resigned 3 June 2021).

On 2 April 2022, Gill Rider, Claire Ighodaro, Neil Cooper, Jonathan Butterworth and Iain Evans were appointed to the Remuneration Committee. Claire Ighodaro was appointed Chair of the Committee.

Member's biographies are given on pages 54 to 58. The Company Secretary is secretary to the Committee. Helen Hancock resigned from this position on 14 February 2022 and Colin Caldwell was appointed as Interim Company Secretary on 16 February 2022. On 1 April 2022, Simon Pugsley was appointed Company Secretary jointly with Colin Caldwell.

Member of Committee	Meetings attended	Max possible
J McAuliffe, Chair until 31 July 2021 Resigned from the Board 31 March 2022	6	6
P Francis, INED Resigned from the Board 24 June 2021	1	2
J Bending, INED Resigned from the Board 31 March 2022	6	6
T Tutton, INED , Chair from 1 August 2021 Resigned from the Board 31 March 2022	6	6
H Ichishi, NED Resigned from the Board 3 June 2021	2	2
P Malan, NED Resigned from the Board 3 June 2021	2	2

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, Company Secretary provided advice and services to the Committee. Deloitte were appointed by the Committee in 2020/21 to provide guidance in relation to the review and updating of the Executive Directors' Remuneration Policy and the review of the Committee's Terms of Reference. Deloitte were selected after a tender process involving a number of other advisors. The total fees paid to Deloitte in the prior year for services to the Committee were £4,500. Fees charged by Deloitte are on a time and material basis and no other service is provided by Deloitte to Bristol Water.

Deloitte 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 Deloitte 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. This 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.

Changes to the policy

The Committee reviewed the remuneration policy in 2020/21, considering best practice approaches in the water sector and UK listed companies, and the context of AMP7 and the interests of our customers. As a result, the Committee implemented the following changes:

- The finalised terms of the 2020 - 2023 LTIP. Details of award opportunities and performance conditions are set out in the policy.
- Outlining the Committee's discretion over bonus and LTIP outcomes, in accordance with the UK Corporate Governance Code.
- Updating the malus and clawback circumstances for annual bonus awards and awards under the 2020 - 2023 LTIP.

In determining these changes, the Committee considered the following principles, as outlined in the UK Corporate Governance Code:

- **Clarity** – The Policy is designed to support the financial and strategic objectives of the Company, taking into account UK corporate governance expectations. The Committee is committed to providing open and transparent disclosure of our approach to Directors' pay.
- **Simplicity** – The remuneration structure is simple, comprising three main elements: fixed pay (base salary, pension and benefits), annual bonus to incentivise stretching single year performance, and LTIP awards to incentivise stretching multi-year performance.
- **Risk** – The Committee is mindful of ensuring that incentive arrangements do not encourage excessive risk taking. The Committee follows a robust process when setting performance targets to ensure that targets are sufficiently stretching and balanced.
- **Predictability** – The Policy sets out the maximum opportunity levels for different elements of pay. Page 95 contains charts illustrating the implementation of the Remuneration Policy for Executive Directors under three performance scenarios.
- **Proportionality** – Payment of the annual bonus and awards under the LTIP are subject to the achievement of stretching performance targets. The targets are considered annually and take account of expectations and strategic priorities at the time. The Committee also retains the right to apply discretion where these outcomes do not accurately reflect the performance of the Company.
- **Alignment to culture** – The Remuneration Policy has been developed in order to align the interests of the Directors with the interests of the Company's shareholders and customers.

Summary of Directors' remuneration policy

The table below sets out the Company's remuneration policy for the year ended 31 March 2022 and highlights any changes for 2022/23

Remuneration element and link to strategy	Approach and link to performance	Maximum opportunity
<u>Base Salary</u> To attract and retain high performing individuals reflecting market value of role and Director's skills, experience and performance.	Salaries are reviewed at the discretion of the Committee. Factors taken into account when determining basic annual salary levels are market data for comparable companies, the individual Executive Director's performance during the year and pay and conditions throughout the Company	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
<u>Annual Bonus</u> To drive and reward performance against personal objectives and selected financial and operational KPIs which are linked directly with business strategy and customer outcomes.	Annual bonus is based on achieving certain business objectives and performance. 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 by the Committee. Any final bonus payment based on performance against targets can be adjusted up or down (including to zero) by the Committee at its discretion. Given the planned merger of BRW into the Pennon Group, consideration will also be given to the appropriate bonus construct for the combined water business in consultation with wider stakeholders Awards may be subject to malus and clawback provisions as described below.	Maximum of: • 60% of Base Salary for the CEO • 50% of Base Salary for the CFO
<u>LTIP</u> Incentivise long-term delivery of safe, excellent quality water, outstanding customer service and achievement of financial objectives. Align CEO and CFO long-term interests with those of customers, long-term shareholders and other stakeholders.	LTIP awards for the AMP7 period 1 April 2020 to 31 March 2025 are based on multi-year performance periods of at least two years. LTIP awards are based on the Company's performance against long term strategic goals of the Company including customer outcomes. Performance measures with relative weightings, for the 2020 – 2023 LTIP, are: - 35% ODI performance; - 30% Totex performance; - 20% C-MeX performance; - 15% Health & Safety performance. 100% of each element is payable for maximum performance and 0% is payable for performance below threshold. The Committee has set specific pay-out levels between these points. Any LTIP payment based on performance against targets can be adjusted up or down (including to zero) by the Committee at its discretion if it decides that the outcome does not reflect overall business performance over the Performance Period. The Committee may also apply its discretion to reduce the level of any payment (including to zero) if either the Company's credit rating at the time performance measures are assessed is not at an acceptable level, or the Company's approach to cost efficiency during the Performance Period has not been appropriate. 50% of any LTIP earned will be paid within 75 days after the end of the performance period, with the remaining 50% paid one year after the end of the performance period. Awards may be subject to malus and clawback as described below. Awards are cash based. There is no share option scheme in operation.	For each award, the maximum opportunity will be set based on the number of years in the performance period. The maximum award for each year of the performance period will be: • 70% of Base Salary for the CEO • 50% of Base Salary for the CFO The targets for the performance conditions are commercially sensitive and are not currently disclosed.
<u>Pension</u> Attract and retain high performing individuals reflecting market value of role and Director's skills, experience and performance.	Pension contributions are made to the Company stakeholder schemes at a specified percentage of basic salary. The Committee may also, at its discretion, approve the payment of cash in lieu of pension up to the maximum contribution level.	Maximum Employer contribution of 6% of base salary. From 1 April 2022 the maximum employer contribution increased to 8% of base salary.
<u>Benefits</u> Attract and retain high performing individuals reflecting market value of role and Director's skills, experience and performance.	Reflecting market practice and comprising the provision of a Company car (or cash allowance in lieu thereof) and private medical insurance. Pennon Group Sharesave scheme was introduced in August 2021 and Pennon Group Share Incentive Plan in March 2022	N/A

Around 25 of the senior management team, including the Executive team, received a one off bonus payment from the previous owners of Bristol Water PLC (Bristol Water Group Limited) which did not relate to services provided to Bristol Water plc. For the two Executive Directors this payment was equivalent to 75% of salary and 25% of salary and target LTIP. Such payments were fully funded by the previous indirect shareholder of Bristol Water plc and were not funded directly or indirectly by Bristol Water plc, and therefore are not deemed remuneration by Bristol Water plc, Pennon Group, or any of its associated companies.

Malus and clawback provisions

The ACIP and the AMP7 LTIP are subject to 'malus' and 'clawback' provisions as set out below:

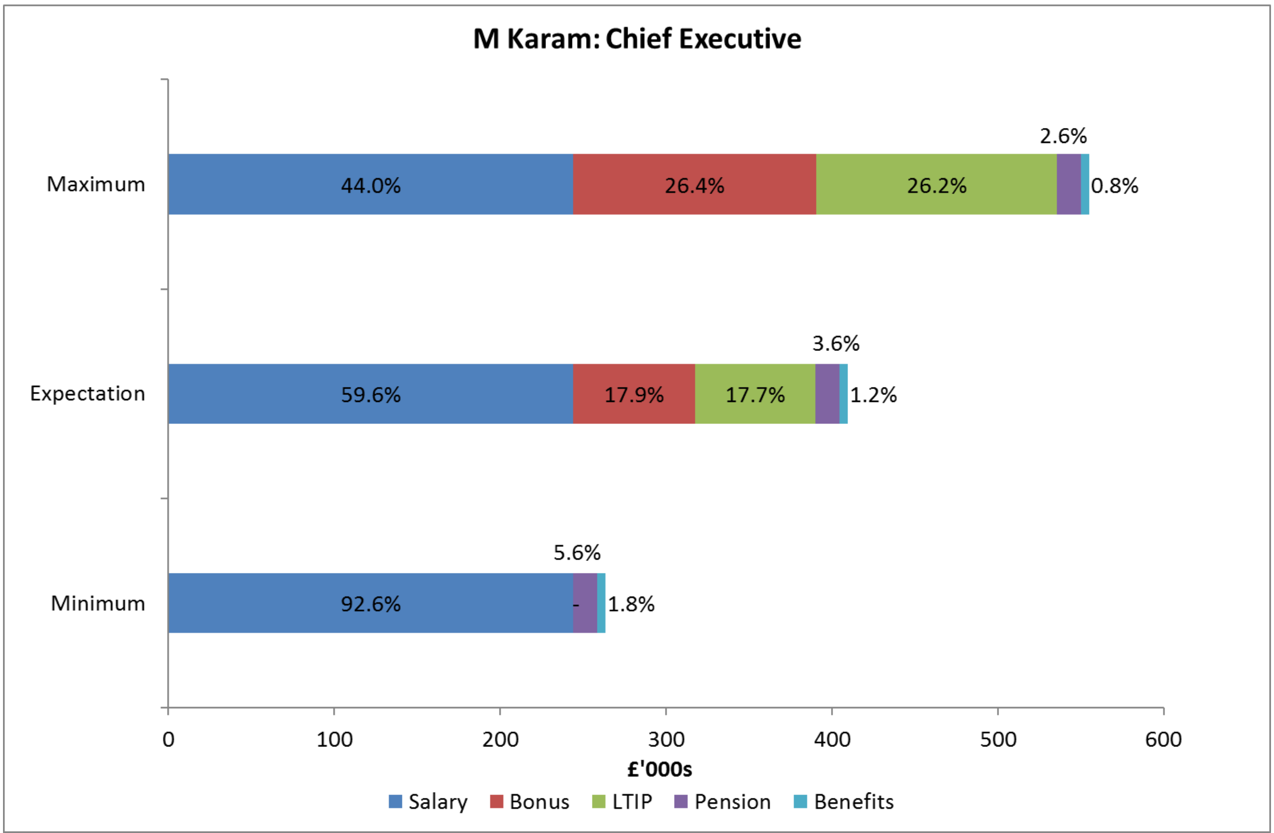
ACIP	2020 - 2023 LTIP
Prior to the second anniversary of the payment date for the Annual Bonus the Committee may require repayment of all or part of the bonus in the event of: (i) a material misstatement of any Group company's financial results due to fraud, wilful misconduct or negligence and that such misstatement resulted either directly or indirectly in the payment of the bonus being higher than would have been the case had that misstatement not been made; or (ii) a material error in assessing a Performance Condition or in the information or assumptions that formed the basis of a bonus payment; or (iii) an individual ceases to be an employee as a result of their gross misconduct (or commits acts the Committee could have been considered to be gross misconduct) in the year to which the bonus related; or (iv) the relevant individual commits a criminal offence in the year to which the bonus related and which results in a custodial sentence.	Prior to the vesting of an LTIP award the Committee may determine that the award is reduced (including to zero), or the basis is amended, or that additional conditions are placed on an award in the event of: (i) a material misstatement of any group company's financial results; (ii) a material error in assessing a Performance Condition or in the information or assumptions on which the Award was granted; (iii) a material failure of risk management in any group company; (iv) serious misconduct on the part of the Participant; (v) a breach of fiduciary duty owed by the Participant to the Company or its shareholders; (vi) the identification by Ofwat of a significant failure in operations or risk management; (vii) serious reputational damage to the Company; or (viii) any other event or circumstances which the Committee in its discretion reasonably considers to be similar in their material nature or material effect to those above. . Prior to the second anniversary of the end of the LTIP performance period the Committee may require repayment of all or part of the award payment in the event of (i) to (vi) above occurring.

Remuneration in different performance scenarios

In line with the Remuneration Reporting Regulations requirements, the chart below 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 2022. Bonus, LTIP, Pension and Benefits are calculated based on the remuneration policy in place for 2022/23. The value of taxable benefits as disclosed is the single figure for the year ending 31 March 2022. Pension is based on a fixed percentage of base salary linked to employee contribution up to a maximum employer contribution of 8%.


M Karam: Chief Executive
Maximum
44.0%
26.4%
26.2%
2.6%
0.8%
Expectation
59.6%
17.9%
17.7%
3.6%
1.2%
Minimum
92.6%
-
5.6%
1.8%
0
100
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400
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600
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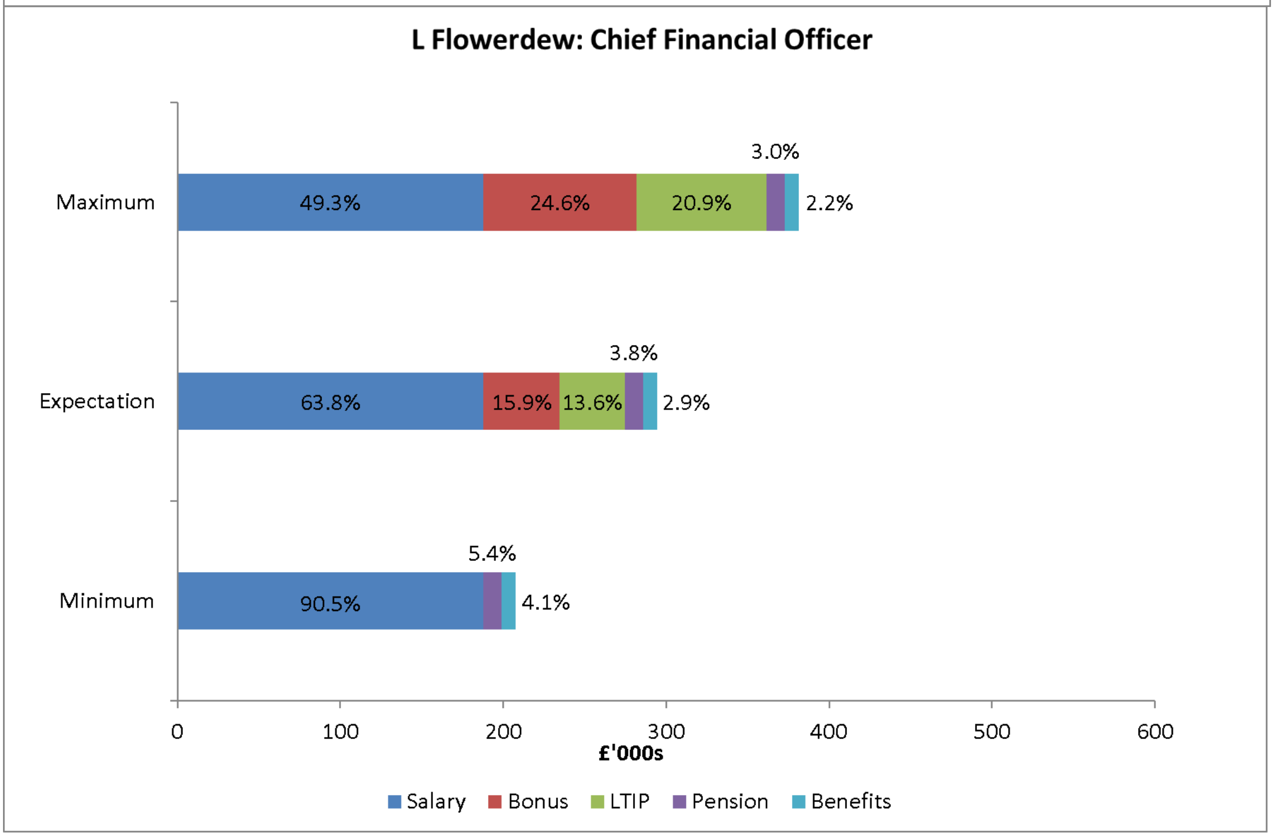
Salary
Bonus
LTIP
Pension
Benefits


L Flowerdew: Chief Financial Officer
Maximum
49.3%
24.6%
20.9%
3.0%
2.2%
Expectation
63.8%
15.9%
13.6%
3.8%
2.9%
Minimum
90.5%
5.4%
4.1%
0
100
200
300
400
500
600
£'000s
Salary
Bonus
LTIP
Pension
Benefits

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 takes 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 Directors' original appointment and expiry of current term are as follows:

Executive Directors	Employment contract date	Expiry of current term*	Next AGM at which the Director will stand for re-election	Notice period
M Karam	1 April 2017	Indeterminate, 6 months' notice period	2022	Rolling 6 months
L Flowerdew	1 October 2018	Indeterminate, 6 months' notice period	2022	Rolling 6 months
S Davy	9 March 2022	Indeterminate, 12 months' notice period	2022*	Rolling 12 months
P Boote**	3 June 2021	Indeterminate, 12 months' notice period	2022	Rolling 12 months
Non-Executive Directors	**Date appointed to the Board**	**Expiry of current term***	**Next AGM at which the Director will stand for re-election**	**Notice period**
K Ludeman	26 July 2012	Resigned 31 March 2022	N/A	1 month
T Tutton	1 January 2015	Resigned 31 March 2022	N/A	1 month
H Ichishi	10 May 2012	Resigned 3 June 2021	N/A	1 month
P Malan	7 July 2016	Resigned 3 June 2021	N/A	1 month
I Dhar	8 May 2018	Resigned 3 June 2021	N/A	1 month
P Francis	25 June 2018	Resigned 25 June 2021	N/A	1 month
J Bending	25 October 2018	Resigned 31 March 2022	N/A	1 month
J McAuliffe	29 November 2018	Resigned 31 March 2022	N/A	1 month
N Cooper***	3 June 2021	31 August 2023	2022	
I Evans***	3 June 2021	31 August 2024	2022	

* Subject to requirement for annual AGM re-election in accordance with the UK Corporate Governance Code
** Pennon Group designated NED until completion of the CMA referral of the acquisition
*** Pennon Group designated

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

Under the 2020 - 2023 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 proportion of the performance period they have been in employment 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 NEDs

The remuneration of the INEDs, other than the Chair, is determined by the Board following consultation between the Chair and the CEO. The Chair's fee is determined by the Board, following consultation between the Committee and the CEO.

Fees are set taking into account market evidence of fees paid to NEDs in companies of comparable size and on the time required for the proper performance of the role. Additional responsibilities are also taken into account. No Director votes in respect of his own remuneration.

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

The table below sets out fees paid to Non-Executive Directors in 2021/22. As part of the Pennon Group, for 2022/23 a proportion of the fees payable to the NEDs for services across the Group will be recharged to Bristol Water. For full details of the fees for these NEDs please see page 165 of the Pennon Group plc Annual Report and Accounts.

Position held by NED	Fee
Chair of the Board	£107,761
Chair of ARAC	£46,639
Chair of Remuneration Committee	£44,024
Chair of Safety Committee	£44,024
Additional fee for role of Senior INED	£2,123
Independent NED	£38,794

Paul Malan, Indradoot Dhar and Hajime Ichishi were shareholder designated NEDs and received no remuneration.

Paul Boote, was a Pennon Group designated NED and received no remuneration for this position. Both his and Susan Davy's remuneration was set and governed by the Pennon Group Remuneration Committee for the 2021/22 financial year, with a recharge to the Company of costs pertaining to the time they spent on Bristol Water related matters for the period subsequent to the conclusion of the CMA investigation or their appointment as applicable.

Neil Cooper and Iain Evans are Pennon Group designated NEDs. Reflecting the nature of their positions Non-Executive Directors of the Group, all subsidiaries receive a cross-charge.

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 below shows the relationship between the Company's financial performance, payments made to shareholders and expenditure on payroll. Data for the EBITDA and PBT are derived from the financial statements on pages 120 to 158.

	Year ended 31 March 2022 £m	Change compared to prior year %	Year ended 31 March 2021 £m
EBITDA	61.4	26.17%	48.6
PBT	13.7	53.19%	8.9
Payments to shareholders:			
Base level dividends	6.0	36.36%	4.4
Intercompany interest related dividends	2.9	87.77%	1.6
Payments to employees:			
Wages and salaries excluding Directors	21.3	0.43%	21.2
Wages and salaries including Directors	22.2	0.45%	22.1

The base level dividend in 2021 was paid to Bristol Water Core Holdings Limited and ultimately the funds returned to Bristol Water plc by way of partial repayment of an outstanding intercompany loan.

Application of remuneration policy in 2021/22
This section has been prepared under the principles of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The information has been audited as indicated.

DIRECTORS' REMUNERATION REPORT (continued)

Single total figure for remuneration of Executive Directors for 2021/22 (audited) -

All figures in £'000	M Karam		L Flowerdew		S Davy**		P Boote***	
	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21
Salary/fees	244	240	188	204	6	-	4	-
Bonus	108	83	69	53	2	-	2	-
Benefits	5	4	9	8	-	-	-	-
Pension	15	14	11	12	1	-	-	-
Single Figure pre-LTIP	372	341	277	277	9	-	6	-
Change since prior year	8.5%	(2.8%)	(0.3%)	36.5%*	N/A	N/A	N/A	N/A
LTIP	-	-	-	-	11	-	2	-
Single Figure	372	341	277	277	20	-	8	-

*Ms Flowerdew received an uplift in salary during 2020/21 in respect of an interim period whereby she served as Deputy Chief Executive Office during the period of the Competition and Markets Authority redetermination of revenues for the 2020-2025 regulatory period. This applied from April to December 2021, after which point her salary returned to that applicable as CFO.
**Susan Davy was appointed as Executive Director of Bristol Water as of 9 March 2022. The figures provided reflect 20% of her remuneration for the period from 9 March 2022 to 31 March 2022, which is rechargeable to Bristol Water through Group recharges. Reflecting the nature of Susan's position as Chief Executive of the Group, all subsidiaries receive a cross-charge. The full single total figure of remuneration tables are shown on page 169 of the Pennon Group plc Annual Report and Accounts 2022.
***Paul Boote was appointed as Shareholder Representative Director of Bristol Water as of 3 June 2021 until the completion of the CMA referral of the acquisition, at which point he became Executive Director. The figures provided reflect 20% of his remuneration for the period from 9 March 2022 to 31 March 2022, which is rechargeable to Bristol Water through Group recharges. Reflecting the nature of Paul's position as Chief Finance Officer of the Group, all subsidiaries receive a cross-charge. Paul received no remuneration from the Company prior to the completion of the CMA referral of the acquisition for his role as shareholder nominated Director. The full single total figure of remuneration tables are shown on page 169 of the Pennon Group plc Annual Report and Accounts 2022.

The pension figure for M Karam is 6% of base salary in lieu of pension contributions which is paid direct to him on a monthly basis.

Bonus includes amounts earned based on performance during 2021/22, which have been accrued and approved, but not paid as at 31 March 2022 and relates to the period served as a Director.

Included within the Financial Statements is an accrual for the 2020 - 2023 LTIP relating to Mel Karam and Laura Flowerdew; however, this is not shown above as the LTIP has not vested in the period and awards in relation to the LTIP are dependent on the performance in future years.

Full details of the bonus and LTIP relating to Susan Davy and Paul Boote can be found in the Pennon Annual Report and Accounts on page 171.

Salary (audited)

A salary review conducted during 2020/21 resulted in a pay increase of 1.75% effective from April 2021 for all employees up to and including the Senior Leadership Team. A 1.5% increase was awarded to executives.

Bristol Water CEO and CFO ACIP annual bonus for 2021/22 (audited)

The maximum opportunity under the 2021/22 ACIP for the year ended 31 March 2022 is 60% of base salary for the CEO (2021: 60%) and 50% of base salary for the CFO (2021: 50%).

The table below represents the business performance measures which form 80% of the basis of the bonus relating to Mel Karam and Laura Flowerdew. The achievement of the performance measures has been reviewed, with appropriate input from the Remuneration Committee, following the end of the 2021/22 financial year. The maximum 2021/22 bonus opportunity against each of the main performance measures is shown below together with the award actually received.

DIRECTORS' REMUNERATION REPORT (continued)

Category	Category Weighting	Subcategory	% of Total	Measure	Target	Performance	Score CEO/CFO	Weighted score CEO/CFO
People, Health & Safety	**10%**	1.1 Improve-ment in Employee Engagement Score	**10%**	Improvement in Employee Engagement Score	757	838	**100%**	**10%/10%**
	10.0%	1.2 Accident Frequency Rate ("AFR") - employees	**5%**	AFR = (No. of accidents x 100,000) / (No. of hours worked) [employees]. Based on a 12-month rolling period.	1.59	2.02	**0%**	**0.0%/0.0%**
		1.3 AFR - contractor	**5%**	AFR = (No. of accidents x 100,000) / (No. of hours worked) [contractors]. Based on a 12-month rolling period.	1.83	3.00	**0%**	**0%/0%**
Financial	**15.0%**	2.1 Budgeted Opex	**15%**	Budgeted Operating expenditure ("Opex") of £63.4m subject to approval at Board. Judgement to be taken by Remuneration Committee on any major variations – either overspend or underspend including where there is a decision to invest further than budget envisaged.	£63.4m	£62.69m	**89%**	**13.4%/13.4%**
Outcome Delivery Incentives	**30.0%**	3.1 Negative Water Quality Contacts	**10%**	The total number of customer contacts received (by telephone, letter or email) about the appearance, taste or odour of water during the year.	1.09	1.39	**53%/51%**	**5.3%/5.1%**
		3.2 Supply Interruptions	**10%**	The length of time customers are without a continuous water supply, where the duration is greater than three hours	6.08	2.53	**100%**	**10%/10%**
		3.3 Leakage	**10%**	Actual reported Leakage figure using the updated actual NHHNU.	34,8	35.6	**67%/61%**	**6.7%/6.1%**
Customer Service	**15.0%**	C-MeX Ranking	**15%**	C-MeX position.	5th	6th	**70%**	**10.5%/10.5%**

In addition to these performance measures, the remaining 20% of each Executive Director's 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
Personal factor score out of 10 determined by the Board, having regard to the recommendation of the Committee, including performance on the following key criteria: • Transformation - Ensure successful delivery of transformation programme, focussed on Recreations partnership and Customer Led Intelligent Operations initiatives • Resilience and Environment - Delivery of Resilience Action Plan and Biodiversity Action Plan according to business planning process • Reputation - Continue to lead BW such that its standing in the water industry is further enhanced • Regulation - Start the preparation and planning for PR24	Personal factor score out of 10 determined by the CEO including performance on the following key criteria: • Transformation - Ensure successful delivery of transformation programme, focussed on Recreations partnership and Customer Led Intelligent Operations initiatives • Business Planning Cycle - Continue to drive improvements through the business planning cycle including better alignment and collaboration between financial and asset management processes • Risk and Assurance - Continue to drive improvements in the risk management processes, and alignment between critical risks and the company wide assurance plans • Support Services - Drive improvement in processes and effectiveness of support services, aligned with the new structure and transformational initiatives

The 2021/22 financial year reflected a year of uncertainty given the acquisition of the Company by Pennon on 3 June 2021, resulting in the referral of the merger into Pennon to the Competition and Markets Authority. As such, the CEO and CFO focussed on delivering on strong operational and financial performance with the existing Board, whilst awaiting approval to proceed with the integration of the business. Given the ongoing merger investigation, coupled with the ongoing impact of the COVID-19 pandemic on the business, a key priority was on retaining and motivating staff.

Performance against objectives, together with business performance and bonus scheme entitlement, dictates the amount of bonus awarded. Both CEO and CFO have been assessed as achieving 9 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% of maximum bonus entitlement, i.e. 44% of year end base salary
Laura Flowerdew	73% of maximum bonus entitlement, i.e. 37% 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.

CEO and CFO 2020 - 2023 LTIP (audited)
The maximum opportunity for the CEO under the 2020 - 2023 LTIP was 70% of base salary for each year of participation in the plan, and 50% of base salary per year of participation for the CFO. The table below sets out the performance measures comprising the 2020 - 2023 LTIP.

Performance Measure	Description	Weighting
Totex	Achievement of defined total Totex targets	30%
Outcome Delivery Incentives	Achievement in relation to net penalties/rewards for delivery against all Performance Commitments which attract a penalty/reward	35%
C-MeX	Achievement of Ofwat C-MeX ranking in relation to other regulated water businesses	20%
Health & Safety	Achievement of long-term Health & Safety targets, as measured against a defined Maturity Matrix.	15%
TOTAL		**100%**

100% of each element is payable for maximum performance and 0% is payable for performance below threshold. The Committee has set specific pay-out levels between these points. These are designed to maximise ODI performance across the full suite of performance metrics set out in the CMA's Redetermination and based on the probability outcomes assessed as part of the business planning process. Similarly, Totex incentives align with the cost allowances set out in the Redetermination, whilst C-MeX is aligned with our target to be 5th in the industry for this metric. The health and safety targets are intended to incentivise continuous improvement in performance, as measured by an independent third party.

Executive Director (Susan Davy and Paul Boote) annual bonus and long term incentive plans for 2021/22

Susan Davy and Paul Boote have acted in the capacity of Executive Directors for the company subsequent to the clearance of the acquisition by the CMA or their appointment as Director. As such, a recharge has been made for a proportion of the Pennon Group variable pay based on the relevant time period, and time spent on Bristol Water matters from 7 March onwards. Given the transitional nature of the year, with both individuals required to abide by the terms of the CMA's Enforcement Order until clearance of the merger investigation, bonus and long term incentive arrangements were set by Pennon Group, and are set under separate governance processes to the CEO and CFO of Bristol Water for the year.

Bonus and long term incentive structures for Pennon executive are aligned with the principles underpinning remuneration policy for Bristol Water as they are designed to ensure a significant portion of management remuneration is linked to performance:

- Incentives linked to underlying performance;
- Performance pay – appropriately aligned with customer interests with bonus and LTIs having a substantial link to stretching performance delivery for customers
- Focus on customer and operational metrics assessed by Ofwat, our customer, communities, and wider stakeholders
- Incentives designed to motivate delivery of sustainable performance
- Safeguard mechanisms in place to ensure outcomes reflect underlying performance.

For 2021/22, both Ms Davy and Mr Boote participated in the Pennon annual bonus plan which was based on a combination of financial, operational and environmental, social and governance (ESG) objectives.

In line with normal practice, the Pennon Remuneration Committee reviewed annual bonus outcomes from various perspectives, including the impact of unbudgeted items on final results. It was noted that the original profit targets set for the year incorporated various budget assumptions including inflation expectations for the coming year. The exceptional movement in RPI seen during the latter half of the year materially differed from the original budget assumptions, impacting the target range for the profit element of the bonus. Normalising for this assumption would have resulted in an above target outcome for the profit element of the bonus. Notwithstanding the robust financial results for the year

DIRECTORS' REMUNERATION REPORT (continued)

and the strong returns delivered to shareholders, the Committee opted against making any adjustments to the original targets. Therefore, no payment was made under the profit element of the annual bonus. The formulaic outturn led to an outcome of 34.14% however on management's recommendation, the Committee opted to exercise downward discretion, reflecting that there is still more to do to protect our environment and our rivers and coastal waters. This therefore reflected this in the annual bonus revised outturns, applying downward discretion. This was set at 10% of the formulaic outturn, leading to a final outturn of 30.7%. In line with the Committee's policy, 50% of any bonus is payable in shares, the release of which is deferred for a three-year restricted period.

Both Susan Davy and Paul Boote also participated in the Pennon Long Term Incentive scheme throughout the financial year. Awards under this scheme operate under a pre-existing Pennon Group incentive scheme and result in an annual grant of condition shares (or equivalent). Share awards vest subject to the achievement of specific performance conditions measured over no less than three years. In addition, a two year holding period will apply in respect of any shares which vest at the end of the three year performance period.

Full details of the bonus and long term incentive arrangements for Susan Davy and Paul Boote can be found in the Pennon Annual Report and Accounts on page 171.

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 role, the benefits may include life assurance, provision of Company car and fuel, health care or child-care vouchers.

Pension arrangements (audited)
At 31 March 2022, no Director (2021: no Director) was accruing benefits under the Company's defined benefit pension scheme.

Mr Karam became a member of the Company designated stakeholder (smart) 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 £0 (2021: £nil).

Ms Flowerdew became a member of the Company designated stakeholder (smart) pension scheme on 1 October 2018 and the contribution paid to the scheme for the financial year 2021/22 was £11,267 (2021: £12,240), an amount equivalent to 6% of annual base salary.

Ms Davy received an overall pension benefit from the Company equivalent to 10% of her salary for the period 1 April 2021 to 31 March 2022. For 2021/22 this comprised an employer's contribution of £14,737 and a cash sum of £40,353. She is a member of Pennon Group's defined contribution pension arrangements and is entitled to access the retirement fund in the Master Trust from age 55. Accrual in the defined benefit scheme ceased from 1 July 2021.

Mr Boote received a pension contribution of 10% of his salary. This is paid as a cash allowance of £30,000. He makes personal contributions to the Group's Defined Contribution pension scheme and is entitled to access the retirement fund in the Master Trust from age 55.

DIRECTORS' REMUNERATION REPORT (continued)

Interests in shares (audited)

During the year ended 31 March 2022 none of the Directors had any interest in the ordinary or preference shares of the Company.

Pennon Group provides all-employee share plans, to align the interests of all employees with Company share performance. In addition, shareholding requirements exist to create alignment between executives and shareholders and to promote long term stewardship of the Group. During their tenure, Executive Directors of Pennon are expected to build up a shareholding equivalent to a percentage of their salary. The shareholding guideline relevant are 200% of salary for the Group Chief Executive Officer and 100% of salary for the Group Finance Director.

Details relating to the shareholdings and share awards in Pennon Group of Ms Davy and Mr Boote can be found in the Pennon Group Annual Report and Accounts on page 172

Single total figure for remuneration of NEDs for 2021/22 (audited)

	Salary/fees	
	2021/22 £'000	2020/21 £'000
K Ludeman (Chair)	103	102
J McAuliffe	44	42
T Tutton	44	44
P Francis	10	44
J Bending	42	42
H Ichishi[1]	-	-
P Malan[1]	-	-
I Dhar[1]	-	-
Neil Cooper[2]	1	-
Iain Evans[2]	1	-
Single Figure	**245**	**274**

[1]No remuneration has been paid by the Company.

[2] Neil Cooper and Iain Evans are Non-Executive Directors of Pennon Group plc. The fees reflected above are fees recharged from Pennon Group to the Company, reflective of the proportion of their time spent on Bristol Water matters subsequent to the clearance of the acquisition on 7 March 2022.

The NEDs 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 the required 10 years of information, with the base year being 2012.

DIRECTORS' REMUNERATION REPORT (continued)

	Luis García						Mick Axtell	Total	Mel Karam				
	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2017 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000	2021 £'000	2022 £'000
Base salary	156	185	189	194	194	173	42	215	230	237	240	240	244
Annual bonus													
Annual bonus	33	58	54	51	40	35	11	46	83	65	107	83	108
Annual bonus as proportion of salary	21%	31%	29%	27%	21%	24%	26%	21%	36%	28%	45%	35%	44%
Maximum bonus achievable (as proportion of base salary)	36%	36%	36%	36%	36%	30%	30%	30%	60%	60%	60%	60%	60%
Proportion of maximum bonus achieved	59%	87%	79%	73%	57%	81%	84%	87%	60%	46%	74%	58%	74%
LTIP earned	-	-	48	187	-	-	-	-	-	-	193	-	-
LTIP as proportion of salary	0%	0%	25%	96%	0%	0%	0%	0%	0%	0%	80%	0%	0%
Benefits	8	9	9	10	11	8	1	9	36	14	4	4	5
Pension	-	-	6	12	12	10	2	12	10	-	-	14	15
Total remuneration	**197**	**252**	**306**	**454**	**257**	**226**	**56**	**282**	**359**	**316**	**544**	**341**	**372**

1 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).

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

3 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.

4 The figure shown under the Pension benefits for Mel Karam is a cash payment in lieu of pension

Payments under the AMP5 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 paid in June 2020 and the second instalment paid in April 2021.

Percentage Change in Remuneration for the CEO Compared to all Employees

Salary – The salary paid to the individual undertaking the role of CEO for 2021/22 increased by 1.5% compared to 2020/21. The change to the average salary for other employees for 2021/22 increased by 1.75% compared to 2020/21.

Annual bonus - The bonus awarded to the CEO under the ACIP for 2021/22 increased by 29.9% compared with the prior year (2020/21: decrease of 22.3%). The total bonus paid to employees, excluding the CEO, for the year is £1.36m compared to £1.31m in 2020/21 an increase of 4%. The average bonus per employee was £2,707 (2021: £2,440). The average bonus payment per employee for those in the lowest grade group for 2021/22 was £780 (2020/21: £772).

Benefits - Benefits, including benefits in kind, payable to the CEO increased by 10.4% for 2021/22 compared with the prior year (2020/21: increased by 7.8%). Benefits payable to all other eligible staff have remained constant compared with the prior year (2020/21: constant).

Percentage Change in Remuneration for the CFO Compared to all Employees

Salary – The salary paid to the individual undertaking the role of CFO for 2021/22 increased by 1.5% compared to 2020/21. The change to the average salary for other employees for 2021/22 increased by 1.75% compared to 2020/21.

Annual bonus - The bonus awarded to the CFO under the ACIP for 2021/22 increased by 30.2% compared with the prior year (2020/21: increase of 55%).

Benefits - Benefits, including benefits in kind, payable to the CFO increased by 3.7% for 2021/22 compared with the prior year (2020/21: increased by 3.2%). Benefits payable to all other eligible staff have remained constant compared with the prior year (2020/21: constant).

DIRECTORS' REMUNERATION REPORT (continued)

Executive pay gap

This is the third year we have disclosed the CEO pay ratio, in line with reporting requirements which came into force in 2020. The information shows how the CEO's single total figure for remuneration compared 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. The figures for 2019/20 were 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 LTIP payments:

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)
2021	Option A	12.6:1	10.5:1	7.6:1
2022	Option A	12.5:1	9.4:1	7.0:1

How the remuneration policy will be applied in 2022/23

The remuneration policy as outlined above will be applied during 2022/23.

Salary

The CEO and CFO received an increase of 4.6% effected from 1 April 2022. The base salaries for 2022/23 are as follows:

Executive Director	Salary 2022/23
CEO Mel Karam	£255,287
CFO Laura Flowerdew	£196,412

Pension

With effect from 1 April 2020 Mel Karam has received a cash supplement equal to the level of Employer pension contributions in the Bristol Water Deferred Contribution scheme (6% of Base Salary) and this will continue in 2022/23, albeit at an increased rate of 8%, consistent with an increase in employer contributions available to all employees. Laura Flowerdew benefited from contributions equivalent to 6% of salary, consistent with all employees across the business. She will benefit from contributions equivalent to 8% of Base Salary to the Defined Contribution scheme from 1 April 2022.

Annual bonus

The CEO and CFO will continue to participate in the ACIP. The maximum bonus for 2022/23 for the CEO is 60% of Base Salary reflecting the leadership required and criticality of the role. The maximum bonus opportunity for 2022/23 for the CFO is 50% of Base Salary.

The performance areas for the ACIP have been agreed as being financial, customer and ODI related, and environmental social and governance metrics, aligned with those for the wider Pennon Group. We will be consulting on the relevant weightings and detailed metrics within these areas. Their achievement will be reviewed, with appropriate input from the Remuneration Committee at the end of the year.

DIRECTORS' REMUNERATION REPORT (continued)

2020 – 2023 LTIP

As noted earlier in this report, with effect from the start of the AMP7 period, the length of the LTIP pertaining to the Bristol Water CEO and CFO has been reduced, and a three-year award has been made, effective 1 April 2020, and covering the period to 31 March 2023

Performance Measure	Weighting
Totex Performance	30%
ODI Performance Measures	35%
C-MeX	20%
Long Term Health & Safety	15%
TOTAL	**100%**

The maximum payment under the 2020 - 2023 LTIP is 70% of Base Salary for each year of the performance period that the CEO is a participant and 50% of Base Salary for each year the CFO is a participant.

Within 60 days following the end of the Performance Period, the Committee shall determine the extent to which the Performance Condition has been achieved and shall determine the Award Payment (if any). 50% of any Payment due will be made within 75 days of the end of the Performance Period, with the remaining 50% paid 12 months from the end of the Performance Period.

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 March 2022. The corporate governance information on pages 53 to 107 is incorporated into this Directors' report by reference.

Section 172 Companies Act 2006 Statement
The Directors of Bristol Water believe that, in the decisions that the Board has taken during the financial year ended 31 March 2022, 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 (1) (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 2022. 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 Business Plan. We update our Social Contract yearly and report on its performance yearly to the Board.

The Board adopted a new Corporate Governance Statement in July 2019 (the "Bristol Water Corporate Governance Statement"), replacing its previous Bristol Water 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 23 to 24.

We have highlighted in the table below some examples of the key Board decisions impacted by, and impacting on, our stakeholders in the financial year ended 31 March 2022.

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. In December 2021 Bristol Water published the Social Contract 2021/22: Benefit & Transparency Report, which reports on the societal impact of delivery against our social purpose.

DIRECTORS' REPORT (continued)

Our stakeholder engagement	Key Board decisions during the financial year ended 31 March 2022
Our customers	Continued engagement and consultation with the Company's Challenge Panel, chaired by Peaches Golding, OBE to ensure that the Challenge Panel continues to provide assurance to Ofwat that the Company has incorporated the preferences and priorities of customers. A Non-Executive Director of the Company attends the Challenge Panel's quarterly meeting to discuss key issues and concerns, which are then reported back to the Company's Board for consideration. Continued focus on key performance commitments to improve customer satisfaction including, for example, in relation to supply interruptions and customer minutes lost, for which performance has significantly improved compared to the previous financial year. For further details see pages 14 to 31. Offered discounted tariffs, metering, water efficiency support and flexible payment plans to our customers who need support in paying their water bills. Working with Water UK to focus on our Priority Services Register to help protect and accommodate the needs of vulnerable customers.
Our communities	Adoption of the Company's Social Contract Programme for the financial year ending 31 March 2023, including receiving reports on its implementation. Further details of the Social Contract Programme and some of our key customer, community and stakeholder engagement activities can be found on pages 23 to 24. Further to our ambition that by 2030 we will not cause any greenhouse gas emissions to the atmosphere through our water supply activities, we published our "Roadmap to Net Zero Carbon by 2030". The launch of "Defibrillator Challenge" campaign led by the Company's employees aimed at engaging local partners and raising awareness of the location of defibrillators within the community We continue to be a sponsoring member of the Bristol Green Capital partnership recognising and responding to the ecological emergency which the planet faces. We also work with the Bristol One City Plan and the Environment Board to coordinate our activities with those who share our concerns. Our industry-leading Biodiversity Index Tool continues to be used to set the Company's biodiversity targets. Along with colleagues in the water utility sector, we are signatories to the Water UK Public Interest Commitment under which we collectively commit, amongst other things, to develop a strategy to end water poverty and to prevent the equivalent of four billion plastic bottles ending up as waste by 2030. Our employees are encouraged to use their two day "volunteering allowance" to contribute to Social Contract initiatives and wider community projects, such as supporting local food banks, tree planting and acting as school mentors. We continue to take a community-leadership role on the issue of resource efficiency through Resource West. Resource West is a consortium of businesses, including Bristol Waste, the University of the West of England, United Utilities and Western Power Distribution, committed to taking collaborative action to reduce consumption of resources and production of waste. The Bristol Water Foundation's educational and careers site continued to be very popular within the local community and beyond.

Our stakeholder engagement	Key Board decisions during the financial year ended 31 March 2022
Our employees	Consultation through our Partnership Forum where employee representatives are consulted by senior management. The feedback received informs key management decisions. Accountability and transparency in the organisation through regular "Town Halls" and "Ask and Answer" forums. A focus on equality, diversity and inclusion, with regular discussion and debate at Board level as to how to better 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. This included updating the Company's suite of Human Resources policies to include an increased focus on equality, diversity and inclusion. Introduced a revised whistleblowing policy underpinned by a new governance and compliance software platform with enhanced facilities for raising concerns confidentially. In response to employee-feedback from the 2020 Annual Employee Engagement Survey, the Company implemented measures in relation to the recognition of employees, employee reward, leadership, employee wellbeing and development and training. In December 2021 an Annual Employee Engagement Survey was conducted and the results were presented to the Board. Both a Board Effectiveness Evaluation and a Chair Evaluation were conducted by an independent external organisation and the results were presented to the Board. The introduction of a revised Safety Manual and Health a Safety Policy designed to reduce employee accidents and to further enhance the safety culture of the Company. In August 2021, Sharesave scheme was introduced to enable employees to save to purchase shares in the Pennon Group. In March 2022, employees of the Company were invited to participate in the Pennon Group's Share Incentive Plan. The scheme gives employees the opportunity to buy Pennon Group shares through deductions from pre-tax pay.
Our regulators	The Board has continued to ensure that the Company engages with its various regulators in a transparent, open and collaborative manner. The Board receives, reviews and interrogates monthly Key Performance Indicator reports on a set of Company-wide metrics including Health and Safety, Performance Commitments, Water Quality, ODI targets, Finance and Human Resources. This includes metrics and performance descriptions of our commitments to all of our regulators (including the Environment Agency, Drinking Water Inspectorate, Health & Safety Executive and Ofwat). The Board receives updates on our wider contribution to the development of the water sector and its regulatory framework. For example, the strategic discussions of the Board, informed our responses to Defra's Strategic Policy Statement, the Environment Agency's consultation on its revised Water Industry Strategic Environmental Requirements and Ofwat's discussion papers in relation to PR24.

DIRECTORS' REPORT (continued)

Our stakeholder engagement	Key Board decisions during the financial year ended 31 March 2022
Our supply chain and other delivery partners	Our contracts with our NMSC delivery partners are based on an 'intelligent partnership' model 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. The Company and Board regularly reviews the performance of the Intelligent Partners under the NMSC Contracts as well as the performance of other key supply chain contracts (such as chemicals) and capital projects delivery partners. The Company also reviews its capital projects budget, expenditure and approvals through its Projects Governance Committee and Investment Approval Group.
Investors	On 3 June 2021, the Pennon Group acquired the entire issued share capital of Bristol Water Holdings UK Limited from the Bristol Water Group Limited making the Company a wholly owned subsidiary of the Pennon Group. For the majority of the year, the Company was prohibited for interacting with the Pennon Group other than in the ordinary course of business. During the financial year the Company continued to comply with its dividend policy. Details of our shareholder and ownership structure and of our dividend policy are set out on pages 59-63 and 10 respectively.

Financial results and dividends
The enhanced financial review including financial results and KPIs is contained in the Strategic Report on pages 7 to 11.

The total dividend paid during the year ended 31 March 2022 was 148p (2021: 100p) per ordinary share. The Board has not proposed a final dividend in respect of the financial year 2021/22 (2021: £nil). The Company's policy for dividends to shareholders is contained in the Strategic Report on page 10.

Capital structure
Details of the issued share capital are shown in note 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.

DIRECTORS' REPORT (continued)

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. In addition, the Company has in issue 12,500,000 8.75% irredeemable cumulative preference shares of £1 each, details of which are disclosed in note 25.

Outlook

The main drivers of 2022/23 profitability in addition to the key risk uncertainties highlighted above are expected to be:

- Increase In revenues resulting from the CMA's final decisions relating to the Company's business plan. The increase in revenues allowed by the CMA will be included in tariffs over 3 years, and coupled with increasing inflation lead to increased bills for customers.
- Increase in operating costs as a result of inflationary pressures, notably in respect of chemicals materials and staff costs, although partially offset by a continued focus on cost control and efficient delivery of operational targets.
- Energy costs – energy costs are significant for the Company, and consumption will fluctuate with demand and depending on which water resources are being utilised. We enter into appropriate forward power and gas contracts, to fix future energy prices, and have benefited from forward purchasing material energy volumes in 2020 when prices were low. This notwithstanding, the current impact of unprecedented gas and power prices provide upward cost pressure that will impact financial performance.
- 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 and the cost of living crisis.
- Interest costs – our debt portfolio includes index linked debt, which increases with RPI inflation. RPI inflation has tracked higher than CPIH inflation over the past year, and will have a material impact on both gearing and interest charges if high inflation continues.
- Weather – severe weather patterns can affect the 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.

We welcome the merger of Bristol Water into the Pennon Group, and we are now working as a Board to consider the strategic and operational options and plans for the business to move the integration forward and in the context of the wider Group. We look forward to delivering on our ambitions and seeing the benefits to both Bristol Water and the wider Pennon Group from the integration in the future.

Going Concern

- In assessing the going concern basis, the Directors have considered the cash flow and financial ratios projections of the Company for 12 months from the date of approval of the Annual Report and Financial Statements.

- The key risks to the Company are set out in the Risk Review in the Strategic Report (see pages 32 to 48. 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 49 to 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.

DIRECTORS' REPORT (continued)

- 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 £5.9m unrestricted cash together with uncommitted borrowing facilities of £27m as at 31 March 2022. The Company's funding position is summarised in the table below.

	Actual 31 March 2022 £m
Balance outstanding on Artesian loans - fixed rate	57.5
Balance outstanding on Artesian loans - index linked	151.1
Balance outstanding on other senior loan facilities	133.0
Balance outstanding on index linked bond	55.5
Gross Debt	397.1
Undrawn facilities	27.0
Cash – unrestricted	5.9
Cash - restricted	6.1
Total facility	436.1

- The majority of the Company's debt is long dated, with the earliest repayment of debt reflecting £42.0m of drawn debt repayable on 30 June 2023 and a further £16m repayable on 31 December 2023; undrawn facilities amount to £27.0m, with a further £5.9m of unrestricted cash available to the business.

- Given the maturity of the Company's revolving credit facilities in 2023, the Company has received confirmation from Pennon Group plc that it will provide support to the Company, should it be required, to meet its liabilities as they fall due for the foreseeable future. However, it is noted that given the investment grade credit rating held by the Company, it would also be expected to be able to raise sufficient funds to replace the maturing facilities if required.

- 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 and inflation on cash flows. Further, mitigating actions have been considered such as restriction of dividends and short-term cash flow management, should a combination of the scenarios occur.

- 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.

DIRECTORS' REPORT (continued)

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 during the year were:

Keith Ludeman, *Chair****
Mel Karam, *CEO*
Laura Flowerdew, *CFO*
Tim Tutton, *Senior INED****
Jeremy Bending *INED****
Paul Francis, *INED***
Jim McAuliffe, *INED****
Indradoot Dhar, *NED**
Hajimi Ichishi, *NED**
Paul Malan, *NED**
Neil Cooper, INED appointed 3 June 2021
Iain Evans, INED appointed 3 June 2021
Paul Boote, Pennon Group CFO appointed 3 June 2021
Susan Davy, Pennon Group CEO appointed 9 March 2022
**Resigned 3 June 2021 and replaced on that date by Paul Boote, Neil Cooper and Iain Evans*
***Resigned 24 June 2021*
***Resigned 31 March 2022

On 2 April 2022, Gill Rider, Claire Ighodaro and Jon Butterworth were appointed Directors of the Company.

In accordance with the UK Corporate Governance Code, all Directors offer themselves for re-election annually at the Annual General Meeting. On 30 September 2021, Keith Ludeman, Mel Karam, Laura Flowerdew, Tim Tutton, Jeremy Bending were re-elected as Directors of the Company and Paul Boote, Neil Cooper and Iain Evans had their appointments during the year confirmed.

Helen Hancock held the role of Company Secretary until her resignation on 14 February 2022. On 22 February 2022, Colin Caldwell was appointed Company Secretary. The Board appointed Simon Pugsley on 1 April 2022 to be Company Secretary jointly with Colin Caldwell.

DIRECTORS' REPORT (continued)

Service contracts
All current Executive Directors have service contracts, notice periods are detailed in the Remuneration Committee report on page 96.

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

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 30 to the financial statements.

Research and Development
The Company undertakes research and development projects in relation to its business. Expenditure during the year amounted to £nil (2020/21: £nil).

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 they ought to have taken as a Director in order to make themself 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.

DIRECTORS' REPORT (continued)

Employees
Information on employment policies and practices is contained within the 'Staff Confidence' part of the Strategic Report on pages 28 to 31.

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 continue to work 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 collaboratively on these issues.

The partners involved include Natural England, the Environment Agency, Wessex Water, Avon Wildlife Trust, Bristol Zoological Society, Farming & Wildlife Advisory Group and Catchment Sensitive Farming. We continue 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.

In 2021/22 our measurement of the benefits of this activity contributed to a specific Outcome Delivery Incentive, raw water quality of sources. Our catchment management activities have removed 239kg of P nutrients (155kg in 2020/21) that would have otherwise entered watercourses during the first to years of this Asset Management Period, beating the target of 216kg.

We monitor our protection and enhancement of the natural environment through our Biodiversity Index approach. This natural capital accounting approach quantifies the biodiversity value of our natural assets and creates a "direction of travel" for the way we manage our property, helping us to protect and enhance the natural environment by using the Index to quantify the impact of our actions on the broader environment. We met our target for the Biodiversity Index, with the details set out in our published Annual Performance Report to Ofwat.

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. Whilst no failures are tolerated, performance in 2021 at 98% remained at the same high level achieved in 2020. We have a good working relationship with the Environment Agency. Our pollution events are usually limited to the impact of water and sediment from mains bursts running into watercourses, there were 18 of these in 2021 (up from 7 in 2020). There were two breaches of consented discharges caused by an increase in volumes of chlorinated water being discharged into a water course, bringing our total pollution events to twenty in 2021. Our work to prevent invasive species also continues, and we have been helping to breed and protect the endangered native, white-clawed crayfish.

DIRECTORS' REPORT (continued)

Greenhouse Gas Emissions
This financial year we used just over 67 million kilowatt hours of electrical energy to treat and distribute water (2020/1 78 million kwh). This accounts for 76% (91% in 2020/21) of our total carbon footprint. We continue to contribute 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 each year 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 20,791 tonnes of CO2 equivalent to 20,063 tonnes of CO2 equivalent.

We use the Standard Water UK calculation methodology to calculate our carbon emissions shown as a normalised kg CO2 per Ml of water into supply. Our carbons emissions continue to reduce decreasing to 178kgCO2e/Ml from 198kgCO2e/Ml in 2020/21. 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 (continued)

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

A statement of the amount of interest capitalised in accordance with IAS23 can be found in note 7. In line with current UK tax legislation, the amount is fully deductible against the Company's corporation tax liability. Tax relief is £73,323 (2020/21: £68,226).

Details of long-term incentive schemes can be found on page 101 to 102.

Details of significant contracts between the Company and Directors can be found on page 114. 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 119.

In accordance with the UK Corporate Governance Code, as set out in the Corporate Governance Report on page 64, 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 position, 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 CFO;
- 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 Audit and Risk Assurance Committee prior to consideration by the Board; and
- reviewed individually, and collectively, by Board members prior to publication.

DIRECTORS' REPORT (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (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 54 to 58, confirm that, to the best of their knowledge:

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

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

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

Colin Caldwell
Company Secretary
30 June 2022

INCOME STATEMENT
for the year ended 31 March 2022

	Notes	2022 £m	2021 £m
Revenue	**3.2,5**	**124.2**	119.5
Operating costs excluding impairment losses on trade receivables	**6**	**(88.8)**	(91.4)
Impairment losses on trade receivables	**6**	**(2.7)**	(4.9)
Operating costs before exceptional items		**(91.5)**	(96.3)
Exceptional operating costs	**6**	**(0.1)**	(2.2)
Total net operating costs	**6**	**(91.6)**	(98.5)
Operating profit		**32.6**	21.0
Other net interest payable and similar charges	**7**	**(17.8)**	(11.0)
Dividends on 8.75% irredeemable cumulative preference shares	**7**	**(1.1)**	(1.1)
Net interest payable and similar charges	7	**(18.9)**	(12.1)
Profit before tax		**13.7**	8.9
Taxation on profit on ordinary activities	**8**	**(23.4)**	(2.1)
(Loss) / profit for the financial year		**(9.7)**	6.8
(Loss) / earnings per ordinary share	**9**	**(161.7)p**	113.3p

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

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 March 2022

	Notes	2022 £m	2021 £m
(Loss)/profit for the financial year		**(9.7)**	6.8
Other comprehensive (loss)/income:			
Items that will not be reclassified to profit and loss			
Actuarial loss on retirement benefit surplus	**14**	**(1.0)**	(0.3)
Remeasurement of defined benefit pension scheme restriction	**8, 14**	**0.4**	0.3
Other comprehensive loss for the year, net of tax		**(0.6)**	-
Total comprehensive (loss) / income for the year		**(10.3)**	6.8

STATEMENT OF FINANCIAL POSITION
at 31 March 2022

	Notes	2022 £m	2021 £m
Non-current assets			
Property, plant and equipment	**10**	**696.6**	682.9
Intangible assets	**11**	**12.7**	13.3
Other investments - Loans to group undertakings	**12**	**61.1**	61.1
Deferred income tax assets	**13**	**7.9**	5.9
Retirement benefit surplus	**14**	**8.1**	9.1
		786.4	772.3
Current assets			
Inventory	**16**	**1.9**	1.7
Trade and other receivables	**17**	**29.5**	29.6
Cash and cash equivalents	**18**	**12.0**	10.9
		43.4	42.2
Total assets		**829.8**	814.5
Non-current liabilities			
Lease liabilities	**19**	**(1.1)**	(1.5)
Deferred income tax liabilities	**13**	**(93.2)**	(72.3)
Borrowings and derivatives	**20,26**	**(399.7)**	(379.2)
8.75% irredeemable cumulative preference shares	**20,25,26**	**(12.5)**	(12.5)
Deferred income	**21**	**(83.0)**	(82.9)
Government grants		**(0.3)**	(0.3)
		(589.8)	(548.7)
Current liabilities			
Lease liabilities	**19**	**(0.4)**	(0.4)
Current portion of borrowings and derivatives	**20,26**	**-**	(9.0)
Current portion of deferred income	**21**	**(1.9)**	(1.8)
Trade and other payables	**22**	**(38.0)**	(35.3)
Provisions for liabilities	**23**	**-**	(0.5)
		(40.3)	(47.0)
Total liabilities		**(630.1)**	(595.7)
Net assets		**199.7**	218.8
Equity			
Called-up share capital	**25**	**6.0**	6.0
Share premium account		**4.4**	4.4
Other reserves		**5.8**	5.8
Retained earnings		**183.5**	202.6
Total Equity		**199.7**	218.8

The financial statements of Bristol Water plc, registered number 02662226 on pages 120 to 121, were approved by the Board of Directors on 30 June 2022 and signed on its behalf by:

Mel Karam,
Chief Executive Officer

Laura Flowerdew,
Chief Financial Officer

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2022

	Called up share capital	Share premium account	Capital redemption reserve	Retained earnings	Total
	£m	£m	£m	£m	£m
Balance at 1 April 2020	6.0	4.4	5.8	201.8	218.0
Profit for the year	-	-	-	6.8	6.8
Other comprehensive income for the year:					
Actuarial loss recognised in respect of retirement benefit obligations	-	-	-	(0.3)	(0.3)
Remeasurement of defined benefit pension scheme	-	-	-	0.3	0.3
Total comprehensive income for the year	-	-	-	6.8	6.8
Ordinary dividends	-	-	-	(6.0)	(6.0)
Balance as at 31 March 2021	6.0	4.4	5.8	202.6	218.8
Balance as at 1 April 2021	6.0	4.4	5.8	202.6	218.8
Loss for the year	-	-	-	(9.7)	(9.7)
Other comprehensive loss for the year:					
Actuarial loss recognised in respect of retirement benefit obligations	-	-	-	(1.0)	(1.0)
Remeasurement of defined benefit pension scheme	-	-	-	0.4	0.4
Total comprehensive loss for the year	-	-	-	(10.3)	(10.3)
Ordinary dividends	-	-	-	(8.9)	(8.9)
Share based payments	-	-	-	0.1	0.1
Balance as at 31 March 2022	6.0	4.4	5.8	183.5	199.7

The Board has not proposed a final dividend in respect of the financial year 2021/22 (2021: £nil).

CASH FLOW STATEMENT

For the year ended 31 March 2022

	Notes	2022 £m	2021 £m
Cash flows from operating activities			
Profit before taxation		**13.7**	8.9
Adjustments for:			
Share based payments	**24**	**0.1**	-
Deferred income amortisation	**21**	**(1.9)**	(1.8)
Depreciation	**6**	**25.0**	24.0
Amortisation of intangibles	**6**	**3.9**	3.7
Difference between pension charges and contributions paid	**14**	**0.9**	1.0
Profit on disposal of assets	**6**	**(0.1)**	(0.1)
Interest income	**7**	**(3.6)**	(3.9)
Interest expense	**7**	**22.8**	16.4
Pension interest income	**7**	**(0.3)**	(0.4)
(Increase) in inventory		**(0.2)**	-
(Increase) / decrease in trade and other receivables		**(1.3)**	2.3
Decrease in trade and other creditors and provisions		**(0.7)**	(3.0)
Cash generated from operations		**58.3**	47.1
Interest paid		**(12.4)**	(12.5)
Corporation taxes paid		**(1.9)**	(1.4)
Contributions received	**21**	**2.1**	2.9
Net cash generated from operating activities		**46.1**	36.1
Cash flows from investing activities			
Purchase of property, plant and equipment and intangibles		**(40.4)**	(41.9)
Proceeds from sale of fixed assets		**0.2**	0.3
Interest received	**7**	**3.6**	3.9
Repayment of intercompany loan receivable	**12**	**-**	4.4
Net cash used in investing activities		**(36.6)**	(33.3)
Cash flows from financing activities			
Proceeds from loans and borrowings	**20**	**11.0**	6.0
Repayment of loans and borrowings		**(9.0)**	-
Payment of finance lease liabilities		**(0.4)**	(0.9)
Preference dividends paid	**7**	**(1.1)**	(1.1)
Equity dividends paid		**(8.9)**	(6.0)
Net cash used in financing activities		**(8.4)**	(2.0)
Net increase in cash and cash equivalents		**1.1**	0.8
Cash and cash equivalents, beginning of year	**18**	**10.9**	10.1
Cash and cash equivalents, end of year	**18**	**12.0**	10.9

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Bristol Water plc ("the Company") is a water 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.

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. At 31 March 2022 the Company has access to undrawn committed funds and cash totalling £39.0m (£32.9m excluding restricted cash), and the Company has received confirmation from Pennon Group plc that it will provide support to the Company should it be required, to meet its liabilities as they fall due for the foreseeable future. As a result, the Directors have concluded that the Company has adequate resources, or the reasonable expectation of raising further resources as required, to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements. Further information on the Company's borrowings is given in note 3.14 and note 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 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.

3 Summary of significant accounting policies (continued

3.6 Property, plant and equipment and depreciation (continued)

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	33 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 Summary of significant accounting policies (continued)

3.9 Taxation

The tax charge for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in the statement of comprehensive income or directly in equity. In this case the tax is also recognised in the statement of comprehensive income or directly in equity as appropriate.

Current tax is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates tax items subject to interpretation and establishes provisions on individual tax items, where in the judgement of management, the position is uncertain. The Company is part of a tax group for certain aspects of the tax legislation. One of these aspects relates to group relief whereby current tax liabilities can be offset by current tax losses arising in other companies within the same tax group. Payments for group relief are included within the current tax disclosures.

Deferred tax is provided in full on temporary differences between the carrying amount of the assets and liabilities in the financial statements and the tax base, expect where they arise from initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be released. Deferred tax is determined using the tax rates enacted or substantively enacted at the balance sheet date and expected to apply when the deferred tac liability Is settled or the deferred tax asset is realised.

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. Employees in the section stopped accruing 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 methodology.

3 Summary of significant accounting policies (continued)

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.

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.

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 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.

3 Summary of significant accounting policies (continued)

3.15 Leases assets (continued)

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.

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.

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 but not yet billed (accrued income) is required to be made each year. The accrual is estimated using historic data related to metered volumes, billed consumption and current tariffs. The accrued income is £15.8m (2021 £14.9m), of which £14.5m (2021 £13.7m) is included in note 17 prepayments and accrued income and, £1.3m (2021 £1.2m) and £0.1m relating to related party companies Water 2 Business Limited and Pennon Water Services Limited respectively and is included within amounts owed by group undertakings in note 17.

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.

4 Critical accounting estimates and judgments (continued)

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 categories that reflect the nature of activity being undertaken and maybe classified as operating or capital in nature. 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 for capitalisation (directly attributable to an asset, probable future economic benefit and can be measured reliably). See note 6 for capitalised payroll costs

Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. These are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 10 for the carrying amount of the property, plant and equipment and note 3.6 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 14 for the disclosures of the defined benefit pension scheme.

4 Critical accounting estimates and judgments (continued)

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 prior to 31 March 2022 (for the prior year 48 months prior to 31 March 2021) 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. The Company believes that there will be a future impact of cost of living increases on the recovery of household debt and has estimated an expected increase in the impairment of unmeasured and measured trade receivables of 0.29%, (£0.5m) and 0.24%, (£0.5m) respectively (based on an increase to provisioning rates of 0.29% and 0.24% 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 in the year end collection rates would cause the impairment provision for unmetered and metered trade receivables to increase by £1.3m and £1.6m respectively. A 100-basis point decrease in the year end collection rates would cause the impairment provision for unmetered and metered trade receivables to decrease by £1.7m and £2.1m respectively.

See note 17 for the net carrying amount of the receivables and associated impairment provision.

5. REVENUE

	2022	2021
	£m	£m
Appointed income		
Household - measured	**55.3**	53.4
Household - unmeasured	**40.9**	41.7
Non-household - measured	**22.2**	19.2
Non-household – unmeasured	**0.3**	0.3
Contributions from developers	**1.9**	1.8
Third party services	**1.4**	1.4
Rental income	**1.0**	0.8
	123.0	118.6
Non-appointed income		
Recreations	**0.7**	0.5
Rental income	**0.2**	0.1
Other	**0.3**	0.3
	1.2	0.9
	124.2	119.5

Appointed income is income earned under the Company'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 17 for disclosure of contract assets, also referred to as accrued income. Please refer to notes 21 and 22 for disclosure of contract liabilities, which comprise deferred income and receipts in advance.

6. OPERATING COSTS

(a) Operating costs includes:

	2022 £m	2021 £m
Wages and salaries	**22.2**	22.1
Social security costs	**2.4**	2.4
Defined contribution scheme costs (note 15)	**2.2**	2.3
Defined benefit scheme costs (note 14)	**0.9**	1.0
Share-based payments	**0.1**	-
Total payroll cost	**27.8**	27.8
Less capitalised as tangible and intangible assets	**(10.8)**	(9.5)
Net staff costs	**17.0**	18.3
Inventory recognised as an expense	**2.8**	2.6
Depreciation of tangible assets including impairment (note 10)		
On owned assets	**24.5**	23.4
On leased assets	**0.5**	0.6
Amortisation of intangible assets (note 11)		
On owned assets	**3.9**	3.7
Other operating charges		
Auditor's remuneration	**0.3**	0.2
Profit on disposal of tangible assets	**(0.1)**	(0.1)
Other charges less recoveries	**39.9.0**	42.7
Operating costs excluding impairment losses on trade receivables	**88.8**	91.4
Impairment of trade receivables (note 17)	**2.7**	4.9
Total operating costs before exceptional items	**91.5**	96.3
Acquisition costs	**0.1**	-
Provision for legal and similar costs	**-**	(0.5)
Transformation costs	**-**	2.1
Historic raw water costs	**-**	0.6
Total exceptional items in the income statement	**0.1**	2.2
Total net operating costs	**91.6**	98.5

The acquisition costs relate to costs incurred in relation to the acquisition of the Company by Pennon Group plc and the review of the acquisition by the Competition and Markets Authority.

The prior year exceptional costs relate to provisions for legal costs relating to two separate legal processes the Company entered into in the year ended 31 March 2020 which both concluded in the year ended 31 March 2021; increase in charges payable for raw water abstraction for the financial year 2018/19 and 2019/20 following the conclusion of the arbitration with the CRT; and transformation costs relating to a restructuring programme.

6. OPERATING COSTS (continued)

(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:

	2022 No.	2021 No.
Water treatment and distribution	**207**	316
Support services	**137**	118
Administration	**182**	115
Non-appointed activities	**14**	16
	540	565

(c) Directors' emoluments

	2022 £m	2021 £m
Aggregate emoluments of Directors, being remuneration, bonus, pension, LTIP and benefits in kind	**1.1**	1.2
	1.1	1.2

The highest paid Director during the year was Mr Karam; full details of his, and all other Directors' emoluments, are disclosed in the Directors' Remuneration Committee Report on pages 88 to 107.

(d) Independent auditors' remuneration

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

	2022 £'000	2021 £'000
Fees payable for the audit of the Company's annual statutory financial statement	**188.0**	157.2
Fees payable for other services:		
services pursuant to legislation, principally assurance and audit of regulatory accounts and returns	**45.0**	42.4
Review of interim financial statements	**31.0**	-
Total non-audit fees	**76.0**	42.4

7. NET INTEREST PAYABLE AND SIMILAR CHARGES

	2022 £m	2021 £m
Interest payable and similar charges relate to:		
Bank borrowings	**2.0**	2.0
Term loans and debentures:		
Interest charges	**10.4**	10.2
Indexation	**9.6**	3.2
Leases	**0.1**	0.2
Capitalisation of borrowing cost	**(0.4)**	(0.3)
Dividends on 8.75% irredeemable cumulative preference shares	**1.1**	1.1
	22.8	16.4
Less interest receivable and similar income:		
Interest income in respect of retirement benefit scheme (note 14)	**(0.3)**	(0.4)
Loan to BWHUK – interest receivable	**(3.6)**	(3.9)
	(3.9)	(4.3)
Total net interest payable and similar charges	**18.9**	12.1

The rate used to determine the amount of borrowing costs eligible for capitalisation was 5.0% (2021: 4.2%), 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.

8. TAXATION

	2022 £m	2021 £m
Tax expense included in Income Statement		
Current tax:		
Corporation tax on profits for the year	**1.3**	1.6
Adjustment to prior years	**3.3**	(0.2)
Total current tax	**4.6**	1.4
Deferred tax:		
Origination and reversal of timing differences	**1.4**	0.5
Adjustment to prior years	**(3.1)**	0.2
Effect of change in UK corporation tax rate	**20.5**	-
Total deferred tax (note 13)	**18.8**	0.7
Tax expense on profit	**23.4**	2.1
Tax income included in other comprehensive income		
Remeasurement of post-employment benefit liability	**(0.4)**	(0.3)
Total tax income included in other comprehensive expense	**(0.4)**	(0.3)

8. TAXATION (continued)

Reconciliation of the tax on profit on ordinary activities
The current tax rate for the year is higher (2021: higher) than the standard rate of tax. A reconciliation between tax expense and the product of accounting profit multiplied by UK corporation tax rate is as follows:

	2022	2021
	£m	£m
Profit before tax	**13.7**	8.9
At statutory income tax rate of 19% (2021: 19%)	**2.6**	1.7
Adjustment in respect of prior years' current tax	**3.3**	(0.2)
Adjustment in respect of prior years' deferred tax	**(3.1)**	0.2
Non-deductible expenses for tax purposes:		
8.75% irredeemable cumulative preference share	**0.2**	0.2
Non-qualifying asset depreciation	**0.1**	
Other	**0.2**	0.2
Capital expenditure tax depreciation super deduction allowances	**(0.4)**	-
	2.9	2.1
Effective tax rate before change in UK corporation tax rate	**21.2%**	23.6%
Effect of tax rate change on opening balances	**20.5**	-
Total taxation expense included in income statement	**23.4**	2.1
Effective tax rate after change in UK corporation tax rate	**170.8%**	23.6%

From 1 April 2023, a "super-deduction" on qualifying plant and machinery equivalent to 130% of spend on expenditure relating to contracts entered into after 31 March 2021 is available in respect of qualifying expenditure. The Company incurs significant capital expenditure each year as it maintains and enhances its assets for the benefit of its customers, communities and the environment. The first year allowance on certain other types of assets, including long-life was boosted to 50% for the same period, again for contracts entered into after 3 March 2021. These enhanced allowances have increased capital allowance claims for the year and hence reduced the current tax change for the year. The same will apply for the year ended 31 March 2023. There is also a consequently higher deferred tax liability and charge due to the additional capital allowance deductions together with the increase in the rate of corporation tax to 25% from April 2023.

Factors affecting future tax charges
The UK main rate of corporation tax will increase to 25% from 1 April 2023. This change was substantively enacted on 24 May 2021, as such deferred tax liabilities and assets have been recalculated and recorded at the rate they are expected to unwind. This has increased the tax charge in the income statement by £20.5m.

9. (LOSS)/EARNINGS PER ORDINARY SHARE

	2022	2021
	m	m
Basic (loss)/earnings per ordinary share have been calculated as follows:		
(Loss)/Earnings attributable to ordinary shares	**£(9.7)**	£6.8
Weighted average number of ordinary shares	**6.0**	6.0
	(161.7)p	113.3p

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

10. PROPERTY, PLANT AND EQUIPMENT

	Freehold land, operational properties and structures £m	Plant and equipment £m	Infra-structure assets £m	Assets under construction £m	Total £m
At 1 April 2020					
Cost	358.9	52.2	523.5	33.1	967.7
Accumulated depreciation	(165.2)	(31.1)	(94.9)	(4.7)	(295.9)
Net book amount	**193.7**	**21.1**	**428.6**	**28.4**	**671.8**
Year ended 31 March 2021					
Opening net book amount	**193.7**	**21.1**	**428.6**	**28.4**	**671.8**
Additions	-	-	-	35.2	35.2
Disposals	-	(0.1)	-	-	(0.1)
Capitalisation of completed assets	10.9	4.7	29.9	(45.5)	-
Depreciation charge (note 6)	(12.3)	(5.2)	(6.5)	-	(24.0)
Closing net book amount	192.3	20.5	452.0	18.1	682.9
At 31 March 2021					
Cost	369.6	55.1	553.4	22.8	1,000.9
Accumulated depreciation	(177.3)	(34.6)	(101.4)	(4.7)	(318.0)
Net book amount	**192.3**	**20.5**	**452.0**	**18.1**	**682.9**
Year ended 31 March 2022					
Opening net book amount	**192.3**	**20.5**	**452.0**	**18.1**	**682.9**
Additions	-	-	-	38.7	38.7
Disposals	-	-	-	-	-
Capitalisation of completed assets	11.7	4.5	15.3	(31.5)	-
Depreciation charge (note 6)	(12.8)	(5.5)	(6.7)	-	(25.0)
Closing net book amount	191.2	19.5	460.6	25.3	696.6
At 31 March 2022					
Cost	380.0	58.1	568.7	30.0	1036.8
Accumulated depreciation	(188.8)	(38.6)	(108.1)	(4.7)	(340.2)
Net book amount	**191.2**	**19.5**	**460.6**	**25.3**	**696.6**

Included within disposals are assets with a nil net book value at time of disposal. The original cost of these assets was £2.4m (2021: £2.0m).

The net book value of property, plant and equipment includes £6.5m (2021: £6.2m) of borrowing costs capitalised in accordance with IAS 23. During the year ended 31 March 2022 £0.4m (2021: £0.3m) was capitalised using a weighted average interest rate of 5.0% (2021: 4.20%). 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 31 March 2022 is freehold land, not subjected to depreciation in the year, of £1.9m (2021: £1.8m).

11. INTANGIBLE ASSETS

	Computer Software	Assets under construction	Total
	£m	£m	£m
At 1 April 2021			
Cost	38.1	3.8	41.9
Accumulated amortisation	(27.9)	-	(27.9)
Net book amount	10.2	3.8	14.0
Year ended 31 March 2021			
Opening net book amount	10.2	3.8	14.0
Additions	-	3.0	3.0
Capitalisation of completed assets	3.8	(3.8)	-
Amortisation charge (note 6)	(3.7)	-	(3.7)
Closing net book amount	10.3	3.0	13.3
At 31 March 2021			
Cost	41.9	3.0	44.9
Accumulated amortisation	(31.6)	-	(31.6)
Net book amount	10.3	3.0	13.3
Year ended 31 March 2022			
Opening net book amount	10.3	3.0	13.3
Additions	-	3.4	3.4
Disposals	(0.1)	-	(0.1)
Capitalisation of completed assets	2.5	(2.5)	-
Amortisation charge (note 6)	(3.9)	-	(3.9)
Closing net book amount	8.8	3.9	12.7
At 31 March 2022			
Cost	43.6	3.9	47.5
Accumulated amortisation	(34.8)	-	(34.8)
Net book amount	8.8	3.9	12.7

Included within disposals are assets with a nil net book value at time of disposal. The original cost of these assets was £0.2m (2021: £nil).

12. OTHER INVESTMENTS – LOANS TO GROUP UNDERTAKINGS

	£m
At 1 April and 31 March 2021	**61.1**

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 2022 £m	2021 £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	14.1	14.1

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

13. DEFERRED TAXATION

	2022 £m	2021 £m
Provision for deferred tax comprises:		
Accelerated capital allowances and capital element of finance leases	**93.2**	72.3
Deferred income	**(7.8)**	(5.8)
Short-term timing differences	**(0.1)**	(0.1)
Net deferred tax liability	**85.3**	66.4

Reflected in the statement of financial position as follows:

	2022 £m	2021 £m
Deferred taxation asset	**(7.9)**	(5.9)
Deferred taxation liability	**93.2**	72.3
Deferred tax liabilities net	**85.3**	66.4

Deferred tax liabilities	**Accelerated capital allowances £m**	**Total £m**
At 1 April 2020	**71.6**	**71.6**
Charged to the income statement	**0.7**	**0.7**
At 31 March 2021	**72.3**	**72.3**
Credit to the income statement	**(1.5)**	**(1.5)**
Charged to the income statement – change of rate	**22.4**	**22.4**
At 31 March 2022	**93.2**	**93.2**

Deferred tax assets	**Deferred income £m**	**Other £m**	**Total £m**
At 1 April 2020	(5.8)	(0.1)	(5.9)
Credited to the income statement	-	-	-
At 31 March 2021	**(5.8)**	**(0.1)**	**(5.9)**
Credited to the income statement	**(0.1)**	**(0.1)**	**(0.2)**
Credited to the income statement – change of rate	**(1.9)**	**-**	**(1.9)**
Charged to the income statement	**-**	**0.1**	**0.1**
At 31 March 2022	**(7.8)**	**(0.1)**	**(7.9)**

13. DEFERRED TAXATION (continued)

Capital allowances are available when a business incurs qualifying expenditure on capital items such as infrastructure assets. Capital allowances provide tax relief on these items in place of accounting depreciation which is not tax deductible. Over the period of ownership of an asset, cumulative depreciation and capital allowances will equalise. Capital allowance rates are set by the UK Government and every business receives the same rate of allowance. Capital allowance rates vary from 3% up to 100% in certain instances, with most items qualifying for relief in the current year at either 6% or 18% per annum. Given the Company's continued capital expenditure programme, it is unlikely that the deferred tax liability resulting from the acceleration of tax relief on qualifying capital expenditure will crystallise in the foreseeable future.

The different accounting treatment of property, plant and equipment for tax and accounting purposes means that the taxable income of the Company is not the same as the profit reported in the financial statements. The adjustments for this are reflected in the current tax reconciliation. As explained in note 8, the government has introduced capital expenditure super-deduction allowance incentives for the two year period to April 2023 which increases the rate of capital allowance to up to 130% for expenditure on qualifying plant and machinery. This provides an increase in current tax relief to the Company with a consequently higher deferred tax liability and charge due to the additional capital allowance deductions and the increase in the rate of corporation tax rate to 25% from April 2023.

Short term temporary differences also arise on items such as provisions because the treatment of such items is different for tax and accounting purposes. These differences reverse over future years following that in which they arise, as is reflected in the deferred tax charge in these financial statements. Short term liabilities including provisions will typically crystallise in the following year.

Where interest charges and other costs are capitalised in the accounts, tax relief is either given as the charges are incurred or when the costs are taken to the income statement.

14. RETIREMENT BENEFIT SURPLUS

Defined benefit scheme

Pension arrangements for employees are partly provided through the Company's membership of the 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. The process to buy-out and wind up the Scheme is continuing including discussions regarding the release of the surplus on completion of this process.

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 11 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 materially match the value of the relevant liabilities.

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 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 c£1.0m (2021: c£1.0m) is included within the scheme liabilities for estimated GMP equalisation costs.

14. **RETIREMENT BENEFIT SURPLUS (continued)**

On 20 November 2020, the High Court handed down a further judgment, stating that pension schemes should pay uplifts in respect of members who had transferred benefits out in the past (back to 17 May 1990), where those benefits were not equalised in line with the 2018 judgment. Following advice from LCP a further £0.1m estimated cost was recognised as a past service cost in the income statement 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 to equal 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 2021, by LCP, using the following major assumptions in accordance with IAS 19 'Employee Benefits':

	2022	2021
Assumptions:		
RPI Inflation	**3.6%**	3.6%
CPI Inflation	**3.0%**	3.1%
Discount rate	**2.8%**	1.9%

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:

	2022	2021
Life expectancy at age 60 at the balance sheet date		
- Men	**27.7**	27.6
- Women	**29.9**	29.9
Life expectancy at age 60, 25 years from balance sheet date		
- Men	**30.5**	30.4
- Women	**32.2**	32.1

Reconciliation of scheme assets and liabilities:

	Assets £m	**Liabilities £m**	**Total £m**
Pension scheme surplus at 1 April 2020	171.0	(156.1)	14.9
Section expenses	(0.9)	-	(0.9)
Past service cost	-	(0.1)	(0.1)
Interest income (note 7)	3.8	(3.4)	0.4
Remeasurements:			
Return on plan assets, excluding amounts included in interest income	30.7	-	30.7
Changes in financial assumptions	-	(36.8)	(36.8)
Changes in demographic assumptions	-	(0.6)	(0.6)
Experience adjustments on obligation	-	6.4	6.4
	30.7	(31.0)	(0.3)
Benefits paid	(13.5)	13.5	-
Pension scheme surplus at 31 March 2021	**191.1**	**(177.1)**	**14.0**

14 RETIREMENT BENEFIT SURPLUS (continued)

	Assets £m	Liabilities £m	Total £m
Pension scheme surplus at 1 April 2021	191.1	(177.1)	14.0
Section expenses	(0.9)	-	**(0.9)**
Interest income (note 7)	3.6	(3.3)	**0.3**
Remeasurements:			
Return on plan assets, excluding amounts included in interest income	(25.8)	-	**(25.8)**
Changes in financial assumptions	-	27.3	**27.3**
Experience adjustments on obligation	-	(2.5)	**(2.5)**
	(25.8)	24.8	**(1.0)**
Benefits paid	(6.8)	6.8	**-**
Pension scheme surplus at 31 March 2022	**161.2**	**(148.8)**	**12.4**

Total amount recognised on the statement of financial position:	**2022 £m**	2021 £m
Fair value of plan assets	**161.2**	**191.1**
Pension scheme obligation	**(148.8)**	**(177.1)**
Pension scheme surplus	**12.4**	**14.0**
Less: restriction of surplus	**(4.3)**	**(4.9)**
Net pension scheme surplus	**8.1**	**9.1**

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 2022

	Change in assumption	Increase in assumption £m
Discount rate	0.1% pa	(2.2)
Inflation assumption (CPI)	0.1% pa	2.1
Life expectancy	1 year	7.2

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.

14 RETIREMENT BENEFIT SURPLUS (continued)

Total cost recognised as an expense / (income):

	2022	2021
	£m	£m
Interest income (note 7)	**(0.3)**	(0.4)
Section expenses	**0.9**	0.9
Past service cost	**-**	0.1
	0.6	0.6

The market value of the plan assets was:

	Quoted	**2022 Unquoted**	**2022**	**%**	Quoted	2021 Unquoted	2021	%
	£m	**£m**	**£m**		£m	£m	£m	
Liquidity funds	**-**	**13.0**	**13.0**	**8.1**	13.6	1.0	14.6	7.6
Insurance policy	**-**	**147.8**	**147.8**	**91.7**	-	175.9	175.9	92.1
Cash	**-**	**0.4**	**0.4**	**0.2**	-	0.6	0.6	0.3
	-	**161.2**	**161.2**	**100**	13.6	177.5	191.1	100

The return on the plan assets was:	**2022**	2021
	£m	£m
Interest income	**3.6**	3.8
Remeasurements	**(25.8)**	30.7
Total return on plan assets	**(22.2)**	34.5

The current weighted average duration of the expected benefit payments from the Section is around 15 years.

15. DEFINED CONTRIBUTION PENSION SCHEME

The Company operates a defined contribution retirement benefit scheme 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 £2.2m (2021: £2.3m) represents contributions payable to the scheme. As at 31 March 2022 and 31 March 2021, all contributions due have been paid over to the scheme.

16. 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.

17. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise:

	2022 £m	2021 £m
Trade receivables	**25.7**	24.6
Less bad debt provision (a)	**(16.1)**	(15.9)
	9.6	8.7
Amounts owed by group undertakings (b)	**2.3**	2.6
Other receivables	**1.8**	2.0
Prepayments and accrued income	**15.8**	14.9
Corporation tax	**-**	1.4
	29.5	29.6

(a) The aging of trade receivables was:

	2022 £m	2021 Restated £m
Past due by 0-30 days	**3.8**	3.6
Past due by 31-120 days	**2.7**	3.0
Past due by more than 120 days	**19.2**	18.0
	25.7	24.6

The prior year figures have been restated to show aging of the gross trade receivables. Previously disclosed figures were on a net trade receivables basis.

Bad debt provision:

	2022 £m	2021 £m
Opening balance	**15.9**	15.3
Provision for trade receivables impairment (note 6)	**2.7**	4.9
Trade receivables written off during the year as uncollectible	**(2.5)**	(4.3)
Closing balance	**16.1**	15.9

As at 31 March 2022, £16.1m (2021: £15.9m) 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 2022 and 31 March 2021 have not been impaired.

(b) The sum of £0.4m (2021: £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 ("BWH"), a parent company, and Wessex Water Services Limited, to fund the purchase of tangible assets. This amount has no fixed repayment date.

18. CASH AND CASH EQUIVALENTS

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

	2022 £m	2021 £m
Cash and cash equivalents	**5.9**	4.8
Restricted cash	**6.1**	6.1
	12.0	10.9

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.

19. 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:

Right of use assets included in Property, Plant and Equipment

At 31 March 2022	**Freehold land, operational properties and structures £m**	**Plant and equipment £m**	**Infrastructure assets £m**	**Total £m**
Cost	9.6	3.2	1.2	14.0
Accumulated depreciation	(9.2)	(1.8)	(1.0)	(12.0)
Net book value	0.4	1.4	0.2	2.0
At 31 March 2021				
Cost	10.0	3.2	1.2	14.4
Accumulated depreciation	(9.5)	(1.4)	(1.0)	(11.9)
Net book value	0.5	1.8	0.2	2.5

Right of use assets included in Intangible Assets

At 31 March 2022	**Computer software £m**	**Total £m**
Cost	**1.3**	**1.3**
Accumulated depreciation	(1.3)	(1.3)
Net book value	-	-
At 31 March 2021		
Cost	1.3	1.3
Accumulated depreciation	(1.3)	(1.3)
Net book value	-	-

19. LEASES (continued)

Lease liabilities

	31 March 2022 £m	31 March 2021 £m
Current	**0.4**	0.4
Non-current	**1.1**	1.5
	1.5	1.9

Additions and disposals to property, plant and equipment relating to assets under leases were £nil and £0.4m respectively (2021: additions £nil and disposals £nil).

b) Amounts recognised in the income statement

The Income Statement shows the following amounts relating to leases:

Depreciation charge relating to assets under leases

	2022 £m	2021 £m
Freehold land, operational properties and structures	**-**	0.1
Plant and equipment	**0.4**	0.4
	0.4	0.5
Interest expense (included in finance cost)	**0.1**	0.2
Expense relating to short-term leases (included in administrative expenses)	**0.1**	0.1

The future minimum lease payments are as follows:	**2022 £m**	2021 £m
Within one year	**0.5**	0.5
Between one and five years	**0.5**	1.2
Later than five years	**0.9**	0.7
Total gross payments	**1.9**	2.4
Impact of finance expenses	**(0.4)**	(0.5)
Carrying value of liability	**1.5**	1.9

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 total cash outflow for leases in 2022 was £0.6m (2021: £1.2m)

20. BORROWINGS AND DERIVATIVES

	2022 £m	2021 £m
Amounts falling due within one year		
Bank and other term loans – secured	-	9.0
	-	9.0
Amounts falling due after more than one year but less than five years		
Bank and other term loans – secured	**58.0**	47.0
Net unamortised premiums arising on issue of term loans	**0.3**	0.3
	58.3	47.3
Amounts falling due after more than five years		
Bank and other term loans – secured	**339.0**	329.5
Net unamortised premiums arising on issue of term loans	**0.8**	0.8
	339.8	330.3
Irredeemable		
Debentures	**1.6**	1.6
8.75% irredeemable cumulative preference shares (note 24)	**12.5**	12.5
	14.1	14.1
Total	**412.2**	400.7

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

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 ("BWCH") (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.

20. BORROWINGS AND DERIVATIVES (continued)

	Interest rate	Maturity	Total 2022 £m	Total 2021 £m
Current loans and borrowings				
£9,000,000 bank loan			**-**	9.0
Total current loans and borrowings			**-**	9.0
Non current loans and borrowings				
£42,000,000 bank loan	1.06%	21 Jun 2023	**42.0**	31.0
£16,000,000 bank loan	1.06%	2 Dec 2023	**16.0**	16.0
£50,000,000 bank loan	1.24%	14 Jun 2028	**50.0**	50.0
£25,000,000 bank loan	2.61%	24 Aug 2028	**25.0**	25.0
£91,109,686 indexed linked term loan	3.64%	30 Sept 2032	**151.0**	145.4
£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	**55.5**	51.6
Net unamortised premiums			**1.1**	1.1
£1,405,218 Consolidated debentures	4.00%	irredeemable	**1.4**	1.4
£36,740 perpetual debentures	4.25%	irredeemable	**-**	-
£54,875 perpetual debentures	4.00%	irredeemable	**0.1**	0.1
£72,900 perpetual debentures	3.50%	irredeemable	**0.1**	0.1
£12,500,000 cumulative preference shares	8.75**%**	irredeemable	**12.5**	12.5
Total non- current loans and borrowings			**412.2**	391.7

Borrowing facilities

Unutilised borrowing facilities are as follows:	2022 £m	2021 £m
Expiring in December 2021	**-**	6.0
Expiring in June 2023	**19.0**	19.0
Expiring in December 2023	**8.0**	19.0
	27.0	44.0

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

21. DEFERRED INCOME

	2022 £m	2021 £m
Net book value, beginning of year	**84.7**	83.6
Additions	**2.1**	2.9
Recognised as income in the year (note 5)	**(1.9)**	(1.8)
Net book value, end of year	**84.9**	84.7

	2022 £m	2021 £m
Current	**1.9**	1.8
Non-current	**83.0**	82.9
	84.9	84.7

22. TRADE AND OTHER PAYABLES

	2022	2021
	£m	£m
Trade and other payables		
Receipts in advance	**13.4**	11.6
Trade payables	**4.5**	5.2
Amounts owed to group undertakings	**1.9**	1.8
Other taxation and social security	**1.1**	0.7
Corporation tax payable	**1.4**	-
Payments received on account	**1.5**	0.8
Accruals	**14.2**	15.2
	38.0	35.3

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

23. PROVISIONS FOR LIABILITIES

	Legal and similar costs	**Total**
	£m	**£m**
At 1 April 2020	6.4	**6.4**
Utilised in the year	(5.4)	**(5.4)**
Provision released to income statement	(0.5)	**(0.5)**
At 31 March 2021	0.5	**0.5**
Utilised in the year	(0.5)	**(0.5)**
At 31 March 2022	-	**-**

The prior year provisions related to two separate legal processes the Company entered into in the year ended 31 March 2020 which both concluded in the year ended 31 March 2021

24. EMPLOYEE SHARE SCHEME

Following the acquisition by Pennon Group plc employees were invited to participate in share plans operated by Pennon Group plc for the benefit of employees.

Sharesave scheme

An all-employee savings related plan is operated that enables employees to invest up to a maximum of £500 per month for three or five years. These savings can then be used to buy Ordinary shares, at a price set at a 20% discount to the market value at the start of the savings period, at the third or fifth anniversary of the option being granted. Options expire six months following the exercise date and, except for certain specific circumstances such as redundancy, lapse if the employee leaves the Pennon Group before the option exercise period commences. Outstanding options to subscribe for Pennon Group plc Ordinary shares of 60.5p each under the Sharesave scheme are:

Date granted	Subscription price fully paid pence	Period when options normally exercisable	Thousands of shares in respect of which options outstanding at 31 March 2022
6 July 2021	**879**	**2024-2026**	**201**

	Ordinary shares Year ended 31 March 2022 thousands	Weighted average exercise price per share Year ended 31 March 2022 pence
At 1 April	-	-
Granted	**211**	**879**
Forfeited	**(2)**	**879**
Exercised	-	-
Expired	**(8)**	**879**
At 31 March	**201**	**879**

	2022
Weighted average remaining life	**3.18**

The aggregate fair value of Sharesave options granted during the year was £0.6m determined Black-Scholes valuation model.

	2022
Weighted average share price	1,187p
Weighted average exercise price	879p
Expected volatility	27%
Expected life	3.4 years
Risk-free rate	0.1%
Expected dividend yield	3.0%

25. CALLED UP SHARE CAPITAL

Ordinary shares of £1 each **Issued and fully paid**	**No.**	**£m**
As at 1 April 2021 and 31 March 2022	**5,998,025**	**6.0**

All shares rank pari passu in all respects.

Preference shares of £1 each **Issued and fully paid**	**No.**	**£m**
As at 1 April 2021 and 31 March 2022	**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 BWHUK 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 2022		31 March 2021	
	Carrying value	**Fair value**	Carrying value	Fair value
	£m	**£m**	£m	£m
Non-current financial liabilities				
Long-term borrowings	**(399.7)**	**(525.3)**	(379.2)	(525.8)
8.75% irredeemable cumulative preference shares	**(12.5)**	**(24.9)**	(12.5)	(19.7)
Leases	**(1.1)**	**(1.1)**	(1.5)	(1.2)
Non-current financial assets				
Long-term loans	**61.1**	**85.7**	61.1	83.8
	(352.2)	**(465.6)**	(332.1)	(462.9)

26. FINANCIAL INSTRUMENTS (continued)

Fair values of other financial assets and liabilities

	31 March 2022		31 March 2021	
	Carrying value	**Fair value**	Carrying value	Fair value
	£m	**£m**	£m	£m
Financial assets				
Cash and cash equivalents	**12.0**	**12.0**	10.9	10.9
Trade and other receivables	**29.5**	**29.5**	29.6	29.6
Financial liabilities				
Current portion of long-term borrowings	**-**	**-**	(9.0)	(9.0)
Trade and other payables	**(38.0)**	**(38.0)**	(35.3)	(35.3)
Current portion of leases	**(0.4)**	**(0.4)**	(0.4)	(0.3)
	3.1	**3.1**	(4.2)	(4.1)

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 BWHUK.

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 £61.1m (2021: £61.1m) to BWHUK.

27. FINANCIAL RISK MANAGEMENT (continued)

(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, 22% (2021: 22%) of the Company's gross financial liabilities, excluding the 8.75% irredeemable cumulative preference shares, were at fixed rates. 73% (2021: 72%) 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 2022		31 March 2021	
	Profit before tax £m	**Profit after tax £m**	Profit before tax £m	Profit after tax £m
Movement in interest rate of 100bp	**1.1**	**0.9**	1.0	0.8

Inflation rate sensitivity

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

	2022 £m	2021 £m
Index-linked debt	**206.5**	197.0

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 2022		31 March 2021	
	Profit before tax £m	**Equity £m**	Profit before tax £m	Equity £m
Movement in Retail Price Index by 1%	**2.1**	**1.7**	2.0	1.6

27. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk

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

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

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 2022 and 31 March 2021.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. At 31 March 2022 and 2021, the maximum exposure to credit risk was as follows:

	2022	2021
	£m	£m
Long-term loans	**61.1**	61.1
Cash and cash equivalents	**12.0**	10.9
Trade and other receivables, net of bad debt provisions made	**29.5**	29.6
	102.6	101.6

Collateral of £0.2m (2021: £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 86% (2021: 86%) 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 £19.0m expiring in June 2023 and £8.0m 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 (2021: £6.1m), are therefore not available for other operational use or distribution to shareholders.

27. FINANCIAL RISK MANAGEMENT (Continued)

(d) Liquidity risk (continued)

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 2022 we have assumed that indexation will be applied at the rate of around 3% p.a. except in the first year where we have assumed around 6%. At 31 March 2021 we assumed that indexation would be applied at the rate of around 3% p.a. These are the latest forecast rates for inflation on index linked loans to be applied at 31 March 2022 and have been applied for each year until maturity.

Year ended 31 March 2022	**Due within one year £m**	**Between one and two years £m**	**Between two and five years £m**	**After five years £m**	**Total £m**
Trade creditors	**4.5**	-	-	-	**4.5**
Due to group and associated companies	**1.9**	-	-	-	**1.9**
Other taxation and social security	**1.1**	-	-	-	**1.1**
Corporation tax payable	**1.4**	-	-	-	**1.4**
Accruals	**0.3**	-	-	-	**0.3**
Interest bearing loans and related interest	**12.6**	**70.8**	**38.3**	**536.0**	**657.7**
	21.8	**70.8**	**38.3**	**536.0**	**666.9**

Year ended 31 March 2021	**Due within one year £m**	**Between one and two years £m**	**Between two and five years £m**	**After five years £m**	**Total £m**
Trade creditors	5.2	-	-	-	5.2
Due to group and associated companies	1.8	-	-	-	1.8
Other taxation and social security	0.7	-	-	-	0.7
Corporation tax payable	-	-	-	-	-
Accruals	0.7	-	-	-	0.7
Interest bearing loans and related interest	21.5	12.6	84.5	529.1	647.7
	29.9	12.6	84.5	529.1	656.1

(e) Covenants compliance risk

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

28. COMMITMENTS

Capital commitments at 31 March 2022 contracted for but not provided were £6.9m (2021: £2.2m).

29. CASH FLOW INFORMATION

(a) Net debt reconciliation

Analysis of net debt:

	31 March 2022 £m	31 March 2021 £m
Cash and cash equivalents	**12.0**	10.9
Borrowings – repayable within one year (including overdraft)	**(0.4)**	(9.4)
Borrowings – repayable after one year	**(413.3)**	(393.2)
Net debt	**(401.7)**	(391.7)
Cash and liquid investments	**12.0**	10.9
Gross debt – fixed interest rates	**(99.2)**	(99.6)
Gross debt – variable and indexed interest rates	**(314.5)**	(303.0)
Net debt	**(401.7)**	(391.7)

Movements in net debt

	Other assets	Liabilities from financing activities				
	Cash / bank overdraft	Leases due within 1 year	Leases due after 1 year	Borrowings due within 1 year	Borrowings due after 1 year	Total
	£m	£m	£m	£m	£m	£m
Net debt as at 1 April 2020	10.1	(0.9)	(1.9)	-	(391.5)	(384.2)
Cash flows	0.8	1.1	-	-	(6.0)	(4.1)
Other non-cash movements	-	(0.6)	0.4	(9.0)	5.8	(3.4)
Net debt as at 31 March 2021	10.9	(0.4)	(1.5)	(9.0)	(391.7)	(391.7)
Cash flows	**1.1**	**0.4**	**-**	**9.0**	**(11.0)**	**(0.5)**
Other non-cash movements	**-**	**(0.4)**	**0.4**	**-**	**(9.5)**	**(9.5)**
Net debt as at 31 March 2022	**12.0**	**(0.4)**	**(1.1)**	**-**	**(412.2)**	**(401.7)**

30. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The immediate parent company for this entity is BWCH, a company incorporated in England and Wales.

As at 31 March 2021, 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.

On 3 June 2021 Pennon Group plc acquired the entire shareholding of Bristol Water Holdings UK Limited ("BWHUK") the Company's intermediate parent company, and its subsidiaries. As a result of the acquisition of BWHUK, Pennon Group plc became the ultimate parent and controlling party of the Company.

The smallest and largest group in which the Company is consolidated is Pennon Group plc which is registered in England and copies of its consolidated interim report are available from Peninsula House, Rydon Lane, Exeter, Devon, England, EX2 7HR.

31. RELATED PARTY TRANSACTIONS

Throughout the year, related parties include members and joint ventures of the Bristol Water Group Limited group of companies (until 2 June 2021); members of the Pennon Water plc group of companies (from 3 June 2021); members of the iCON Infrastructure LLP group of companies (until 2 June 2021); members of Itochu Corporation (until 2 June 2021), and key management personnel.

The principal related parties are:

Pennon Group plc, registered in England and Wales, whose year end is 31 March, and is the Company's ultimate UK holding company.

BWHUK, registered in England and Wales, whose year end is 31 March.

BWCH, the Company's immediate parent, registered in England and Wales, whose year end is 31 March.

Bristol Wessex Billing Services Limited ("BWBSL"), registered in England and Wales, whose year-end is 31 March. The joint venture interest is held by Bristol Water Holdings Limited, an intermediate holding company within the BWHUK group of companies, 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 BWH Limited, an intermediate holding company, 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.

Pennon Water Services Limited ("PWS"), registered in England and Wales, whose year-end is 31 March. The interest is held by PG, the ultimate parent company, which owns 80% of PWS. On 3 June 2021, following the acquisition by Pennon Group plc, PWS became a related party of the Company. PWS has a retail water and sewerage supply licence and provides retail water services to non-household customers.

Bristol Water Group Limited ("BWG"), registered in England and Wales, whose year end is 31 March, and until 2 June 2021 was the Company's ultimate UK holding company. Following the acquisition by Pennon Group plc, BWG ceased to be a related party of the Company on 2 June 2021.

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**	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Joint ventures and associates of the Pennon Group plc group				
BWBSL				
- management charges	**-**	-	**2.8**	2.8
- capital expenditure	**-**	-	**0.2**	0.2
- other recharges	**-**	-	**0.1**	0.1
W2B				
- non-household supply of water	**16.7**	**17.1**	**-**	-
PWS				
- non-household supply of water	**0.6**	-	**-**	-
	17.3	**17.1**	**3.1**	3.1

The amounts above relating to PWS are for the period 3 June 2021, when PWS became a related party of the Company, to 31 March 2022.

31. RELATED PARTY TRANSACTIONS (continued)

Non trading transactions

During the year BW received £1.6m (2021: £nil) from BWG for employee services to BWG relating to the sale of the business. At the year end the balance was zero.

At the year end the balances held with related parties were:

	Amounts due from		Amounts due to	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Joint ventures and associates of the Bristol Water Group Limited group				
BWBSL	**0.9**	1.0	**1.4**	1.4
W2B	**1.4**	1.2	**0.3**	-
PWS	**-**	-	**-**	-
	2.3	2.2	**1.7**	1.4

The amounts outstanding are unsecured and will be settled in cash. As a retailer in the non-household market, W2B and PWS supply 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 Directors' Remuneration Committee Report on pages 88 to 107.

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 2022 and of its loss 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 2022; the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement 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.

Other than those disclosed in Note 6, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

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

Key audit matters

- Expected credit loss provision
- Classification of expenditure on infrastructure assets
- Valuation of the defined benefit pension obligation

Materiality

- Overall materiality: £690,000 (2021: £550,000) based on 5% of profit before tax adjusted for exceptional items.
- Performance materiality: £517,500 (2021: £410,000).

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.

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.

The impact of COVID-19, which was a key audit matter last year, is no longer included because of the notable impacts were endured only in the prior financial year. We had noted that some impacts may be more sustained: the impact on recoverability of trade receivables for domestic households is now embedded within that risk; and the impact on going concern is less of a risk due to the acquisition by Pennon plc in the year, and the related group support the company has received. Accordingly no separate key audit matter for COVID-19 is deemed appropriate this year.. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Expected credit loss provision Refer to Note 4 for the directors' disclosure on the critical accounting judgements and key sources of estimation uncertainty and Note 17 for further details of the provision. As at 31 March 2022, the Company held a provision for the expected credit loss of domestic customer receivables amounting to £16.1m (2021: £15.9m). The recoverability of customer debts is always a key issue for water companies. The assessment of recoverability of debt is 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. In determining the expected credit loss provision, management make assumptions based on historical trends relating to non-payment of invoices and use these as a basis to assess expected credit losses in the future. This risk continued to be heightened in the current period due to the anticipated impact of the cost of living crisis. As a result, 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.	We obtained management's expected credit loss model and confirmed that it was consistent with that used in prior years. 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. In respect of the overlay for the impact of the cost of living, we assessed management's assumption by considering the previous experience of the Company during the 2008 financial crisis, together with our understanding of the effects on recoverability in the sector. Specifically, we corroborated the rates applied by considering different macro economic indicators such as forecast falls in real wages. We also assessed the adequacy of disclosures in the notes to the financial statements in respect of the key judgements and estimates involved in the expected credit loss provision, and the sensitivity of the provision to changes in these judgements and estimates, particularly in relation to the cost of living crisis. Based on the above we found that the level of provision held to be reasonable and that appropriate disclosures have been made.
Classification of expenditure on infrastructure assets Refer to Note 4 for the directors' disclosure on the critical accounting judgements and key sources of estimation uncertainty and Note 10 for details of capital expenditure to property, plant and equipment ('PPE') during the year. Expenditure on infrastructure assets is either capitalised as an addition to PPE or expensed in the income statement, depending on the nature of the work done. This designation is made with reference to company's policy, OFWAT guidance and the requirements of IAS 16. The key judgements relate to management's assessment of what constitutes enhancement expenditure versus maintenance expenditure, and also the determination of payroll costs relevant for capitalisation. Additions to PPE during the year amounted to £38.7m (2021: £35.2m).	We assessed the process for determining the nature of infrastructure projects and are satisfied that the approach taken has been made appropriately in accordance with the accounting standards and on a consistent basis with prior years. We tested a sample of infrastructure projects to validate that they had been authorised and the designation as a capital project was appropriate. We also tested a sample of amounts capitalised in the year to supporting documentation, such as invoices or payroll records in the case of capitalised labour costs and confirmed that they related to a capital project where expenditure should be capitalised. From these procedures, we are satisfied that the expenditure on infrastructure assets has been classified in accordance with the company's accounting policy and relevant external guidance.
Valuation of the defined benefit pension obligation Refer to Note 4 for the directors' disclosure on the critical accounting judgements and key sources of estimation uncertainty and Note 14 for full disclosures of the defined benefit pension scheme. The valuation of the defined benefit pension obligation 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 determine the obligation such as the discount rate, inflation rates and mortality could have a material impact on the calculation of the liability. The defined benefit pension obligation before taking account of scheme assets as at 31 March 2022 was £148.8m (2021: £177.1m).	We used our own actuarial experts to evaluate the assumptions made in relation to the valuation of the scheme liabilities. We benchmarked the various assumptions used and compared them to our internally developed benchmarks which reflect the post pandemic environment where relevant. We considered the consistency and appropriateness of the methodology and assumptions applied compared to the prior year end. We also obtained appropriate evidence for the competency and qualifications of the company's actuary who performed the valuation. We checked the disclosures included in the financial statements to ensure that they were in compliance with IAS19. Overall, we concur that the methodology and assumptions used to determine the defined benefit pension obligation at 31 March 2022 were reasonable and that the disclosures are appropriate.

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:

Overall company materiality	£690,000 (2021: £550,000).
How we determined it	5% of profit before tax adjusted for exceptional items
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, in the absence of indicators that an alternative benchmark would be appropriate.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £517,500 (2021: £410,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £35,000 (2021: £27,500) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Considering whether the Company is able to meet liabilities as they fall due over a period of at least the next 12 months,
- Reviewing the going concern assessment of the company, including the cash flow forecasts, availability of bank facilities and forecast bank covenant compliance; and
- Review the letter of support provided by the parent, Pennon Group plc, and the parent's ability to provide support to the company, particularly in the context of the maturity of the Company's revolving credit facilities in 2023.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

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 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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.

Corporate governance statement

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' 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 its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the company and its environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility 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.

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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Listing Rules, pension legislation, UK Tax legislation and OFWAT regulations, 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 financial statements such as the Companies Act 2006. 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, in house legal counsel and the members of the Audit Committee, 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; and
- Incorporated an element of unpredictability to our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors’ report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained 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 members 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 10 years, covering the years ended 31 March 2013 to 31 March 2022.

Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Other voluntary reporting

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
30 June 2022

Independent auditors' report to the Directors of Bristol Water Plc

Report on the audit of the financial statements

Glossary of Acronyms

ACIP	Annual Cash Incentive Plan
ACT	Advance Corporation Tax
AMP	Asset Management Plan
ARAC	Audit and Risk Assurance Committee
BWBSL/Pelican	Bristol Wessex Billing Services Limited
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CMA	Competition and Markets Authority
C-MeX	Customer Measure of Experience
CRI	Compliance Risk Index
CRT	Canal and River Trust
DEFRA	Department for Environment, Food & Rural Affairs
D-MeX	Developer Services Measure of Experience
DWI	Drinking Water Inspectorate
EBITDA	Earnings Before Interest Tax Depreciation and Amortisation
GDPR	General Data Protection Regulation
GMP	Guaranteed Minimum Pension
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
Ml	Megalitres (1,000,000 litres)
MSA	Modern Slavery Act
NED	Non-Executive Director
ODI	Outcome Delivery Incentive
PCC	Per Capita Consumption
PR19	Price Review 2019
PR24	Price Review 2024
RCV	Regulatory Capital Value
RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulations
RORE	Return on Regulatory Equity
STID	Security Trust and Intercreditor Deed
WCPS	Water Companies' Pension Scheme
W2B	Water 2 Business Limited