BRISTOL WATER PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

Registered Number: 02662226

What's in this report?

STRATEGIC REPORT

BUSINESS REVIEW

During the year to the 31 January 2023, the Company continued to trade as normal, providing safe, clean drinking water, to an estimated population of c.1.2 million people in the wider Bristol area every day. On 1 February 2023, the merger of South West Water and Bristol Water completed with Bristol Water's operating licence transferring to South West Water Limited ('SWW'). As part of the transfer scheme, the trade and majority of assets and liabilities of Bristol Water plc ('BW') were transferred to SWW. SWW will continue to operate under the Bristol Water name in the area Bristol Water serves. From this date, the operating activities of BW ceased with only residual preference shares, debt and the pension surplus remaining in the Company. Any commitments under these instruments are fully supported by interest bearing loans receivable from SWW. The Company is now owned directly by SWW, a direct subsidiary of Pennon Group plc, the ultimate parent company.

As a result of the above, the financial performance included in these accounts relates to 10 months of trade up to the point of the statutory transfer. Certain other metrics comprise the full year of trading in relation to the activities carried out by the Company until 1 February and the 2 months of trading that was transferred to SWW.

Financial performance summary and Key Performance Indicators (KPIs)

	2022/23 (10 months trading)	**2021/22 (12 months trading) restated**
Revenue	£109.0m	£125.5m
Underlying revenue[1,2]	£115.6m	£125.5m
Underlying (loss)/profit before tax[1]	(£3.8m)	£15.1m
Non-underlying items before tax[1]	(£20.9m)	(£0.1m)
(Loss)/profit before tax	**(£24.7m)**	**£15.0m**
Earnings per share		
Statutory loss per share	(336.7p)	(175.0p)

The full year results include the 10 months trading of BW as a statutory water undertaker, to the point of the statutory transfer which transferred its licence, trading, assets and liabilities to SWW on 1 February 2023. All comparators are for 12 months of trading. Post the statutory transfer, no transactions were recognised in the income statement except for those relating to the remaining preference shares, debentures and pension asset. Going forward remaining obligations relating to these will be met from matching intra-group contracted assets and related receipts.

£115.6 million underlying revenue reflects the reduction from 2 months fewer of trading, offset by increased tariffs in line with the regulatory mechanism. The £3.8 million underlying loss before tax reflects the near-term pressures on earnings from inflation driven power pricing and financing costs. Significant net non-underlying

[1] Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of financial performance
[2] The Company's statutory revenue for 2022/23 of £109m included non-underlying revenue reductions of £6.6m in respect of a customer bill credit under WaterShare+

reduction in profits reflect the impact on revenue of delivering on our WaterShare+ commitments and cost resulting from the statutory transfer to SWW, including bond redemption costs and legal costs. The statutory loss per share of 336.7 pence includes significant non-underlying items. Statutory loss per share for 2021/22 was impacted by the significant non-underlying deferred tax charge in respect of the change in corporation tax rate.

Dividends
During the financial year, the Company paid dividends of £64.3m (2021/22: £8.9m) to its former immediate holding company Bristol Water Core Holdings limited, no dividends have been paid to SWW since the transfer of ownership of 1 February 2023. Of the paid dividend, £nil was returned to the Company in respect of interest owing on intragroup debt facilities (2021/22: £2.9m) and £61.1m was ultimately used to repay the outstanding loan due to the Company from Bristol Water Holdings UK limited ("BWHUK").

Annual dividends of £1.1m (2021/22: £1.1m) continued to be paid on the irredeemable preference shares. The irredeemable preference shares are shown as debt in the balance sheet, and the dividend is therefore shown as a finance cost in the income statement.

Pensions
Pension arrangements for employees were historically provided partly through our membership in the Water Companies' Pension Scheme ("WCPS"), which provides defined benefits based on final pensionable pay. We have a separate section within 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), at 31 March 2023 shows a net pension surplus of £8.2m which has been recognised in the financial statements (2022: £8.1m). 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 16 and 17 to the financial statements.

STRATEGIC REPORT (continued)

OUR PERFORMANCE INCLUDING NON-FINANCIAL KPIs

Our performance against our business plan commitments is set out below. These metrics, where relevant, relate to the full year of the trade of the Bristol Water business to aid comparability with the prior year. These metrics comprise the 10 months' performance in relation to the activities carried out by the Company until 1 February 2023 and the 2 months of trading that was transferred to SWW.

Safe and Reliable Water Supply

Improving water quality

	2022/23 target	2022/23 actual	2021/22 actual	Target achieved
Number of negative customer contacts regarding water quality - Appearance Number / 1000 population	0.63	0.94	1.11	No
Number of negative customer contacts regarding water quality – Taste and Smell Number /1000 population	0.32	0.27	0.28	Yes
Turbidity Number	0	0	0	Yes

Water quality measures are reported to the Drinking Water Inspectorate (DWI) for a calendar year, and therefore these measures are reported for the calendar year of 2022.

Water quality is vitally important to customers, who rely on it being safe and clean. Although there has been significant improvement in Water Quality performance, we were unable to achieve our target for the number of negative customer contacts about the appearance of the water.

Compared to 2021 there has been a noticeable reduction in the number of contacts for those appearance problems that can develop in customer homes reflecting continual improvements to the information available for customers to self-serve. The majority of appearance contacts are often caused by network disturbance resulting in the water appearing cloudy or discoloured. The Company's aim to identify the root cause of each contact has allowed it to improve its own processes when working on water mains as well as innovative options for reducing the occurrence of this happening.

For Turbidity we report the number of Treatment Works schemes delivered in the year where the substantive activity takes place. This is a basic measure with no calculations. The figure for 2022 is 0. There have not been any raw water schemes since 2018 and we are not delivering schemes relating to a deterioration of raw quality for the remainder of AMP 7.

Reducing Supply interruptions

	2022/23 target*	2022/23 actual*	2021/22 actual	Target achieved
Supply Interruptions Minutes per customer	5.75	8.05	2.52	No
Mains repairs Repairs per 1,000km	134.6	170.8	106.4	No
Risk of low pressure Number of properties	57	2	11	Yes
Unplanned non-infrastructure maintenance Number of events	3,272	3,077	3,026	Yes

*Period covers 12 months from 1 April 2022 to 31 March 2023

STRATEGIC REPORT (continued)

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.

This year the impact of two events has led to us exceeding the target.
1.82 minutes - Evercreech 10in main burst affecting 1,500 properties for over 12 hours.
1.63 minutes – Chilcompton 8in main burst affecting 1,400 properties for over 10 hours.

We have made fundamental changes in our approach over the past four 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 last year and an underlying good performance this year (outside of the two events mentioned above) despite two severe weather events (a summer heatwave and a winter freeze-thaw event).

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. This year these have included a summer heatwave and a winter freeze-thaw event. Our proactive planning has maintained supplies to customers during both planned and unplanned events with the use of rezones, 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 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 the mains network.

We have minimised the likelihood of mains bursts by replacing targeted sections or whole areas of poorly performing pipes. We have minimised high pressure risks where we could and monitored the network for 'transient' pressure spikes that can lead to mains failures.

This year, these interventions were not enough to counteract two extreme weather events (summer heatwave and winter freeze-thaw) and we have missed 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 continued with our determined effort to minimise the properties at risk of receiving low pressure and commissioned more targeted interventions to improve our customers' experience and remove a further 9 properties from the Low Pressure Register.

Unplanned Non-Infrastructure Maintenance

Unplanned maintenance events mean potential interruptions to the treatment and supply of clean and wholesome water. The more we can reduce the occurrence of unplanned events on our treatment works the more reliable the supply of water.

We aimed 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 in our assets we were able to provide a resilient supply of quality water with minimal interruptions. This was achieved by assessing all our assets to better understand which have the greater impact on our ability to meet our customer requirements.

A lower number in this indicator identifies reduced asset downtime and increased reliability.

The total number of unplanned maintenance events in reported period is similar to previous period and is below the limit.

Resilience-boosting protection

	2022/23 target*	2022/23 actual*	2021/22 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	29.8	60.9	32.9	No
Unplanned Outage Percentage temporary loss of peak week production capacity	2.34	6.01	1.74	No

*Period covers 12 months from 1 April 2022 to 31 March 2023

Drought Risk

The population is considered to be 'at risk' if the supply-demand balance calculation in each water resource zone (as used for water resource planning) for the 1-in-200 year drought event results in a shortfall (deficit). This will occur when the theoretical deployable output minus outage allowance (available supply) is less than the dry year demand plus base year target headroom. Due to the increase in potable water exported this year as a result of a drier year, and this year's outage allowance is about 274% higher than the previous year, this has adversely impacted the final figure for this performance commitment.

Unplanned Outage
Outage has increased in 2022/23 primarily because of unplanned outages at our largest water treatment works due to a variety of reasons including pump failures and blockages. These asset failures account for 5.82% of the unplanned outage in 2022-23. However, despite this level of unplanned outage during an exceptionally dry year, Bristol Water did not initiate its drought plan and Temporary Use Bans (TUBs) were not required to maintain a resilient water resource position.

The planned outage for 2022/2023 is higher than previous years due to continued progress on improvements to process at a single treatment works, the inclusion of a planned outage to upgrade a minor groundwater treatment works and the planned maintenance of another site.

Excellent Customer Experiences

Affordable for All

	2022/23 target*	2022/23 actual*	2021/22 actual	Target achieved
Percentage of customers in water poverty Percentage	0	0	0	Yes
Value for Money Percentage	83	68	77	No
Void Properties Percentage	1.80%	1.79%	1.80%	Yes

*Period covers 12 months from 1 April 2022 to 31 March 2023

Percentage of customers in water poverty
The performance commitment Percentage of Customers in Water Poverty ensures we help those customers on the lowest incomes and experiencing the most serious financial difficulties. To do this we tracked 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 have offered three discounted tariffs to make sure we can help customers who find it hard to pay their water charges, with 22,723 customers receiving assistance through these measures, an increase of 7% over last year. In addition to the social tariff schemes, 3,759 households have benefitted from our 'Restart' scheme to help clear their water bill debt. During 2022, due to the pressures on the debt sector, we made our 'Assist' tariff more accessible to our customers from their first contact. This involved a new customer journey with the intention to reduce the customer effort needed to get financial help.

Customers who qualify for Assist can have an initial 50% bill reduction before they seek independent debt advice, this can be done at the first point of asking. Customers have up to 12 months to get this advice. Customers were encouraged to get debt advice as soon as possible as greater discounts could be given if eligible.

Our work with our debt advice partners continued to be key to promoting the help available, alongside marketing and key messages on the bill. We were committed to keeping the message of help as easy as possible for all who needed it.

We also offered 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.

STRATEGIC REPORT (continued)

Value for money
Understanding how our customers rate the service we provided in terms of the value for money helped us to see if the balance of the cost of the service met the customers' expectations. Of the 1,000 household customers surveyed once a year, for 2022/2023 we have seen a reduction in the satisfaction of this measure to 68% from 72% the previous year. The insights from this survey tell us that 'Affordable bills' were identified as a priority, as well as 'providing a regular and reliable supply of water', 'provides water that tastes good, has no smell and looks good' and 'responds quickly in emergencies'. 11% of those surveyed had been concerned about paying their bill in the last year, a drop of 4% from the previous year and 25% were aware of low tariffs for customers who struggle to pay, this compares to 20% the previous year. It is reassuring that those in financial difficulty are finding the help they need, and feedback is noted that we needed to ensure as well as providing a good water service to our customers, we were explaining clearly what their bill covers to increase this satisfaction score.

The customer strategy we had in place identified the need to communicate more about the benefits of Bristol Water in the community and to provide a more efficient service through digitalising further the customer journey.

Achieving Customer excellence

	2022/23 target*	2022/23 actual*	2021/22 actual	Target achieved
Customer Measure of Experience ("C-MeX") Score	81.26	80.68	82.86	No
Developer Services Measure of Experience ("D-MeX") Score	89.89	89.99	85.26	Yes
Total Customer Complaints Per 10,000 customers	29.3	23.9	34.8	Yes

*Period covers 12 months from 1 April 2022 to 31 March 2023

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, which we maintained from the previous year. Our perception score has dropped to 10th in 2022/23, it was dominated by an exceptionally low score in the second quarter.

This result indicates that we were providing customer service to a level better than the target, two years ahead of the target of 5th position.

D-MeX

Our D-MeX performance has improved year on year, with us finishing 4th for 2022/2023, an increase from the previous year of 9th and ahead of target (5th).

The year has seen consistent good performance with the management of jobs to ensure all work is done within the expected timescale. We significantly increased our customer feedback across the customer journey to learn how to improve the service. This, combined with regular Market Engagement Days with Developers and Self Lay providers, has contributed to a better performance in the qualitative survey.

Total Customer Complaints

We are delighted with our complaints performance which was significantly under our targeted level at 24.2 complaints per 10,000 customers. Complaint resolution and handling was a key focus of our customer experience strategy; every complaint was handled by our Customer Care Team where a designated member of staff ensured that the complaint is resolved on a timely and complete basis. The team provided root cause information which fed into our learnings and future improvements to prevent repeat complaints. This in turn ensured we were industry leading and reducing the chance of causing customers to complain.

Inclusive Services

	2022/23 target*	2022/23 actual*	2021/22 actual	Target achieved
Priority Services Register ("PSR") Reach Percentage	5.1	6.5	4.1	Yes
Percentage of satisfied vulnerable customers Percentage	85	88	89	Yes

*Period covers 12 months from 1 April 2022 to 31 March 2023

Priority Services Register ("PSR")

We registered an additional 12,597 households on the PSR in 2022/23, taking the number registered from 21,167 to 33,764. 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 which has covered a range of activities. We had a two-way data share in place with National Grid (NGED) and Scottish and Southern Energy Network (SSEN). We also onboarded several external stakeholders this year who supported us in identifying those in vulnerable circumstances and registering for our priority services. We continued our work with our vulnerability heroes supporting the training needs across the business.

Percentage of satisfied vulnerable customers

500 of our customers registered on the PSR were surveyed annually and asked to rate the service we have provided as a result of being on the register. For 2022/23, 88% of our vulnerable customers rated the service they receive through the PSR as either very satisfied or satisfied compared to the 2022/23 target of 85%. This is a decrease of 1 percentage point 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 2022/23.

STRATEGIC REPORT (continued)

Local Community and Environmental Resilience

Building Biodiversity and Protecting the Environment

	2022/23 target*	2022/23 actual*	2021/22 actual	Target achieved
Biodiversity Index Index	17,689	17,692	17,678	Yes
Raw Water Quality of Sources Kg of phosphorus	322	394	239	Yes
Waste Disposal Compliance Percentage	100	98	98	No
Water Industry National Environment Programme ("WINEP") Compliance Percentage	100	100	100	Yes

*Period covers 12 months from 1 April 2022 to 31 March 2023 with the exception of Waste Disposal Compliance which are reported for a calendar year, therefore 2022/23 represents the 2022 calendar year.

Biodiversity Index
The 2022/2023 Biodiversity Index KPI target has been achieved. Over the year there has been habitat management and intervention work that has resulted in a net gain of 15.32 Biodiversity Index points. Enhancement has been achieved through the planting of hedgerows in locations either to fill or restore existing hedgerows, unite discrete sections to form a continuous linear habitat, or create new stretches of hedgerows to replace habitat that had existed in the past.

There has been activity to mitigate degradation due to capital delivery projects and the impact of invasive plant species. These include planting to offset tree removal due to ash dieback works, and removal of Himalayan balsam.

Other work has taken the form of strategic planning in terms of invasive species and a proactive programme of habitat maintenance, including a review of grass mowing requirements to balance the need for reservoir safety with the desire to promote grass and flower species diversity at certain 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, 2021/22, and 2022/23 the annual loss of phosphorus from the land into the water environment has been reduced by 394 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 that we have exceeded our target.

Waste Disposal Compliance
The end of year figure is below the end of year target for this measure (100%) and therefore not met. There have been 9 compliance failures reported in 2022, compared to 6 failures in 2021. The end of year figure is 98%, the same as the previous year. 66% of the compliance failures in 2022 were from Blagdon Fisheries- the site continued to be our most challenging compliance point and in most instances the failure has been attributed to a deterioration in raw water quality rather than adverse operation of the fisheries. We continued to investigate each sample failure to ascertain root cause and we made many improvements across our sites over the years by understanding the risks to compliance and in turn fine tuning the processes associated with wastewater disposal. The number of samples taken has increased significantly from 352 samples in 2021 to 506 samples in 2022. The significant improvement in the number of samples collected is due to moving our sampling resource to a different team within the Water Quality department (Scientific Services).

STRATEGIC REPORT (continued)

WINEP Compliance
Work to deliver on our WINEP obligations and projects has progressed well through Years 1, 2 and 3. We have completed and had signed off by the EA (and Natural England for certain investigations) 30 projects, which was the stated target at this stage. We were 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 seven sites, catchment water quality investigations at Barrow WTW and at Forum Springs WTW, 18 invasive species and biosecurity investigations, and MCERTS accreditation and certification at three sites.

Reducing Leakage

	2022/23 target*	2022/23 actual*	2021/22 actual	Target achieved
Leakage Three Year Average Total leakage in million litres per day (Ml/d)	34.3	36.9	36.0	No

*Period covers 12 months from 1 April 2022 to 31 March 2023 within the three year average

Efficient use of resources by the Company
Despite a good start to the year, 2022/2023 was very challenging from a leakage perspective. Exceptional summer heat led to an increased number of bursts which then continued through the rest of the year. In particular we experienced a major burst outbreak in December when a deep freeze and subsequent thaw put a strain on the water network similar to the outbreak of 2017/2018. New initiatives were implemented during the year including the development of a fixed acoustic network in Bristol which has reduced location time.

Promoting Water Efficiency and Metering

	2022/23 target*	2022/23 actual*	2021/22 actual	Target achieved
Per Capita Consumption Index	143.1	154.8	154.7	No
Domestic Meter penetration Percentage	65.33	64.89	62.41	No

*Period covers 12 months from 1 April 2022 to 31 March 2023

Per Capita Consumption ("PCC")
PCC has shown a fall back towards pre-Covid pandemic levels as workers return to the workplace, however, it is still above target. 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. However, our customers consistently told us through consultations and surveys that they do not wish to see full compulsory metering for all domestic customers. Therefore, we were reliant upon customer demand, meter installations upon change of ownership and effective, persuasive marketing.

In June 2022 we launched our "Cheaper with a Meter" campaign to support our money back guarantee. The campaign focused on improving customer confidence to sign up for a water meter, with a strong call to action by supporting the financial saving that could be achieved through having a water meter and putting our customers in control of their bill. Campaign research found 9 out of 10 customers achieved a saving, with the average annual saving being in the region of £94, by switching to a water meter, demonstrating it can be #CheaperwithaMeter.

Additionally, our customers had the assurance that if they sign up for a meter through our free meter option scheme, and they did pay more than their rateable value after 2 years, we would refund the difference.

STRATEGIC REPORT (continued)

The “Cheaper with a Meter” campaign continued to educate and engage with our customers looking to save money on their bills and reduce the amount of water they use. We have been able to share real customer endorsements of their experience of having a meter and providing those customers with information on how they can maximise the opportunity to reduce their water impact. By supporting customers on our metering journey with water saving devices, tips and information on support measures such as our priority services register, we were confident customers would be able to make an informed decision to remain metered beyond the initial 2 year period.

Optant activity continued positively throughout the year with an overall 20% increase on 2021/2022 but at the same time we experienced an 8% decrease in the Change of Occupiers, caused by the variations in the domestic property market.

Operationally, the team installed or brought onto charge 11,554 meters in the year, which is a 21% increase on the previous year. This was achieved with an increase in our operational resource in the second half of the year across all functions, including our Construction, Surveying, Plumbing and Administration teams. This increase has allowed for a higher capacity, but due to a challenging recruitment market we did not start to benefit from the recruitment drive until the final quarter.

We have also focused on improving the conversion rates of applications and unmeasured moves. With the introduction of the Active Manager program the operational team have achieved the target of 80% of all Free Meter Option and 50% of Change of Occupier scheme, with 81% Free Meter Option and 51% Change of Occupier rates observed by the financial year-end.

As the housing market has cooled, due to economic factors outside of our control, we were focused on improving the free Meter option uptake. To do this we introduced a team targeted on the promotion of Metering. This team was underpinned and supported by the “Cheaper with a Meter” Campaign and was driven by customer engagement, increasing the opportunity to meet and discuss challenges such as private site leakage and home efficiency as well as signing up for a water meter. Supported by our operational teams, who were empowered to discuss the benefits of Metering, equipped to provide our customer information, take the meter application and to fit a meter at the earliest opportunity where appropriate, some of our customers benefited an improved customer journey and from having their meter fitted at the very point of application.

Community – Bristol Water for All

	2022/23 target	2022/23 actual	2021/22 actual	Target achieved
Local Community Satisfaction Percentage	85.0	92.0	92.6	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 worked to deliver a safe and reliable supply to customers, so that we could maximise additional economic, environmental and social value. This approach was underpinned by our social contract, which provided the framework and governance process for the delivery of this wider public value. The process was overseen by the Board and was independently challenged through designated quarterly meetings with our stakeholder panel, known as the Bristol Water Challenge Panel.

In the 2022/23 survey, 92.0% 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 92.6%

Following the results of the Local Community Satisfaction survey 2020/21, we implemented certain measures in 2021/22 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 25 in 2022/23.

Our social contract
We continued to deliver additional value to our communities through our social contract – which provided 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/. We also issued our first Watershare+ offering to customers, offering a share in the Pennon Group plc or a credit to customers' bills, under our Watershare+ commitments, see pages 2-3.

Resource West
We are taking a community leadership role on resource efficiency and have created a partnership with the University of the West of England, Wales and West Utilities and National Grid. In 2022/2023 we conducted a pilot project aimed at helping domestic consumers make reductions in energy and water consumption for financial and environmental gains. This has produced very encouraging results which are more widely applicable. The partnership has worked very effectively. The advice has been very well received. The single messaging from reputable and trusted organisations.

Our Youth Board
We have hosted an annual Youth Board programme which brought the views of young people into our decision making, as well as providing development opportunities and business experience for the young people involved. This year the Youth Board was expanded across the Pennon Group, inviting sixth form students from Devon, Cornwall, Bristol and Bournemouth to all day workshop in their region. The sixth formers collaborated with us to explore the design of our bills and critique four customer journey visions for the future. Their expectation is to deal with companies via digital means, so widely support our customer journeys that utilise current and future digital technologies to improve overall customer experience.

Supporting vulnerable customers
We appreciate the worries that the cost-of-living crisis continued to cause our customers and our strategies on supporting those in vulnerable circumstances have been shaped with this in mind. We continued to onboard external stakeholders to assist us in delivering our vulnerability message and to ensure customers could hear about the support we offered. We saw a further year on year increase on customers registering for our priority services. At the year end 22,723 customers registered which is a 7% uplift on last year.

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 have sponsored a consultancy report to explore the best means to develop a comprehensive programme. We continued to work with Bristol Green Capital Partnership to link our own strategies to those of the city and are investigating ways to adapt the Resource West approach to address the wider objectives.

We have provided learning experiences to university students through work-based placements and are aiming to extend our education programmes in line with Pennon's 2023 objectives to increase the number of work placements, apprenticeships and graduate programmes.

The Water Bar has been rebuilt. Out staff continued to attend and expand the range of events we attended with the aims of reducing the use of single use plastic bottles and spreading the message about the importance of water efficiency and its benefits for the environment.

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. As the Company has ceased operational trading the current and future impacts as set out in the Pennon Group plc Annual Report have limited to no direct impact on the Company.

2022/23 performance
As part of the Pennon Group, Bristol Water's Streamlined Energy and Carbon Reporting (SECR) is included within the Pennon Group Report. The Company has taken advantage of the exemption offered under the Companies Act 2006 and has not reported details of Greenhouse gas emissions during the financial year. Details of the Company's greenhouse gas emissions can be found in the APR.

Corporate and Financial resilience

Due to the statutory transfer of the trade and assets of the business to SWW the financial metrics that were monitored in the prior year are no longer relevant, these were in relation to Company gearing, credit rating, proportion of independent non-executive directors and Ofwat return on regulated equity. Therefore these metrics have not been presented in this report.

Staff Confidence

Health and Safety

	2022/23 target*	2022/23 actual*	2021/22 actual	Target achieved
Number of accidents reportable to Health and Safety Executive under Reporting of Injuries, Diseases and Dangerous Occurrences ("RIDDOR") Regulations. Number	0	3	2	No

*Period covers 12 months from 1 April 2022 to 31 March 2023

Our health and safety performance over the last year has been paradoxical with the number of RIDDOR reportable incidents increasing but the number of lost time injuries halving from the previous financial year. Every injury or high potential event has undergone investigation to identify mitigation and potential learnings that can be shared with the business and its contract partners. Consequently, two separate Health and Safety stand downs were hosted by a member of the Executive team where the lessons learnt were communicated to a significant proportion of the business and further cascaded to employees. This has seen a notable improvement in the engagement with our employees, building on our commitment to ensure good communication. Further proactive events including the hosting of a health & safety conference, the roll out of the HomeSafe program, the successful completion of all site safety inspections and the renewed focus on the requirement to make hazards temporarily safe, have all contributed to raising the profile and the importance of health & safety in the workplace and having a positive impact on our safety culture and the working environment. This demonstrates our clear commitment to ensuring the health, safety and wellbeing of our people.

Skilled workforce
One of our objectives was to "Develop our People and our Business", as we recognised that our people were key to the delivery of our strategy, they were the source of our customer excellence and innovation. Therefore, our aim was to have the "right people, in the right place, with the right experience, at the right time".

We have worked hard to ensure that we were seen as an 'employer of choice' and that our people shared our values and objectives. Our appraisal process continued 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 shared the same business targets for the annual bonus scheme, ensuring our people were all pointing in the same direction.

From feedback through our Employee Engagement Survey, we recognised that for many of our people personal development is very important. To support this, we encouraged and trained 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 were relevant to the individual and that they deliver the outcomes needed. Our internal Talent team delivered 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.

Employee volunteering in support of our social contract initiatives is another way in which we supported 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 2022 and 2021.

Snapshot Date: 5 April 2022	**Snapshot Date: 5 April 2021**
Mean Gender Pay Gap – 15.50%	Mean Gender Pay Gap – 11.18%
Median Gender Pay Gap – 16.56%	Median Gender Pay Gap – 14.41%
Mean Bonus Gender Gap – 11.84%	Mean Bonus Gender Gap – 25.6%
Median Bonus Gender Gap – 9.38%	Median Bonus Gender Gap – 19.4%

Our gender pay gap has increased in both mean and median calculations, although there has been improvement within the bonus pay gap. Following the statutory transfer of trade to SWW on 1 February the Company no longer employs any staff.

The gender pay gap report for the Pennon Group, including Bristol Water, can be found on the website of Pennon Group plc and includes further detail on the Pennon Group's workforce split, pay distribution and what is being done to address the gap.

Diversity

We aimed to be a fully inclusive employer and our focus internally was 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 were 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 were 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 were a member of the 'Social Mobility Pledge' and the 'Energy and Utility Skills Inclusion Commitment'.

STRATEGIC REPORT (continued)

We recognised and appreciated the importance of creating an environment in which all employees felt valued, included, and empowered to do their best and share new ideas. Employee networks play a key role in encouraging and supporting employees in bringing the best version of themselves to work, contributing to an inclusive environment and building a sense of community. Our employee networks provided: Peer to peer support, improved awareness, contributed to the broader Diversity, Equity and Inclusion enhancements and have delivered business improvements in how we work together. The employee network groups supported: Race, Ethnicity and Cultural Heritage, LGBTQ+, Women, Menopause, Grief, Financial Wellbeing, New Parents, Carers and New Starters.

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

Our management training programme supported recruitment and development by ensuring our managers were aware of how to avoid any form of bias and that they had the appropriate interview skills to select the best candidate for the position. These skills helped encourage and support diversity as well as ensuring we attracted and retained the best talent. Our Inclusive Leadership module also supported the creation of an inclusive culture and allowed our managers to reflect on their own experiences and develop their understanding on the topic.

We regularly reviewed 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 could offer support for parents and carers helping to promote an inclusive and supportive culture. These changes were embedded into our policies to ensure we remain a flexible and inclusive employer.

Modern Slavery Act

As part of the Pennon Group, we have maintained its membership of the Slave-Free Alliance, which is part of Hope for Justice, the global anti-slavery charity. Our membership demonstrated our commitment to the highest employment standards for both our direct employees and those within our supply chain. Our Modern Slavery Report can is published annually and can be found on Pennon's website www.pennon-group.co.uk.

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. The group's Modern Slavery Report can is published annually and can be found on Pennon's website www.pennon-group.co.uk

Section 172(1) statement

Our section 172(1) statement is on page 27 and is incorporated into this Strategic Report by reference.

STRATEGIC REPORT (continued)

RISK MANAGEMENT

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.

During the year the Company operated 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.

As the Company’s trade has now transferred to SWW, the residual risk for the Company relates to its ability to be able to service its commitments, these being the residual preference shares, debt and the pension surplus remaining in the Company. Any commitments under these instruments are fully supported by interest bearing loans receivable from the parent company SWW, which is wholly owned by Pennon Group plc. The risks facing the wider group are reported within the Pennon Group plc Annual Report, and therefore are not reported separately in the Bristol Water PLC annual report.

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.

As the Company's trade has now transferred to SWW, the residual risk for the Company relates to its ability to be able to service its commitments, these being the residual preference shares, debt and the pension surplus remaining in the Company. Any commitments under these instruments are fully supported by interest bearing loans receivable from the parent company SWW, which is wholly owned by Pennon Group plc. The viability of the wider group is reported within the Pennon Group plc Annual Report.

The Board's consideration of longer-term viability of the Company is an extension of the parent company, SWW and ultimate parent company, Pennon Group plc's viability.

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 five years, which recognises the viability period of the ultimate parent, Pennon Group plc. The period of review has reduced to five years from eight years to align with transfer of trading activity arising from the statutory transfer in the year.

Financial position

The Company has a strong balance sheet position with net assets of £165.1m (2021/22: £249.1m) which includes £171.1m of receivables due from the parent company SWW.

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 a five-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 3 to 19 has been approved by the Board, and is signed on its behalf by:

Paul Boote,
Group Chief Financial Officer
7 July 2023

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Director	Appointment Date	Resignation Date
Susan Davy		
Paul Boote		
Gill Rider	2 April 2022	1 February 2023
Mel Karam		1 February 2023
Laura Flowerdew		31 August 2022
Dorothy Burwell	1 December 2022	1 February 2023
Jonathan Butterworth	2 April 2022	1 February 2023
Neil Cooper		1 February 2023
Iain Evans		1 February 2023
Claire Ighodaro	2 April 2022	1 February 2023
Loraine Woodhouse	1 December 2022	1 February 2023

MANAGING BRISTOL WATER

The Bristol Water Board, up until 1 February 2023, continued to operate as a separate independent Board – albeit with all Board members also serving on the Board of Pennon Group plc – in accordance with its schedule of matters reserved to ensure compliance with Ofwat's principles on Board leadership, transparency and governance.

Because the Boards of Pennon Group plc and Bristol Water plc were run concurrently, the Directors were well-positioned to assess matters holistically and provide continuity to the Company.

Despite this concurrency, the Company's rigorous conflicts of interest process safeguards the Bristol Water Boards' ability to set and have accountability for all aspects of the regulated business' strategy thereby ensuring and strengthening Bristol Water's regulatory ringfence.

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.

Since 1 February 2023, the trade and the significant majority of assets and liabilities of Bristol Water plc were transferred to South West Water Limited under a statutory transfer mechanism set out in the Water Industry Act. The Bristol Water brand will continue as a trading name of South West Water. As at 1 February 2023 the Chair and Independent Non-Executive Directors resigned from the Company, leaving Susan Davy and Paul Boote as the only Directors of the Company.

The Company is a wholly owned subsidiary of Pennon Group. Pennon Group plc is the immediate parent company of South West Water limited. 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

During the year and up until 1 February 2023 all Board decisions were made by Pennon's Company Board and no decisions were reserved for shareholders.

Financing and dividends
During the financial year, the Company paid dividends of £64.3m (2021/2022: £8.9m) to its former immediate holding company Bristol Water Core Holdings ("BWCH"). Of this dividend, £nil was returned to the Company in respect of interest owing on intragroup debt facilities (2021/2022: £2.9m) and £61.1m was ultimately used to repay the outstanding loan due to the Company from BWHUK.

As at 31 March 2023, the Company's net debt, excluding preference shares, was £1.5m (2021/2022: £389.2m) corresponding to a ratio of 0.9% of its net assets.

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 in June 2021, 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

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE AND OTHER REQUIREMENTS

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 (the UK Code'). However, the conditions of our Water Licence required the Company to report as if it has a 'premium listing' during the year and up until 1 February 2023.

The UK Code is published on the Financial Reporting Council (FRC) website, www.frc.org.uk.

The Company complied fully with the provisions and spirit of the UK Code during the year and up until 1 February 2023, subject to the exceptions as described below. Most of the exceptions relate to the Group structure, where certain responsibilities rest with Pennon Group plc (Bristol Water's parent company) which is fully compliant with the UK Code.

Up until 1 February 2023, the Company has complied with the provisions of the UK Corporate Governance Code, with the following 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 the Remuneration Committee appointed Deloitte to provide guidance in relation to the review and updating of the Executive Directors' Remuneration Policy.

(ii) Provision 25 of the UK Code state that the Audit Committee should make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor. Provision 25 also states that the Audit Committee should develop and implement policy on the engagement of the external auditor to supply non-audit services. As the auditor is appointed on a Group basis, the appointment, re-appointment and removal of Bristol Water's external auditor is (and has been throughout the year) a matter for the Pennon Group Audit Committee, as is the auditor's remuneration, terms of engagement and non-audit services.

(iii) Provision 26 of the UK Code states that a separate section of the annual report should describe the work of the Committee in discharging its responsibilities, in particular an assessment of the effectiveness of the external audit process. Due to the Group structure, the overall assessment as to whether the external audit function is effective (and has been throughout the year) the responsibility of the Pennon Group Audit Committee, which carries out its assessment in conjunction with the Bristol Water Audit Committee.

(iv) Provision 33 of the UK Code states that the Remuneration Committee should have delegated responsibility for determining the policy for Executive Director remuneration and setting remuneration for the Chair, Executive Directors and senior management. However, the remuneration of the Chair, who is also the Chair of Pennon Group plc and the Pennon Group Chief Executive Officer, who is also a member of the Pennon Group plc Board is the responsibility of the Pennon Group Remuneration Committee.

In addition, Bristol Water has complied with Ofwat's revised 'Board leadership, transparency and governance' principles. Further details on our compliance with these principles will be provided in our Annual Performance Report and Regulatory Reporting.

CORPORATE GOVERNANCE REPORT (continued)

Board meetings and attendance
During the year and up until 1 February 2023, all the Directors attended all scheduled Board meetings during the 2022/23 financial year.

Independence of NEDs
Up until 1 February 2023, the Board continued to operate independently of its shareholder.

Up until 1 February 2023, the Board and Committee framework remained efficient in the Company's decision-making process through its independent Chair and its six Independent Non-Executive Directors together with the Company's CEO and CFO and Group CEO and CFO.

Board Composition
During the year, and up until 1 February 2023, notwithstanding their directorships of the Pennon Group, Gill Rider, Claire Ighodaro, Jon Butterworth, Neil Cooper, Loraine Woodhouse, Dorothy Burwell and Iain Evans were considered, by the Company's Board, to be Independent Non-Executive Directors in character and judgement.

Independence of NEDs (INEDs)
Up until 1 February 2023, the Board and Committee framework remained efficient in the Company's decision-making process through its independent Chair and its six Independent Non-Executive Directors together with the Company's CEO and CFO and Group CEO and CFO.

Up until 1 February 2023, the INEDs constructively challenged and helped to develop proposals on strategy and brought independent judgement, knowledge, and experience to the Board's deliberations. The INEDs were of sufficient calibre and number to ensure that their views carried significant weight in the Board's decision making.

The Board considered the Chair to be the principal point of reference to whom concerns of whatever nature may be conveyed. Gill Rider was appointed Chair on 2 April 2022, up until her resignation on 1 February 2023.

If an individual did not wish to raise a concern with the Chair, such concerns may be raised with the Senior INED. Neil Cooper was the Senior INED on the Board until his resignation on 1 February 2023.

Board activities
The key activities that were carried out by the Board during the year, together with an indication of the stakeholders affected and whose interests the Board considered in its discussions and decision-making are set out below. In 2022/23, the Board has considered a wide range of matters to meet its obligations.

- **Inform -** Senior Leaders and management prepare written reports in advance of Board meetings as well as deep dive presentations on key areas of the business - to inform and make recommendations for the Boards consideration. In addition, regular performance reports are shared with the Board to ensure they are continuously informed. The agenda is agreed with the Chair in advance in conjunction with the CEO and Group General Counsel and Company Secretary.
- **Recommend and consider** - Recommendations and deep dives from Senior Executives as well as external advisors to facilitate decision-making and accounting for stakeholder impact are presented to the Board for consideration.
- **Approve and action** - The Board will consider matters and agree and approve actions to take forward.

CORPORATE GOVERNANCE REPORT (continued)

Area	Activity	Stakeholders affected
Strategic	**Strategic direction through to 2050** Reviewing and approving the strategic direction through to 2050. Agreeing eight priorities and the enablers for change required to achieve these priorities. **Bristol Water integration** Reviewing the progress of the integration into South West Water and the need for a merged licence. Authorising the final steps to be taken to affect the integration. **Delivery of capital projects** Reviewing and agreeing a new framework model for capital delivery. Implementing a new tender process to attract new partners into the delivery model.	**Customers** **People** **Environment** **Regulators**
Financial	**Reviewing and authorising the 2021/22 Annual Report and Accounts** **Energy costs** Reviewing the impact of higher power costs on operating costs. Identifying options to bring power and energy efficiencies across all assets. **WaterShare+** Approval of the special Watershare+ resolution to shareholders at the 2022 AGM enabling the execution of the second issuance of the scheme. Approval of the c.£20 million to fund both the payment of the dividend and the share purchase, and the application of bill reductions for South West Water and Bristol Water customers.	**Suppliers** **Customers**
Operational	**ODI improvements** Meeting regulatory requirements, ongoing regulatory/innovation initiatives, monitoring via H&S reports and adapting plans where needed. Successful regulatory outcomes, safe customer, and employee experience, enhancing day to day operations. **Water Resource Management** Reviewing the Water Resource Management Plan which sets out how the Company will ensure it meets demand for water over the next 25 years in line with Department for Environment Food and Rural Affairs (DEFRA) and Environmental Agency (EA) requirements. Noting options for getting our specific strategic resource and demand plans onto the political agenda and for reducing per capita consumption to 110 l/day.	**Customers** **People** **Environment** **Regulators** **Policy Makers**
Environmental	**Drought management** Reviewing the response to the drought given the dry and hot weather. Accelerating all engineering options, increased customer and water saving communication and enhanced stakeholder engagement. **Net Zero strategy, Green Recovery investment**	**Environment** **Customers** **People** **Regulators**

	programme and Environmental Plan Implementation and monitoring of each of the plans and adapting each where needed. Alignment of plans with our strategic priorities. Committing to key pledges. Delivery to achieve ever more stringent targets as well as greater public/regulatory scrutiny.	
Social	**Purpose and culture** Reviewing the results of the Great Place to Work survey. Agreeing the next steps to improving purpose and culture and considering why scores around integrity and values were lower than the previous year. Identifying the types of training and competencies needed to support the business in its future development. **Supporting customers on low income** Monitoring of customer service levels and plans to deliver improved diversity mix and adapting where needed. Continued alignment of plans to achieve ever more stringent targets as well as greater public/regulatory scrutiny.	**People** **Customers**
Governance, Legal and Regulatory	**Regular updates on Corporate Governance and key legal developments during the year** Continued alignment of plans to ensure appropriate compliance/ best practice governance.	**Environment** **Customers** **People** **Communities** **Suppliers** **Regulators** **Policy Makers**

Monitoring purpose and culture

Monitoring and measuring the Company's purpose and culture is a key focus area for the Board. Our purpose, Bringing water to life – supporting the lives of people and the places they love for generations to come underpinned by our values that we live by – trusted, responsible, collaborative, progressive governs how we operate, behave and foster a diverse and inclusive culture. Everything we do, we do with our stakeholders in mind, be it offering our customers financial support when needed, providing help and funding for community initiatives, working with our regulators and the government on ensuring the future is sustainable, celebrating and rewarding our colleagues or finding innovative ways to protect our environment.

New employee panel – RISE

In June 2022, we launched our new people panel, RISE which aims to be a two-way, open and honest communication forum to discuss business topics and ensure that the views and opinions of colleagues are shared with the Company. The RISE forum now has over 100 members stretching across all areas of the business.

Twice a year, RISE members meet with our CEO, Susan Davy and our Group Chief People Officer, Adele Barker to discuss feedback and ideas from across the business. The first one took place in January 2023 with seven RISE representatives.

This is a great opportunity for Susan and Adele to understand what is happening and what's important for our colleagues. Topics like wellbeing and mental health, cost of living, communication and hybrid working are just some of the topics covered with actions and responsibilities agreed to drive progress over the next quarter.

STAKEHOLDER ENGAGEMENT

The Board understands the part the Company can play in creating a more sustainable Bristol Water and UK as a whole. We are committed to carrying out our business in a responsible way and to continuously improve on how we provide all our services for the benefit of all our stakeholders.

Our Section 172(1) statement describes in more detail how the Board considers the interests of all our stakeholders when carrying out its duties. This statement is on pages 27 to 29; you should read to understand how the Board took stakeholder interests into consideration in all its decision-making during the year.

We actively engage with all our stakeholders, including our customers, our communities, our people and our suppliers. We are acutely aware that many of our stakeholders are struggling with the uncertainty challenges posed by the cost of living crisis, the political landscape and wider economic environment.

We are committed to maintaining appropriate and regular dialogue to ensure our strategy and our performance objectives always reflect our stakeholders' expectations and needs. Our continuous engagement allows stakeholders to give feedback on matters they consider of importance to them and raise any issues which they would like to be addressed.

For engagement with the workforce, the Board has decided at this time not to adopt any of the three specific employee engagement methods referred to in the UK Code. Instead, our chosen method is to adopt a more enhanced approach which includes the conduct of a periodic 'Great Place to Work' engagement survey (including management feedback sessions) and continuous employee feedback through our own in house forums. These compromise of our new RISE people panel, which has recently replaced our employee engagement forum, and the 'Big Chat', hosted by the Executive team. These forums not only give employees access to important up to date information on key business events. They also provide the opportunity to hear from the Directors, give feedback and ask questions.

The Board believes Bristol Water's chosen approach is an effective way of communicating with employees and gathering essential feedback from across the business. This empowers the Board to consider the interests of all employees in its discussions and decision-making. You can find further information on employee engagement on page 16.

Our approach to stakeholder engagement

- Identify key stakeholders (NGO's, household customers, visitors, retail customers)
- Engage to understand priorities and material issues (businesses, supply chain, Watershare+ panel, customer AGM, stakeholder engagement forums)
- Engage and develop strategies and plans to meet priorities (regulators, universities and researchers)
- Engage on delivery and partnership working (landowners, local government and MPs, NGOs)
- Review and communicate progress and performance (all stakeholders, employees and unions)

Engaging with our suppliers

We work in partnership with our suppliers to deliver mutually beneficial outcomes that benefit all our stakeholders. We engage through formal RFP processes for each AMP period and periodic supplier review meetings thereafter.

Engaging with our regulators and policy makers

We have proactively engaged with our regulators and Government, both at a local level, including sharing platforms with local MPs at constituency meetings, and face to face discussions with DEFRA throughout the year.

Customer AGM

Customers were able to see first-hand how water is supplied to the City of Plymouth using the latest technology and provide direct feedback and inform our WaterShare+ Advisory Panel. Lord Taylor, Chair of the panel, was also on hand to provide an update for the Pennon AGM for progress in the next year and discussed where we are against our objectives.

SECTION 172(1) STATEMENT

All of the Board's decisions are considered against the importance of acting in a sustainable, ethical and collaborative way, understanding the views of our different stakeholders and weighing their competing interests, whilst being mindful of regulatory obligations.

Our Pennon Board leads and sets the tone by carefully noting the priorities of our stakeholders during its discussions and when it makes decisions. We also know the importance of continually assessing the long-term impacts of our decisions. This helps us live our purpose and our values, as a responsible, trusted and sustainable business acting in a way which benefits all our stakeholders as much as possible. Properly understanding the impact of what we are doing has become part of how we operate and it permeates everything we do at Bristol Water.

Each Director has a duty under section 172 of the Companies Act 2006 (s.172), to act in a way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of members and stakeholders as a whole, and in doing so, must have regard to a range of broader issues. Therefore, when the Board makes a decision, we always take full account of the following:

- The long-term consequences of our decisions
- The interests of our employees
- The importance of having excellent business relationships with suppliers, customers and anyone else who we impact
- The impacts of our operations have on our communities and our environment
- Ensuring we maintain our reputation for the highest standards of business conduct
- We will always act fairly between our shareholders

As part of every decision we make, we look at how we will impact our stakeholders. To enable us to understand the points of view of our stakeholders and where our decisions could affect them, we have a stakeholder engagement programme. We see stakeholder engagement both as fundamental to development and delivery of our purpose and strategy and as critical for our long-term sustainable success. Although there are often competing interests and priorities involved, being clear on what matters to our stakeholders, allows our Board to weigh-up all relevant factors.
We have identified our stakeholders as:

- Environment
- Customers
- People
- Communities
- Suppliers
- Regulators
- Policy Makers

Matters considered by the board

Examples of some of the key strategic issues considered and decisions made by the Board during the year and an explanation of how the Board considered the matters in Section 172(1) (a) – (f) when taking decisions are set out in the table below.

Matter	Section 172 Considerations	Our Engagement	The Board's Role
Integration of Bristol Water into South West Water	Following the clearance from the Competition and Mergers Authority on 7 March 2022, the Board was pleased to finalise the license merger with Bristol Water, on 1 February	Following clearance for the merger we worked on the integration, licence merger and statutory transfer process.	We approved the submission of the required licence variation and the issue of the Section 8 notices. We endorsed the proposal to transfer the Bristol Water debt portfolio to

Matter	Section 172 Considerations	Our Engagement	The Board's Role
	2023, and welcome colleagues to South West Water.		South West Water. We delegated authority to the Group Chief Financial Officer and Group Treasurer to agree the final terms of documentation.
Water Resource Management	The long-term sustainability of the company and its continued ability to supply water to its customers is critical but needs to be balanced against the impact on the environment and communities.	We investigated long term interventions to shore up our ability to provide services including looking at other sources.	We considered options including new water sources, installing desalination and dewatering. We noted the potential extent of these works and the need for full environmental assessments. We debated the restrictions on abstraction that the company is subject to and requested further reports on long-term water resource management.
Delivery of the WINEP programme	High standards of business conduct are critical to the company's operations and reputation. This includes alignment with regulatory guidance. As a company, we are committed to delivering our WINEP programme to meet our environmental obligations.	We considered the assurance activities undertaken in this respect noting the positive assessment provided by our external technical advisers. We considered the relationship between the cost of schemes and impacts into bills and affordability as well as resourcing challenges.	We considered the relationship between the cost of schemes and impact on bills. We considered the assurance activities undertaken in this respect, noting the positive assessment provided by our external advisers. We delegated authority to the Executive to approve the submission of the proposals, noting our statutory obligations, non-statutory requirements and the priority drivers of the EA and Natural England.
Affordability	As a Company, we do not only recognise the needs of our wider stakeholders and investors but also the needs of our people and customers. This year, the Board has had the cost-of-living crisis at the forefront of their minds when supporting our colleagues and customers.	We investigated means of providing incentives to our customers and reducing the cost of their water supplies	Building on the success of the first WaterShare+ scheme, we approved the second WaterShare+ initiative, with £20 million being given to South West Water, Bournemouth Water, and, for the first time, Bristol Water customers, in the form of a Pennon share or £13 credit added to their bill.

CORPORATE GOVERNANCE REPORT (continued)

Division of responsibilities
Up until 1 February 2023, there was a clear separation of responsibilities between the Chair and the Chief Executive Officer, divided between managing the Board and the business, while maintaining a close working relationship.

All the Directors are equally accountable for the proper stewardship of the Company's affairs and also have specific roles.

Conflicts of interest
In accordance with the Directors' interest provision of the Companies Act 2006 and the Company's Articles of Association, the Board has in place a procedure for the consideration and authorisation of Directors' conflicts or possible conflicts with the Company's interests. This Board consider that this has operated effectively during the year.

Each Director has a duty under the Companies Act 2006 to avoid a situation in which they have, or may have, a direct or indirect interest that conflicts or might conflict with the interests of the Company. This duty is in addition to the existing duty owed to the Company to disclose to the Board any interest in a transaction or arrangement under consideration by the Company.

A register of Directors' conflicts was maintained and reviewed at each Board meeting. Other potential conflicts of interest that were examined during the year included:

- The appointment of Claire Ighodaro to her role at KPMG

COMPOSITION, SUCCESSION AND EVALUATION

Board support and training
Directors have access to the advice and services of the Company Secretary, and the Board has an established procedure whereby Directors, may seek independent professional advice at the Company's expense in order to fulfil their duties. The Company Secretary is responsible for ensuring that the Board operates in accordance with the governance framework and that information flows effectively between the Directors, the Board and the Committees.

The training needs of Directors are reviewed as part of the Board's performance evaluation process each year. Training may include attendance at external courses organised by professional advisers and also internal presentations from senior management.

During the year, updates were provided to the Board and Committees via the Group General Counsel and Company Secretary and/or the Company's external advisors. These included updates on mandatory reporting and recent legal or governance changes. Specifically, the Board received updates on:

- Proposed changes to the Corporate Governance Code noting the move towards an outcome-based approach backed up with specific reporting and assurance requirements
- The potential new Regulator to replace the FRC announced in May 2022 that will have new powers to tackle breaches of company directors' duties relating to corporate reporting and auditing
- The Data Protection and Information Bill introduced to Parliament on 18 July 2022 with the aim to "update and simplify" the UK's data protection framework.

Induction programme
Newly appointed Directors receive a formal, tailored induction. Supported by operational site visits and governance, legal and regulatory updates.

- **Introductions** – Introduction meetings with key stakeholders in the business and an outline of the Board and its Committees
- **Information** – Presentations from Directors to provide key information on Finance, Remuneration, Health and Safety, Legal, Regulatory, Risk, Environmental and other key Company matters
- **Engagement** - Newly appointed Directors are invited to visit different operating facilities across the Company and to meet with employees in order to better understand key processes and systems.

Non-executive director induction programme

As part of Dorothy and Loraine's induction to the Company, they took the opportunity with Andrew to visit several sites across the region including a drinking water treatment site, a sewage treatment site and reservoir catchment project.

The two days of site visits were complimented by a full day briefing session on topics ranging from Governance and Finance to the Company's approach to Health and Safety and key risks and opportunities faced by Bristol Water and the wider water industry.

Board composition, independence and experience

Up until 1 February 2023, the Board comprised of the Chair, six Non-Executive Directors, two Executive Directors and the Company Secretary. At year end, female representation on the Board was at 50%, exceeding the Board's target of 40%.

All of the Non-Executive Directors, up until their resignation on 1 February 2023, were considered by the Board to be independent. All the Non-Executive Directors are considered to have the appropriate skills, experience in their respective disciplines and personality to bring independent and objective judgement to the Board's deliberations.

Neil Cooper, up until his resignation on 1 February 2023, was Chair of the Audit Committee and in accordance with the UK Code and FCA Disclosure Guidance and Transparency Rule 7.1.1, has recent and relevant financial experience and competence in accounting and auditing. The Board is satisfied that the Audit Committee has competence relevant to the sector in which the Company operates.

External appointments

SUSAN DAVY

Susan Davy continued as a Non-Executive Director of Restore plc throughout 2022/23. The Board is of the opinion that the experience gained from external appointments provides additional and different business experience and a fresh insight into the role of an Executive Director. She is also a Non-Executive Director of Water UK, the membership body representing the UK Water Industry.

Board effectiveness review

The Board undertakes a formal and rigorous review of its performance and that of its Committees and Directors each year. This ensures that they continue to operate effectively and are identifying opportunities for improvement and best practice, as well as helping to inform future agenda items and areas of focus.

This year, the review was undertaken by a third party, Equity Culture, by means of online interviews with a number of the Board, in consultation with the Chair and respective Committee Chairs in January and February 2023. The outcome of the review concluded that the Board, and its Committees, and individual Directors continued to demonstrate a high degree of effectiveness and collaboration, and that the Board had a forward-thinking mindset and a good understanding of opportunities for growth and risks facing the business, with the following positives, negatives and/or actions suggested, The detailed areas of assessment, commentary/feedback and actions is included within the Nomination Committee report on pages 34 to 39.

In parallel with the Board effectiveness review, the Committee undertook a 360-degree evaluation of the executive committee members and ensured the feedback was shared with the Company's senior leadership.

AUDIT, RISK AND INTERNAL CONTROL

Risk management and the company's system of internal control
The Board is responsible for maintaining the Company's system of internal control to safeguard shareholder investment and the Company's assets and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. An ongoing process for identifying, evaluating and managing the significant risks faced by the Company has been in place throughout the year and up to the date of the approval of this Annual Report and Accounts and is regularly reviewed by the Board.

The Company's system of internal control is consistent with the FRC's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' (FRC Internal Control Guidance).

The Board confirms that it applies procedures in accordance with the UK Code and the FRC Internal Control Guidance which brings together elements of best practice for risk management and internal control by companies. The Group's internal audit function undertakes specific risk assessments to identify vulnerable risk areas in the Company. Details of the key risks affecting the Company are set out in the strategic report on pages 18.

Key Performance Indicators are in place to enable the Board to measure the Company's ESG performance, including agreed regulatory performance commitments in respect of ODIs, and a number of these are linked to remuneration incentives (see page 56). A full breakdown of performance during the year against these KPIs is provided in South West Water's Annual Performance Report, which includes Bristol Water, which is published in July (see www.southwestwater.co.uk/report2023).

As part of the review of the effectiveness of the system of risk management and internal control under the Company risk management policy, all Executive Directors and senior managers are required to certify on an annual basis that they have effective controls in place to manage risks and to operate in compliance with legislation and Company procedures.

The processes and policies serve to ensure that a culture of effective control and risk management is embedded throughout the Company and that the Company is in a position to react appropriately to new risks as they arise.

CODE OF CONDUCT AND POLICIES
Bristol Water has adopted the Pennon Group's Code of Conduct, which was reviewed and re-endorsed in November 2022. The Code of Conduct and related policies which set out the commitment to promoting and maintaining the highest level of ethical standards. Areas covered in the Code of Conduct include our impact on the environment and our communities, our workplace and our business conduct.

The Code of Conduct sets out the values and principles by which we operate and provides a framework for ethical business practices. It is further supported by a number of policies that guide our workforce and suppliers, so that we may identify and deal with suspected wrongdoing, fraud or malpractice, maintain the highest standards of compliance, and to apply consistently high standards of ethics. We aim to maintain a culture that fosters the reporting of any concerns and trust that we will act on them.

Anti-bribery and anti-corruption
The policy on anti-bribery and anti-corruption strictly prohibits employees from offering or accepting bribes, facilitation payments and kickbacks. The policy requires that due diligence checks third-party suppliers and contractors doing business with the Company, including a corruption risk assessment to examine the nature of the proposed work or transaction. The policy provides a framework that requires everyone who works with or for the Company to always act honestly and with integrity. The policy has been rolled out comprehensively into all parts of the Company, with online training arranged by the legal compliance team. The Company ensures compliance with the policy in line with our risk-based approach by conducting planned and ad hoc checks, providing both general and specific training, and carrying out detailed investigations into allegations of potential wrongdoing (whistle blows)

received from employees, customers and suppliers. The potential consequences on colleagues and the Company itself are clearly set out in the policy as are the processes for raising concerns.

To mitigate risk, targeted authorisation and oversight processes are applied to the areas that have been identified as being more vulnerable and additional training is provided.

The legal compliance team likewise actively assesses high risk areas based on information gained through their close working with the internal audit function. Assessments are undertaken using several entry points, including using the output of reviews with the executive teams, during and following face-to-face training, and analysing whistleblowing reports. Any foreign trading operations, procurement activities and business development and back-office functions continue to be specifically reviewed for compliance with anti-bribery and anti-corruption requirements. Comprehensive operating procedures are in place to address risks in those areas, with regular reviews taking place to ensure the assessment of risk remains up to date.

The anti-corruption and anti-bribery policy also sets out the employment consequences for its breach and potential legal sanctions under bribery laws. Any breaches or failure to adhere to the strict standards of integrity and honesty will be subject to disciplinary action, up to and including dismissal from the Company. All employees are required to read, understand and comply with the policy and report any circumstances or any suspicions of fraud, bribery, corruption or other irregularities, either to a line manager or by using the Company's confidential whistleblowing service Speak Up. There were no confirmed cases of bribery, corruption, fraud or business ethics violations during the year.

Allegations of bribery or corruption are reported to the Audit Committee together with investigation outcomes and details of any action taken, which are disclosed to our external auditors.

Training and communications
Our comprehensive programme of training and internal communications continues with targeted messaging and interactive training sessions. This programme addresses the business's key compliance risk areas and has been designed to increase resilience, heighten awareness and promote a culture of doing the right thing.

Whistleblowing policy – Speak up
The Speak Up service encourages employees to raise concerns about suspected wrongdoing or unlawful or unethical conduct, explains how any such concerns should be raised and ensures that employees are able to do so without fear of reprisals. The Company's whistleblowing policy specifically includes and encourages reporting of:

- Endangering someone's health and safety
- Anything that is against the law
- Stealing or fraud
- Corrupt or dishonest activity
- Damage to the environment
- Covering up wrongdoing
- Abuse of authority
- Intentionally misreporting to a regulatory body
- Bullying, harassment and/or victimisation

The Speak Up service comprises telephone and web-based reporting channels operated for Bristol Water by independent provider NAVEX Global.

Following receipt of a report, the allegation will be assessed and an investigation started promptly. The investigation process is overseen by the Ethics Management Committee and will be undertaken fairly, impartially and thoroughly by appropriately trained investigators with strict confidentiality being maintained at all stages of the investigation. After each investigation, a confidential review is undertaken by the Head of Legal Compliance to identify any lessons learnt or organisational improvements or training requirements. Other improvements identified are always acted upon, while ensuring the paramount requirement of operating a whistleblowing process that protects the identity of individuals and the independence and integrity of the process. Our whistleblowing process is designed to support

CORPORATE GOVERNANCE REPORT (continued)

our staff, reflect shared responsibility, promote a positive culture, provide unique insights and is central to our system of checks and balances.

Legal compliance policies and our code of conduct
The Company has policies in place covering the acceptance of gifts and hospitality, anti-facilitation of tax evasion and conflicts of interest, which require our people to disclose any situation which may conflict with their responsibilities as Bristol Water employees.

Our Code of Conduct and other key compliance policies can be found in the Governance and Remuneration section of our parent company website at https://www.pennon-group.co.uk/about-us/governance-and-remuneration under Internal Control.

NOMINATION COMMITTEE REPORT

The role of the nomination committee is to ensure that the company has pre-requisite skills, experience, breadth and depth of talent to meet longer-term strategic objectives.

Membership*	Role	Attendance
Gill Rider	Chair	4/4
Neil Cooper	Non-Executive Director	4/4
Iain Evans	Non-Executive Director	4/4
Jon Butterworth	Non-Executive Director	4/4
Claire Ighodaro	Non-Executive Director	4/4
Loraine Woodhouse	Non-Executive Director	1/1
Dorothy Burwell	Non-Executive Director	1/1

***** Since 1 February 2023, the trade and the significant majority of assets and liabilities of Bristol Water plc were transferred to South West Water Limited under a statutory transfer mechanism set out in the Water Industry Act. All the Directors of the Committee resigned from the Company with effect from 1 February 2023 and the Committee was dissolved.

Role of the nomination committee

- Regularly review the structure, size and composition (including skills, knowledge, independence, diversity and experience) required of the Board.
- Consider succession planning for the Board and Senior Management overseeing the development of a diverse pipeline.
- Identify and nominate candidates to fill Board vacancies.
- Assist the annual Board evaluation process to assess performance and effectiveness of the Board and its committees.
- Evaluate the balance of skills, knowledge, independence, diversity and experience on the Board.
- Review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued success of the Company.
- Review the Company's policy on diversity, including gender, and the progress against objectives
- Review membership of the Board Committees

The committee's focus for 2022/23

- Overseeing the effectiveness of the Board's internal succession plan, ensuring that the board has the appropriate mix of skills, experience and diversity
- Overseeing the annual review of Board Effectiveness and Board composition
- The annual review and approval of the Company policy on Diversity, Respect and Inclusion and the Group's progress on diversity in line with the Parker review, including the outcome of the FTSE Leaders Survey and the Company's position on Gender Pay and Ethnicity Pay
- Ongoing review, development and evolution of the Executive Leadership team, including succession planning and the integration of Bristol Water
- Reviewing terms of reference for the Committee to ensure they continue to be appropriate

This year, the Committee welcomed Loraine Woodhouse and Dorothy Burwell to the Board as independent non-executive directors, from 1 December 2022 up until 1 February 2023. The appointments are in line with our succession planning with relevant skills and diversity of perspective.

NOMINATION COMMITTEE REPORT (continued)

As noted in the Pennon Group plc 2022 Committee Report, at page 157, Russell Reynolds Associates were appointed as independent consultants, to conduct the search activity, providing the Committee with a number of suitable candidates, ensuring candidates were appraised of the expectations required as a member of the Board, the time commitment and professional conduct and values. The rigorous selection process included meetings with appropriate stakeholders as well as the interview process with Board members. The induction process for Dorothy and Loraine is detailed on page 30.

The Committee has also supported the ongoing evolution of the wider executive, with the ongoing evolution of the wider executive, with the integration of Bristol Water, and key external appointments including Andrew Garard as Group Counsel and John Halsall as Chief Operating Officer.

The Committee maintains its strong interest in the Company's progress in championing diversity, whether gender, ethnicity, or social mobility and regularly reviews the demographics of the workforce as well as the leadership and was pleased to see Pennon being shortlisted in the Balance in Business awards.

The Nomination Committee met four times during the year to fulfil the duties set out in its terms of reference.

Only the members of the Committee are entitled to attend the Committee meetings, although other regular invitees to Committee meetings during the year included the Group Chief Executive Officer, the Group Chief People Officer and the General Counsel and Company Secretary. Committee members are also excluded from participating when their own positions are under discussion.

BOARD DIVERSITY

At Bristol Water we believe that a diverse and inclusive culture is a strategic imperative, treating it in the same way as we do each strategic priority - setting the tone from the top, holding leaders accountable and delivering against a clear action plan.

We believe having a diverse mix of minds has helped to deliver a step change in our culture, as a more caring and considerate business, that places significant focus on well-being, and evidenced in achieving Great Place to Work status for two years running.

As at 31 March 2023, the Board's gender stood at 50% with one woman and one man on the Board. The focus on diversity throughout the company, resulted in our parent company, Pennon, being ranked 1st place in the FTSE Women Leaders Survey for utilities.

Board diversity and inclusion policy
The Board requires the Committee to review and monitor compliance with the Board's diversity policy and report on the targets, achievement against those targets and overall compliance in the Annual Report each year.
The Board's diversity and inclusion policy confirms that the Board is committed to:

- The search for Board candidates being conducted, and appointments made, on merit, against objective criteria whilst promoting the widest forms of diversity, including gender, social and ethnicity. In this context, the Board with endeavour to achieve and maintain:
  - A minimum of 40% female representation on the Board
  - A minimum of 40% female representation on the Company's senior management team
  - At least one member of diverse ethnicity on the Board
- Satisfying itself that plans are in place for orderly succession of appointments to the Board and to senior leadership
- maintain an appropriate balance of skills and experience within the Company and on the Board.

The approach is to Company-wide diversity is detailed on page 16 and is also fully applicable to our Remuneration, Audit and Nomination Committees, and as each Committee is compromised of members of the Board, the Board's Diversity and Inclusion policy detailed above, similarly applies. We exceed the policy.

NOMINATION COMMITTEE REPORT (continued)

Colleagues are asked to provide personal information for the purposes of monitoring equality and for statutory reporting purposes, including Gender Pay Gap. This is collected during the recruitment and onboarding process and colleagues are asked to periodically review and update as necessary. Information is stored on the Company's HR management system. Employees are encouraged to provide information on a voluntary basis.

The ethnic representation of our board and leadership

	Number of Board Members	% of the Board	Number of senior Board positions (CEO, CFO, SID, Chair)	Number in executive management	% of executive management
White, British or other White (incl. minority white groups)	2	100	2	2	100

The gender representation of our board and leadership

	Number of Board Members	% of the Board	Number of senior Board positions (CEO, CFO, SID, Chair)	Number in executive management	% of executive management
Men	1	50	1	1	50
Women	1	50	1	1	50

Talent management and succession planning

During 2022/23 we have overseen the reshaping of the wider executive, ensuring that the Company has the requisite skills and experience and breadth of talent to meet the longer-term strategic objectives. As we worked to enact our integration blueprint, following the acquisition of Bristol Water, Paul Boote became Group Chief Financial Officer. Mel Karam, Chief Executive Officer of Bristol Water, post the TUPE transfer of Bristol Water to South West Water, chose to step down. The Committee thanks him for his six years of service.

The Committee, supported by the Group Chief People Officer, also regularly reviews both the executive and non-executive leadership as part of its standing agenda, reviewing both short and long term skills requirements, opportunities for positive support to minority groups, and early identification of high potential. In line with our commitment to Change the Race Ratio, we have set stretching targets to develop diversity in our leadership levels, below Executive Committee level and the Committee will continue to review progress on this important goal. As part of the regular reports received by the Committee, rates of participation by many characteristics are provided, noting this is also subject to employees' wish to disclose certain characteristics or sensitive information.

NOMINATION COMMITTEE REPORT (continued)

Board effectiveness review
The Board undertakes a formal and rigorous review of its performance and that of its Committees and Directors each year. This ensures that they continue to operate effectively and are identifying opportunities for improvement and best practice, as well as helping to inform future agenda items and areas of focus.

This year the review was undertaken by a third party, Equity Culture, by means of online interviews with a number of the Board, in consultation with the Chair and respective Committee Chairs, in January and February 2023.

The outcome of the review concluded that the Board, its Committees, and individual Directors continued to demonstrate a high degree of effectiveness and collaboration, and that the Board had a forward thinking mind and a good understanding of opportunities for growth and risks facing the business, with the following positives, negatives and/or actions suggested. In parallel with the Board effectiveness review the Committee undertook a 360 degree evaluation of the executive committee members and ensured the feedback was shared with the Company's senior leadership.

Summary of evaluation

	Area of assessment	**Commentary/feedback**	**Actions**
Board	Conduct of meetings	• The Board is open, honest, respectful, engaged and committed	
	Board meetings, papers and presentation	• The volume of papers provides a challenge for the Board to manage but this reflects the open culture of the Company • The annual cycle of Board meetings and topics is appropriate • There is a reassuring balance between appropriate challenge and support between NEDs and Executive • The meetings are well-managed • Governance is a strength of the Company	• Review the structure of Board papers
	Company strategy and Governance	• The Board continues to provide helpful support to management. • The Board offers good strategic direction and governance.	• Key themes are developing strategic lines of communication to drive climate delivery and growth.
	Communications strategy	• The Board is keen to help with advocacy • Further Board appointments could consider broadening the expertise in regulatory and Government affairs	• Ensure the Company has the appropriate capacity to meet its challenges
	Succession and	• Recent Board and Executive appointments	• The bench strength of the Executive

	Area of assessment	Commentary/feedback	Actions
	talent planning	have been very positive • The CEO is very highly regarded	needs to be kept under review
	Strategy	• The annual strategy day is well received • ESG matters are well-embedded • Social initiatives are high on the Company's agenda	• The focus should remain on ensuring that the Company has the human resources to deliver its ambitions
	Risk	• The Company has good structures and processes in place • Scrutiny of risk remains a priority for the Board agenda	• Top level risks should be regularly reviewed
	Committees	• The Committees work well and are well chaired • The frequency of meetings of the Health and Safety Committee should be kept under review	
Audit Committee	Committee operation and effectiveness	• The Audit Committee provides useful support to the Board and management. • The Committee operates good governance, is up to date with changing legislation and has a strong relationship with financial management. • Overall, it was felt that the Audit Committee functions well, with multiple members with deep finance experience.	• Continue with existing processes.
ESG Committee	Committee operation and effectiveness	• Relationships and communication between the ESG Committee and key executives are open and constructive. • The Committee makes effective use of KPIs and benchmarking to understand ESG performance, with external sustainability performance reported on regularly. • Overall the Committee provides good direction in an ever-evolving area and has developed well over the last 18 months. • Environmental issues particularly around CSOs have emerged more prominently this	• Ensure sufficient flexibility to further improve Net Zero activities and outcomes. • Continue the vital focus on environmental issues and CSOs. • Continue to review and assess processes in this area.

	Area of assessment	Commentary/feedback	Actions
		year. • The Committee and the Board have work to do, to deal with the pollutions and CSO challenges, with the right executive support.	
Remuneration Committee	Committee operation and effectiveness	• The Remuneration Committee has performed well, with well-honed processes and in noting the evolving external environment	• To continue to evolve the framework as required, and build on existing processes.
Nomination Committee	Committee operation and effectiveness	• The Nomination Committee has performed well and needs to continue its track of Board succession planning and Executive succession activities.	• Continue with existing processes, focused on succession.
Health and Safety Committee	Committee operation and effectiveness	• The H&S Committee provides effective support to both the Board and management. • The Committee is now well established and focused on supporting the Board's aspirations with recent reports on investigations felt excellent.	• A developing Committee that should continue its deep dive into H&S performance and incidents.

AUDIT COMMITTEE REPORT

The audit committee is focussed on ensuring sound financial and risk management to support the company's strategy

Membership*	Position	Attendance
Neil Cooper	Chair	3/3
Iain Evans**	Non-Executive Director	3/3
Claire Ighodaro	Non-Executive Director	3/3
Jon Butterworth**	Non-Executive Director	3/3

**Following a review of Board Committee composition Iain Evans, Jon Butterworth and Dorothy Burwell ceased to be members of the Audit Committee, effective 31 January 2023.
*Since 1 February 2023, the trade and the significant majority of assets and liabilities of Bristol Water plc were transferred to South West Water Limited under a statutory transfer mechanism set out in the Water Industry Act. All the Directors of the Committee resigned from the Company with effect from 1 February 2023 and the Committee was dissolved.

Role of the audit committee
- Ensure the quality and integrity of the Company's financial and regulatory reporting
- Monitor and review the effectiveness of the internal control environment
- Challenge the scope and adequacy of the Company's risk management processes

Up to the point of the statutory transfer on 1 February 2023, the point the Committee was dissolved, the Committee's focus was as follows:
- In depth review of the key financial reporting judgements
- Risk "deep-dives" in key focus areas
- Consideration of the FRC's review of the external auditor's 2022 audit of Pennon Group PLC with the audit of Bristol Water PLC forming part of the group external audit
- Scrutiny of our responses to address the risks posed by rising inflation and the resultant cost of living crisis

This report is intended to provide an insight into the work of the Audit Committee ('the Committee') together with details of how the Committee has discharged its responsibilities throughout the year up to the point it was dissolved.

As in previous years, we have focused on the following key priorities areas:
- Ensuring the quality and integrity of the Company's financial reporting; this is done through the assessment of the application of accounting policies given underlying standards, challenging management through the review of the use of accounting judgements made in preparing financial reporting and the Committee's assessment of the quality of financial reporting of the Company.
- Monitoring and reviewing the ongoing effectiveness of the internal control environment
- Challenging the scope and adequacy of risk management processes across the Company. In doing this, we monitor the expression of the Company's risk appetite and undertake "deep dive" reviews of higher risk areas.

AUDIT COMMITTEE REPORT (continued)

The Committee uses its collective expertise, with input from the External Auditor, to provide a robust challenge to the approach and judgements made by management in the treatment of financial matters and their resulting disclosures within the financial statements. As part of fulfilling these commitments, we carefully consider the key financial reporting judgements of the management as set out on pages 42 to 43. Significant matters considered by the Committee both during the year and in relation to the year-end financial statements are laid out in this report. The External Auditor supports this process in the course of the statutory audit.

The Committee discharged its responsibilities throughout the year in accordance with a schedule of business reflecting the annual external reporting cycle of the Company, allowing for appropriate consideration at the right point. This scheduling also allowed for consideration on an ad-hoc basis of events as they have arisen.

In regard to risk, the process starts with the Executive Risk Committee formulating their risk appetite as well as their ongoing monitoring of key risks and their mitigation. The Committee then considers this formally, as well as homing in on key risk areas.

During the year, these key risk deep dives covered a wide range of topics including the risks posed by:

- cyber security breaches
- non-recovery of customer debt
- regulatory planning for PR24
- availability of financing for our accelerated investment programme.

More detail on our risk management processes, can be found on page 18.

As well as this focus on our risk processes, we formally review the output of the Company's financial resilience and health assessments; for a 12-month 'look-forward' period through our assessment of the Company's going concern status and over a period to 2028 to assess the Company's continuing viability. The viability assessment across the Pennon Group, including consideration of the Company, has considered a range of financial projections arising from the current challenging and complex external environment with ongoing uncertainties in relation to economic growth, inflation prospects and the indirect impact of the ongoing conflict in Ukraine. These are modelled through internal scenarios around the deployment of cash reserves and which now incorporate the integration of Bristol Water's operating licence into South West Water. Our viability statement is reported on page 19.

Throughout the year, the Company has remained focused on delivering a resilient performance in UK water, despite a difficult period of cost inflation. We are focused on delivering sustainable results for all stakeholders.

Key considerations for the Committee in the last year in delivering these commitments include:

- Consideration of the FRC's review of the external auditor's 2022 audit of Pennon Group PLC with the audit of Bristol Water PLC forming part of the group external audit
- Scrutiny of our responses to address the risks to the business posed by rising inflation and the resultant cost-of-living crisis
- Challenging our financial projections and scenario analysis to ensure we are well placed to deliver our environmental investment commitments.

AUDIT COMMITTEE REPORT (continued)

AUDIT COMMITTEE COMPOSITION

All members of the Committee up until their resignation on 1 February 2023 were Independent Non-Executive Directors of the Board. In accordance with the UK Code, the Board is satisfied that Neil Cooper, Claire Ighodaro, Loraine Woodhouse, Iain Evans and Jon Butterworth, all of whom served on the Committee during the year under review have recent and relevant financial experience and also have competence in accounting or auditing. Following a review of the composition of Board committees, Iain Evans and Jon Butterworth stood down from the Audit Committee in March 2023.

Only members of the Committee have the right to attend Committee meetings. Other regular attendees at meetings, at the invitation of the Committee, include the Chair of the Board, the Group Chief Executive, the Group Chief Financial Officer, the Group General Counsel and Company Secretary, Director of Risk and Assurance, Group Financial Controller and the External Auditor.

The Committee regularly holds private discussions with the External Auditor without management present. Further, the Committee Chair regularly communicates with the Group Chief Financial Officer, the External Auditor and with Committee members outside the meetings to better understand any issues or areas for concern.

Matters of significance in 2022/23

Financial reporting	• Reviewed and discussed reports from management on the financial statements, considered managements significant accounting judgements and policies being applied, and assess the findings of the statutory audit in respect of the integrity of the financial reporting of full and half year results.
External auditor	• Agreed the statutory audit fee for the year ending 31 March 2023 • Reviewed and approved the non-audit services and related fees provided by the External Auditors for 2022/23 Note, in line with the structure of the Group, certain activities such as recommending reappointment of the External Auditor and assessment of effectiveness of the External Auditor are performed by the Pennon Group Audit Committee. The responsibilities of the Pennon Group Audit Committee are described in the Pennon Group annual report (pages 120 to 121).
Internal Controls and Risk management	• Reviewed the effectiveness of the Company's risk management framework and its integration into Board and Committee Reporting • Reviewed the Risk Appetite statement prior to making a recommendation to the Board • Monitored fraud reporting and incidents of whistleblowing, including a review of the Company's whistleblowing processes and procedures and reporting to the Board on this • Reviewed the Company risk register and considered appropriate areas of focus and prioritisation for the internal audit work programme for the financial year • Carried out deep dives at Committee meetings on principal risk areas.
Governance	• Considered and approved Company accounting policies, including the impact of new accounting standards, used in the preparation of the financial statements including any required alignments of Bristol Water's accounting policies • Reviewed and considered internal financial policies • Confirmed compliance with the UK Code • Held regular meetings with the external auditor and the Group Director of Risk and Assurance without members of management being present.

AUDIT COMMITTEE REPORT (continued)

Regarding monitoring of the integrity of the financial statements, which is a key responsibility of the Committee identified in the UK Code, the significant areas of judgement considered in relation to the financial statements for the year ended 31 March 2023 are set out in the following table, together with details of how each matter was addressed by the Committee.

At the Committee's meetings throughout the year the Committee and the external auditor have discussed the significant matters arising in respect of financial reporting during the year, together with the areas of particular audit focus, as reported on in the independent auditor's report on pages 111 to 116. In addition to the significant matters set out in the table below, the Committee considered presentational disclosure matters including the use on non-underlying performance metrics disclosures, and ensuring a fair presentation of statutory and non statutory performance and financial measures.

During the year, up to the point the Committee was dissolved, the Committee's areas of focus included:

Area of focus	How the matter was addressed by the Committee
Revenue recognition	Given the nature of the Company's revenue, the key areas of income statement judgement for Bristol Water continued to be in respect of revenue recognition relating to income from water services. While the Committee relied on Bristol Water's processes for assessment of water into supply, it challenged the robustness and timeliness of the methodology used, resulting in management streamlining the calculation approach. The Committee welcomed this improvement and continues to scrutinise the track record of accuracy by comparing actual outturns with accruals at previous year ends to form a judgement about the quality of decision making. The Committee also closely considered the work in respect of these areas at year end by the external auditor as well as reviewing disclosures around revenue recognition accounting policies.
Bad and doubtful debts	Regular updates on progress against debt collection targets and other contractual payments due are received by the Board. Performance is monitored regularly against historical standards and compared to the track records of other companies in the sector. The Committee was particularly mindful of the ongoing impacts of affordability on the assessment of expected credit losses in determining the bad debt provision, noting the significant increases in inflation arising from macro economic developments. At the year end, the external auditor reported on the work it had performed, which, together with the detailed analysis reported, enabled the Committee to conclude that management's assessment of the year-end position and its provisions for expected credit losses was reasonable.
Going concern basis for the preparation of the financial statements and viability statement	A report from the Group Chief Finance Officer on the financial performance of both the Pennon Group including consideration of Bristol Water plc, including forward-looking estimates of covenant compliance and funding levels under different scenarios, is provided to the Board on a periodic basis. Rolling five-year strategy projections and the resultant headroom relative to borrowings are also regularly reviewed by the Board, including scenarios to enable the Committee to better understand the potential range of outcomes. At the end of each six-month period the Group Chief Finance Officer prepares for consideration by the Committee a report focusing on the Company's liquidity over the 12-month period from the date of signing of either the annual report or half-year results. The Committee also reviewed a report from the Group Chief Finance Officer on the Company's financial viability over an appropriate period, which the Board considers to be up to 2028, in connection with the UK Corporate Governance Code and Ofwat's requirement for a viability statement to be given by the Board.

AUDIT COMMITTEE REPORT (continued)

Effectiveness of the external audit process
Receiving high-quality and effective audit services is of paramount importance to the Committee. We continue to monitor carefully the effectiveness of our external auditor as well as their independence, while recognising there is a need to use our external auditor's firm for certain non-audit services. We have full regard to the FRC's Ethical Standard and ensure that our procedures and safeguards meet these standards.

The current external auditor, Ernst & Young LLP (EY), was appointed as auditors of Pennon Group plc and subsidiaries following a comprehensive audit tender process and approval by Pennon Group shareholders at its 2014 AGM. EY were appointed auditors of Bristol Water plc in July 2022 following PwC's resignation.

The External Auditor produced a detailed audit planning report in preparation for the year-end financial statements, which has assisted the auditor in delivering the timely audit of the Company's Annual Report and which was shared with, and discussed by, the Committee in advance.

The effectiveness review of the external auditor is undertaken as part of the Pennon Group Audit Committee's annual performance evaluation which also examines the relationship and communications between the Committee and the external auditor. Further details of the performance evaluation are provided in Pennon Group plc's Annual Report and Accounts. No issues were raised during that review. The Committee concluded that the auditor was effective during the year and that the relationship and communications were open and constructive.

The Pennon Group Audit Committee considered that it is appropriate that the external auditor be reappointed and has made this recommendation to the Board. The Committee chair has also met privately, with the external auditor to discuss key matters.

Auditor independence
The Committee regards independence of the External Auditor as absolutely crucial in safeguarding the integrity of the audit process and takes responsibility for ensuring the three-way relationship between the Committee, the External Auditor and management remains appropriate.

The external auditor reported on their independence during the year and again since the year end, confirming to the Committee that, based on their assessment, they were independent of the Company.

AUDIT COMMITTEE REPORT (continued)

Provision of non-audit services

The Committee continues to have a robust policy for the engagement of the external auditor's firm for non-audit work. The Committee receives a regular report covering the auditor's fees including details of non-audit fees incurred.

Recurrent fees typically relate to agreed procedures in relation to annual regulatory reporting obligations to Ofwat; work which is most efficiently and effectively performed by the statutory auditor. The policy is for non-audit fees not to exceed 70% of the audit fee for statutory work and for the Committee chair to approve all non-audit work performed by the statutory auditor. The policy uses the average of the last three years' audit fees disclosed in the accounts and certain non-audit fees for services that are required to be performed by the auditors are excluded from the assessment.

The Committee carefully reviews non-audit work proposed for the statutory auditor, taking into consideration whether it was necessary for the auditor's firm to carry out such work, and only grants approval for the firm's appointment if it was satisfied that the auditor's independence and objectivity would be safeguarded. If another accounting firm could provide the required cost-effective level of experience and expertise in respect of the non-audit services, then such firm would be chosen in preference to the external auditor.

The Group Chief Financial Officer regularly reports to the Committee on the extent of services provided to the Company by the External Auditor and the level of fees paid. The fees paid to the External Auditor's firm for non-audit services and for audit services are set out in note 7 to the financial statements on page 87.

External auditor reappointment and statement of compliance with CMA order

Pennon Group plc undertook a competitive audit tender process in 2014, which included the statutory audit engagement for South West Water and now includes Bristol Water plc following the acquisition by Pennon Group plc in 2021. The Group is in compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Pennon Group last undertook a formal comprehensive audit tender process for statutory audit services in 2014. The current External Auditor, Ernst & Young LLP (EY), was appointed following a comprehensive audit tender process and approval by shareholders at the Company's 2014 AGM. EY commenced their appointment as auditor and presented their first report to shareholders for the year ended 31 March 2015. The lead audit partner must change every five years. Christabel Cowling, who has considerable audit experience of other FTSE 100 utility companies, has held the role since 2019.

This year-end audit has been EY's ninth consecutive year in office as statutory auditor of Pennon Group plc and its subsidiaries. As previously indicated, the Pennon Group Audit Committee will be running a full tender for the Group's external audit services during the year ending March 2024, before the next rotation would become due. This allows for any potential new audit firm to take up the role for the year ending March 2025 and, if required, affords appropriate time for a smooth transition of responsibilities.

AUDIT COMMITTEE REPORT (continued)

Internal audit
The internal audit activities of the Company are a key part of the internal control and risk management framework. There is a long-standing and effective centralised internal audit service at Pennon Group plc which makes a significant contribution to the ability of the Committee to deliver its responsibilities and has continued to operate effectively.

The current Company internal audit plan was approved in March 2022, following a thorough review to ensure it provided adequate coverage over the Company's key risks for the year ahead and was sufficiently flexible to respond to emerging risks. In developing the plan, account is taken of the principal risks, the activities to be undertaken by the external auditor, and the Company's annual and ongoing risk management reviews. This approach seeks to ensure that there is a programme of internal and external audit reviews focused on identified key risk areas throughout the Company. Looking ahead, the intention of the Committee is to establish formal internal audit plans covering each six month period, given the volatility of the operating environment.

The Group Director of Risk and Assurance reported regularly through the year to the Committee on audit reviews undertaken and their findings of internal audit activity. There were regular discussions, correspondence and private meetings between the Director of Risk and Assurance and the Committee chair. The Committee continues to monitor the performance of the internal audit function as part of its annual assessment of the effectiveness of the function. As required by IIA standards, the next cyclical external review of the internal audit function will take place before the end of 2026/27 (the last having been undertaken in 2021/22).

THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT

The ESG committee supports the company's ongoing commitment to environmental stewardship.

Membership**	Role	Attendance
Iain Evans*	Chair	3/3
Gill Rider*	Non-Executive Director	3/3
Susan Davy	Chief Executive Officer	3/3
Jon Butterworth*	Non-Executive Director	3/3
Paul Boote	Chief Finance Officer	3/3
Claire Ighodaro*	Non-Executive Director	2/2
Neil Cooper*	Non-Executive Director	2/2
Dorothy Burwell*	Non-Executive Director	n/a
Loraine Woodhouse*	Non-Executive Director	n/a

*Following a review of Board Committee composition, Iain Evans, Gill Rider, Jon Butterworth, Neil Cooper, Claire Ighodaro, Dorothy Burwell and Loraine Woodhouse ceased to be members of the ESG Committee with effect from 31 January 2023.

**Since 1 February 2023, the trade and the significant majority of assets and liabilities of Bristol Water plc were transferred to South West Water Limited under a statutory transfer mechanism set out in the Water Industry Act. All the Directors of the Committee resigned from the Company with effect from 1 February 2023 and the Committee was dissolved.

Role of the ESG committee

- Review the policies, management, initiatives and performance of the Company with respect to the environment, workplace policies, group governance and corporate policies relating to responsible and ethical business practice, the role of the Company in society and customer service and engagement
- Review the actions of the Company to determine the suitability of the workplace environmental policies and practices of key suppliers and contractors
- Review the extent and effectiveness of the Company's external reporting of sustainability performance and its participation in relevant external benchmarking indices
- Regularly report to the Board
- Advise the Audit Committee of any material non-financial risks

The committee's focus for 2022/23

- Reviewed the external 2022 ESG Assessment scores and approved the work being undertaken to improve these
- Successfully achieved majority of 2022/23 ESG targets
- Successful progress made against majority of environmental KPIs, including sewer flooding and biodiversity
- Approved an updated Sustainable Finance Allocation and Impact Report
- Reformulated the future ESG targets to align with executive remuneration targets
- Carried out deep dive reviews on storm overflow discharges and the Spillsure programme noting the enhanced level of community engagement being proposed
- Continued delivery of TCFD recommendations including detailed appraisal of transition risks and opportunities and scenario analysis
- Enhanced ESG reporting including our disclosures aligned to the Sustainability Accounting Standards Board (SASB) reporting framework and new ESG DataBook
- Integration of Bristol Water ESG activity into Group ESG reporting

THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT (continued)

During the year, the Committee focused on governing our ESG activity and disclosure and ensured we continue to be a responsible business, creating a positive long-term impact on the environment and all our stakeholders.

Our approach to ESG ensures that everything we do supports our commitment to provide environmental stewardship and to support our customers and local communities. As a responsible employer, we remain focused on employee development alongside a robust health, safety and wellbeing programme. This is underpinned by a strong governance framework that upholds our core values within the organisation and throughout our supply chain. Sustainability is at the heart of our business and is part of everything that we do. During the year, the Committee considered a wide range of matters while fulfilling its duties in accordance with its terms of reference.

Our refreshed Group ESG targets through to 2025 reflect the priority issues identified by stakeholders in our materiality assessment that were not already addressed in existing regulatory commitments and plans. These targets support us in aligning our approach and priorities for PR24. You can read more on the outcomes of the materiality assessment below.

With effect from 6 April 2022, we are required to disclose climate-related financial information on a mandatory basis in line with requirements from the TCFD. These disclosures evidence our strategy to reduce emissions within our operations and through our supply chain to achieve Net Zero by 2030 driven by three pillars – sustainable living, championing renewals, and reversing carbon emissions.

ESG performance
The ESG Committee continues to assess performance against a range of challenging targets for the Company, set as part of the business planning process. The Committee reviewed and approved 2025 targets noting that the metrics, ODIs, Operational Service assessments and ESG targets are aligned to the strategic themes identified in the Committee's materiality assessment. ESG targets were rebased and reformulated to align with executive remuneration targets.

In addition, the ESG Committee provides oversight of performance against sustainability targets that are core to the successful delivery of our five year business plan. This is consistent with Ofwat's requirement for independent governance of the regulated business.

Materiality assessment
During the year, we embedded the results of our extensive materiality assessment into our 2025 targets. The outcome of this materiality assessment showed the following as of highest importance to all stakeholders:

- Net Zero
- Freshwater stewardship
- Water quality
- Climate resilience
- Drinking water quality
- Amenity and recreation
- Trust and transparency

Enhanced reporting and assurance
With a growing focus on ESG reporting, the Pennon Group ESG databook is available to view at www.pennon-group.co.uk/sustainability.

Jacobs are engaged to independently audit South West Water and Bristol Water's technical (non-financial) data relating to our Outcome Delivery Incentives published in its Annual Performance Report (APR), this includes all regulatory targets, including a suite of environmental performance indicators. This year Turner and Townsend has conducted an independent audit of other non-financial also included in the APR. This includes all South West Water regulatory targets, including the suite of environmental performance indicators. Similarly, Turner and Townsend conduct an independent audit of Bristol Water's technical (non-financial) data also published in their APR.

THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT (continued)

Benchmarking
It's important to us to ensure we are regularly benchmarked against the expected industry standards. This ensures we are continuing to provide up to date disclosure for our stakeholders. Certain leading indices assess companies on their disclosures relating to stringent environmental, social and governance criteria, and their position to capitalise on the benefits of responsible business practice.

The Pennon Group (including Bristol Water) is a constituent within the FTSE4Good Index, Sustainalytics, CDP Climate Change, S&P Global CSA, and a number of other leading external ESG assessments. FTSE4Good and similar leading indices are designed to facilitate investment in companies that meet globally recognised corporate responsibility standards.

HEALTH AND SAFETY COMMITTEE REPORT

The health and safety committee promotes a culture of safety within the company.

Membership**	Role	Attendance
Jon Butterworth*	Chair	3
Gill Rider*	Non-Executive Director	3
Iain Evans*	Non-Executive Director	3
Susan Davy	Group Chief Executive Officer	4
Paul Boote	Group Chief Financial Officer	4
Neil Cooper*	Non-Executive Director	3
Claire Ighodaro*	Non-Executive Director	3
Dorothy Burwell*	Non-Executive Director	1
Loraine Woodhouse*	Non-Executive Director	1

*Following a review of Board Committee composition, Iain Evans, Gill Rider, Jon Butterworth, Neil Cooper, Claire Ighodaro, Dorothy Burwell and Loraine Woodhouse ceased to be members of the Health & Safety Committee with effect from 31 January 2023.
**Since 1 February 2023, the trade and the significant majority of assets and liabilities of Bristol Water plc were transferred to South West Water Limited under a statutory transfer mechanism set out in the Water Industry Act. All the Directors of the Committee resigned from the Company with effect from 1 February 2023 and the Committee was dissolved.

Role of the health & safety committee

- Review and challenge to support the Board and Executive on all matters connected to Health & Safety
- Review the extent and effectiveness of the Company's reporting of health and safety performance and compare to external benchmarks
- Regularly report to the Board
- Advise the audit committee of any material non-financial risks

The committee's focus for 2022/23

During the year, the Committee considered a wide range of matters in the course of fulfilling its duties in accordance with its terms of reference:

- Six monthly comprehensive reviews of the Company's Health & Safety performance
- A review of the next phase of the HomeSafe strategy through to 2025
- A deep dive into the wellbeing strategy with a focus on mental health
- A review and challenge of potential near-miss events to ensure lessons are learnt
- Visiting operational sites to engage with front-line colleagues and the wider Health and Safety teams

The key to ensuring we keep employees safe and well in the workplace, is through empowering everyone to take responsibility for the health, safety and wellbeing of each other and for themselves. Simply put, it's about culture, leadership and accountability.

Our dedicated Board Committee focused purely on H&S ensures the Board continue to support our HomeSafe strategy and the Company's vision to ensure that everyone goes home safe every day. We continue to strive to be a leader of Health and Safety by 2025 in our sector, and leadership from the top is critical. The Board now has dedicated time to discuss and review performance, offer support, encourage learning and meet leaders and employees from across the business.

Reviewing the Company's health and safety performance, effectiveness of health and safety policies and procedures, including the continued roll-out of the HomeSafe strategy, has been core, with significant improvements already noted.

Importantly, the Committee reviews deep dives of High Potential Incidents with a particular focus on lessons learned, getting to the root cause, encouraging a learning mindset.

HEALTH AND SAFETY COMMITTEE REPORT

The first H&S conference held in Bristol in February. The conference was attended by representatives throughout the business from water treatment operational colleagues through to supply chain directors, with the aim of empowering everyone to recognise “It could happen to you” and “Take 5” to ensure it doesn’t. This theme developed from an investigation into a High Potential Incident we reviewed at our Committee.

H&S committee composition
All Board members are attendees and served throughout the year, with support from the Chief People Officer and Pennon’s H&S Director.

Reporting
In addition to the regular board report by the Group Chief Executive Officer, detailed performance is reviewed six monthly, focusing on performance, benchmarking, and lead activities such as leadership and engagement, hazard rectification, asset health and working environment.

The HomeSafe strategy continues to drive improvements and is regularly reviewed to ensure it drives us towards our 2025 aims. The Committee will continue to review and challenge plans and performance to support our HomeSafe ambitions, with a detailed roadmap to 2025 built on six key pillars.

HomeSafe strategy
The Company’s flagship health and safety programme, HomeSafe, continues to provide the framework for driving significant improvements in all health and safety activities and impacts. HomeSafe is built on the six strategic pillars; Managing Risk, Sharing & Learning, Working Together, Protecting Health, Enabling Leaders and Being Resilient.

DIRECTORS' REMUNERATION REPORT

Introduction

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.

In February we concluded the licence and statutory transfer of Bristol Water, successfully TUPEing employees into South West Water. On completion of the transfer, Mel Karam stepped down from his role as Bristol Water Chief Executive Officer on 1 February 2023. Mel remained on the Executive Committee until 31 March 2023, supporting the integration activity and we all thank him for his service to Bristol Water since 2018. The terms of his departure are noted in the Report on page 61. Laura Flowerdew stepped down from her role as Bristol Water Chief Financial Officer and the Bristol Board effective 1 September having chosen to take a new role in the Pennon Group. The Remuneration Report reflects these changes.

Key matters

As a purpose-led business, shaped by our values and culture. Our approach to all matters, including pay, is informed by the perspective of our various stakeholders, including our investors, customers, colleagues, communities and the environment.

The economic downturn over the past year has impacted the business, our colleagues and our customers. Climate-related issues have also dominated the landscape, and the driest, hottest summer on record for the region resulted in record demand for water. With this challenging backdrop, we are mindful of the need to build and maintain trust on the sensitive topic of executive pay, by clearly demonstrating our commitment to socially responsible business.

We were able to keep bills lower than inflationary increases. We have increased the number of customers benefiting from one or more of our social tariffs by 7% and achieved 88% satisfaction from those on our Priority Services Register. Our C-Mex position of 6th was retained in 2022/23.

The 2023 pay settlement represented our largest-ever pay award, in recent times, with a focus on higher increases for lower-paid, customer-facing roles. The increase of 7% was backdated to 1 January 2023, which further enhanced the effective increase for the year to 9.2%. Increases for more senior roles were scaled down, with those earning in excess of £80,000 awarded an increase of 4.6%. The 2023/24 increases for Executive Directors were capped at 3.5%.

The business also implemented a rounded package of measures to support employees, including wellbeing support, access to financial information and guidance through an external provider and hardship support. An interim bonus payment was paid to front-line teams.

The Pennon Group Executive Directors' annual bonus for the 2022/23 financial year and the long-term share awards (LTIP) granted in 2020 subject to three-year performance to 31 March 2023, were each based on scorecards intended to capture a rounded assessment of overall performance. Based on the formulaic assessment of performance, the annual bonus delivered an outcome of 26% of maximum and the 2020 LTIP vested at 45% of maximum. Further detail on the targets and outcomes is set out in the Pennon Group Annual Report and Accounts. There were clear areas of under and over performance, and this is reflected in the scorecard results. The Committee was satisfied that these outcomes fairly captured overall Group performance over the relevant performance periods.

DIRECTORS' REMUNERATION REPORT (continued)

However, having reflected on the exceptional economic backdrop, the Group Chief Executive Officer recommended to the Committee that her bonus and 2020 LTIP awards were foregone in full. An equivalent value is to be diverted into a future issuance under the Company's WaterShare+ scheme. The WaterShare+ scheme directly benefits our customers by either providing money off their bill or via ownership of Pennon shares. While recognising the performance delivered, the Committee reflected on the broader environment and approved the Group Chief Executive Officer's recommendation regarding her awards. Therefore, the Group Chief Executive Officer's single figure for 2022/23 does not include any variable incentives and is significantly lower than outcomes in prior years.

The incentives for Mel Karam as Bristol Water Chief Executive Officer until 31 January 2023 and Laura Flowerdew as Bristol Water Chief Financial Officer until 31 August 2022 reflected the Remuneration Policy in place for Bristol Water at the start of 2022. The outturns for both arrangements were carefully considered by the Remuneration Committee, using a robust discretion framework. Full details of performance against the targets and the measures for 2022/23 can be seen on page 62. The Committee were satisfied that the formulaic outturns of 40.6% for Mel Karam and 39.6% for Laura Flowerdew for the annual incentive and 50% for the three-year 2020 LTIP were justified.

Role and composition of the Remuneration Committee

Role of the Remuneration Committee

- Ensure remuneration is aligned with the strategy and values of Bristol Water
- Advise the Board on the framework of executive remuneration for Bristol Water
- Approve the design and determine targets for any performance related pay schemes
- Determine the appropriate outturn of any incentive arrangements and apply discretion as required.

The Company General Counsel and Company Secretary, Andrew Garard is secretary to the Committee replacing Simon Pugsley from 1 December 2022.

Committee members	Date of appointment to Remuneration Committee[1]	Attendance
Claire Ighodaro	2 April 2022	4/4
Gill Rider	2 April 2022	3/3
Neil Cooper	2 April 2022	4/4
Iain Evans	2 April 2022	3/3
Jon Butterworth	2 April 2022	3/3
Loraine Woodhouse	1 December 2022	0/0
Dorothy Burwell	1December 2022	0/0

1. Since 1 February 2023, the trade and the significant majority of assets and liabilities of Bristol Water plc were transferred to South West Water Limited under a statutory transfer mechanism set out in the Water Industry Act. All Bristol employees were TUPE transferred to South West Water. All the Directors of the Committee resigned from the Company with effect from 1 February 2023 and the Committee was dissolved.

DIRECTORS' REMUNERATION REPORT (continued)

The Committee's focus for 2022/23

• Consider the remuneration and terms of engagement of the Executive Directors, senior executives and Chair of the Group and the remuneration of the wider workforce.
• Determine targets that remain stretching, relevant to the Group's strategy and values and reflect best practice and wider stakeholders' views.
• Undertake the review of the Remuneration Policy, taking into consideration the Group's strategic goals, shareholders' views, regulatory commitments and evolving best practice.

In accordance with the Code, all of the Committee members were independent Non-Executive Directors. The Group Chief Executive Officer also attended meetings when invited except for such part of a meeting when matters concerning her own remuneration were to be discussed. The Committee was advised by Deloitte an independent remuneration consultant, to ensure remuneration was determined impartially. Aside from the provision of tax services to the Pennon Group, Deloitte has no other connection with the Company or any Director. The Committee was also supported by the Group Chief People Officer and the Group General Counsel and Company Secretary.

The Committee was formally constituted with written terms of reference. Since 1 February 2023, the trade and the significant majority of assets and liabilities of Bristol Water plc were transferred to South West Water Limited under a statutory transfer mechanism set out in the Water Industry Act. All Bristol employees were TUPE transferred to South West Water. All the Directors of the Committee resigned from the Company with effect from 1 February 2023 and the Committee was dissolved.

Executive Directors' remuneration policy

Susan Davy is Group Chief Executive Officer of Pennon Group Plc, South West Water Ltd and executive director of Bristol Water plc and Paul Boote is Group Chief Financial Officer of Pennon Group Plc, South West Water Ltd and became Chief Financial Officer of Bristol Water plc on 1 September 2022, replacing Laura Flowerdew who took an alternative role in the Pennon Group. Their remuneration is set in accordance with the Pennon Group Remuneration Policy which was approved by shareholders at the Company's AGM held on 22 July 2021. The full policy is displayed in its entirety on the Company's website and in the Pennon Annual Report and is also available upon request from the Group General Counsel and Company Secretary.

Full details of the remuneration for the Executive Directors for the FY2022/23 can be found in the Pennon Group Annual Report (www.pennon-group.co.uk/investor pages 136-157). Their remuneration is based on a combination of financial and customer/ operational metrics relating to Bristol Water plc as well as additional metrics relating to the performance of Pennon Group and other Pennon Group companies in their capacity as Group Chief Executive Officer and Group Chief Financial Officer of Pennon Group:
Pennon Group Plc
Pennon Water Services
South West Water
Bournemouth Water
Bristol Water
Water2business (30%) stake.

During the year, Mel Karam, and Laura Flowerdew served on the Board of Bristol Water plc as Chief Executive Officer and Chief Financial Officer and their remuneration was set in accordance with the remuneration policy approved in 2020/21. Details of this policy and its implementation for 2022/23 are detailed below along with the remuneration for Mel and Laura. There are no other Directors remunerated under this policy and following the Tupe transfer of Bristol Water to South West Water, all future remuneration arrangements for any executives will be implemented under the policies of either the Pennon Group or South West Water.

DIRECTORS' REMUNERATION REPORT (continued)

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 155 of Pennon Group plc Annual Report and Accounts 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.

DIRECTORS' REMUNERATION REPORT (continued)

Summary of Directors' remuneration policy

The table below sets out the Company's remuneration policy for the year ended 31 March 2023 and applied to Mel Karam as Bristol Water Chief Executive Officer and Laura Flowerdew as Bristol Water Chief Financial Officer. There will be no Executive Directors remunerated under this policy in future years. The remuneration of the Group Chief Executive Officer and Group Chief Financial Officer is set by the Remuneration Committee and Policy of the Pennon Group plc. Reflecting the nature of the Group Chief Executive Officer and Group Chief Financial Officer of the Pennon Group, all subsidiaries receive a cross-charge for fixed remuneration only for 2022/23. The figures rechargeable to Bristol Water plc through Group re-charges reflect 20% of fixed remuneration until 31 January 2023 and then 0% for the remainder of the financial year, following the statutory transfer of Bristol Water plc to South West Water limited.

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

DIRECTORS' REMUNERATION REPORT (continued)

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 remuneration in different performance scenarios for the Group Executive Directors is shown in the Pennon Group Annual Report and Accounts on page 155.

Loss of Office

The Committee may make arrangements to compensate a 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' REMUNERATION REPORT (continued)

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

Executive Directors	Appointment 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 Departed 1 Feb 2023 by redundancy	N/A	Rolling 6 months
L Flowerdew	1 October 2018	Resigned 31 August 2022	N/A	Rolling 6 months
S Davy	9 March 2022	Indeterminate, 12 months' notice period	2023	Rolling 12 months
P Boote	3 June 2021	Indeterminate, 12 months' notice period	2023	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**
Gill Rider	2 April 2022	1 February 2023	N/A	
Iain Evans	3 June 2021	1 February 2023	N/A	
Neil Cooper	3 June 2021	1 February 2023	N/A	
Jon Butterworth	2 April 2022	1 February 2023	N/A	
Claire Ighodaro	2 April 2022	1 February 2023	N/A	
Loraine Woodhouse	1 December 2022	1 February 2023	N/A	
Dorothy Burwell	1 December 2022	1 February 2023	N/A	

* Following the Tupe transfer of Bristol employees to South West Water, the Committee ceased to exist.

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.

DIRECTORS' REMUNERATION REPORT (continued)

Remuneration policy for NEDs
The Non-Executive Directors remuneration was set in accordance with the Pennon Group Remuneration Policy and all details of their remuneration for the FY2022/23 can be found in the Pennon Group Annual Report on page 146.

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

The table below sets out fees recharged to Bristol Water for the Non-Executive Directors in 2022/23. As part of the Pennon Group, a proportion of the fees payable to the NEDs were recharged across all subsidiaries.

A 3% uplift to the fee policy was implemented in 2022/23:

Chair fee	£38,633
Basic Non-Executive fee	£10,396
Additional fees	
Senior Independent Director	£1,717
Chair of Audit Committee	£2,576
Chair of Remuneration Committee	£2,234
Chair of ESG Committee	£2,234
Chair of Health and Safety Committee	£859

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 Remuneration Committee pays close attention to the remuneration approach for the wider workforce, and particularly given the cost-of-living crisis and this strongly influenced the annual pay settlement. The Committee reviews a pay dashboard twice a year, which contains information on elements of financial and non-financial reward, the wider labour market, demographics and pay statistics. This detail provides important context when making decisions regarding remuneration for the Executive Directors as well as ensuring a consistent approach is adopted.

The key focus for this year has been on supporting colleagues during the cost-of-living crisis. Prioritising those colleagues who need it most. those earning below £40,000 were awarded a 7% increase backdated to January 2023 and with a value of 9.2%. Those earning above £40,000 have received a tapering award with employees earning over £80,000 awarded 4.6%.

DIRECTORS' REMUNERATION REPORT (continued)

Relative importance of spend on pay

The Committee is aware of the importance of pay across the Company in delivering the Company's strategy and of the level of executive remuneration in relation to other cash disbursements. The table below shows the relationship between the Company's financial performance and expenditure on payroll. Data for the EBITDA and PBT are derived from the financial statements on pages 72 to 110.

	Year ended 31 March 2023 £m	Change compared to prior year %	Year ended 31 March 2022 £m
EBITDA	44.0	28.3%	62.8
(Loss)/profit before tax	(24.7)	280.3%	15.0
Payments to employees:			
Wages and salaries excluding Directors	18.6	12.7%	21.3
Wages and salaries including Directors	19.0	14.4%	22.2

Application of remuneration policy in 2022/23

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

Single total figure for remuneration of Executive Directors for 2022/23 (audited) -

All figures in £'000	M Karam[1]		L Flowerdew[2]		S Davy[3,4,5]		P Boote[3,5]	
	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22
Salary/fees	213	244	85	188	80	6	52	4
Bonus	52	108	16	69	-	2	-	2
Benefits	4	5	4	9	3	-	3	-
Pension	18	15	7	11	8	1	5	-
Single Figure pre-LTIP	287	372	112	277	91	9	60	6
LTIP	251	-	122	-	-	11	-	2
Single Figure	538	372	234	277	91	20	60	8

1. Mel Karam held the post of Bristol Water Chief Executive Officer until 1 February 2023 at which time he stepped down from the Board and remained in an Executive Committee role supporting the integration of Bristol Water to South West Water Ltd. Mel Karam's salary for the full financial year to 31 March 2023 was £255,000, at which point he left the business.
2. Ms Flowerdew held the post of Bristol Water Chief Financial Officer until 31 August 2022 at which time she stepped down from the Board, having accepted a role in the Pennon Executive Committee. Ms Flowerdew's salary for the full financial year was £205,000.
3. The figures provided for Susan Davy, Pennon Group Chief Executive Officer, and Paul Boote, Group Chief Financial Officer, reflect 16.67% of their remuneration for the FY 2022/23, which is rechargeable to Bristol Water through Group recharges. Reflecting the nature of their positions as Chief Executive Officer and Chief Financial Officer of the Group, all subsidiaries receive a cross-charge. In 2022/23 this applied to the fixed remuneration only, with the annual bonus and vesting 2020 LTIP being funded by Pennon, with no cost to customers of Bristol Water. The full single total figure of remuneration table is shown on page 142 of the Pennon Group Annual Report and Accounts 2023. The figures provided for 2021/22 are lower as they reflect one months' recharge following the conclusion of the CMA review of the Bristol Water acquisition in March 2022.
4. As disclosed in the Pennon Group Annual Report and Accounts 2023, Susan Davy reflected on the cost-of-living crisis and broader sentiment concerning the water sector and advised that she would forgo any annual bonus due for 2022/23 and the 2020 LTIP due to vest in August 2023. The Board will be diverting an equivalent value of what might have been awarded to a future issuance of the Company's WaterShare+ scheme.
5. For 2021/22, the 2019 LTIP value for Susan Davy and Paul Boote reflects the share price at the date of vesting of 970.5p and a vesting outcome of 88.2%. The value includes accrued dividends over the vesting period. The Committee did not exercise any discretion in relation to share price changes. These LTIP awards are subject to a two-year holding period.

Notes to the single figure table

Bonus and LTIP includes amounts earned based on performance during 2022/23, which have been accrued and approved, but not paid as at 31 March 2023 and relates to the period of the year served as Directors of Bristol Water. Details of the Bristol Water annual bonus and Bristol Water LTIP are detailed in the report on pages 61 to 63.

DIRECTORS' REMUNERATION REPORT (continued)

Mel Karam – Departure Payments
Following the Tupe transfer of Bristol Water employees to South West Water Ltd effective 1 February 2023, Mel Karam stepped down from the Board of Bristol Water and departed from the business 31 March 2023. Consistent with the policy for departing executives and in line with his service contract the following payments are to be made in 2023/24:

- Six-months pay in lieu of notice and benefits totalling £142,371
- Redundancy payment of £30,000
- Mel will retain his entitlement to the annual bonus and 2020 long term incentive plan which vested in 2023. The values for the pro-rated amount are shown in the total single figure table above and are £62,120 for the full-year annual bonus and £265,906, for the full three-year performance period for the 2020 LTIP which vested at 49.6%.

Group Chief Executive Officer and Group Chief Financial Officer (Susan Davy and Paul Boote) – Incentive arrangements

Full details of the annual bonus and LTIP arrangements relating to Susan Davy and Paul Boote can be found in the Pennon Annual Report and Accounts on pages 142-145.

Salary (audited)
A salary review conducted during 2021/22 resulted in a pay increase of 4.6% effective from April 2022 for all employees up to and including the Senior Leadership Team. Susan Davy Group CEO and Paul Boote Group CFO were awarded 3% of salary. This was respectfully declined by the Group CEO.

Incentive Outcomes

Executive Directors (Susan Davy and Paul Boote) annual bonus and long term incentive plans for 2022/23
Full details of the annual bonus and LTIP arrangements relating to Pennon Executive Directors can be found in the Pennon Annual Report and Accounts on pages 142-145. The Chief Executive Officer's annual bonus for the 2022/23 financial year and the long-term share awards (LTIP) granted in 2020 subject to three- year performance to 31 March 2023, were each based on scorecards intended to capture a rounded assessment of overall performance. Based on the formulaic assessment of performance, the annual bonus delivered an outcome of 26% of maximum and the 2020 LTIP vested at 45% of maximum. Further detail on the targets and outcomes is set out in the main body of the report. There were clear areas of under and over performance, and this is reflected in the scorecard results. The Committee was satisfied that these outcomes fairly captured overall Group performance over the relevant performance periods. However, having reflected on the exceptional economic backdrop, the Group Chief Executive Officer recommended to the Committee that her bonus and 2020 LTIP awards were foregone in full. An equivalent value is to be diverted into a future issuance under the Company's WaterShare+ scheme. The WaterShare+ scheme directly benefits our customers by either providing money off their bill or via ownership of Pennon shares. Whilst recognising the performance delivered, the Committee reflected on the broader environment and approved the Group Chief Executive Officer's recommendation regarding her awards. Therefore, the Group Chief Executive Officer's single figure for 2022/23 does not include any variable incentives and is significantly lower than outcomes in prior years.

The annual bonus and vesting LTIP awards for the Group Chief Financial Officer will be fully funded by Pennon and will not be subject to re-charges to Bristol Water.

Mel Karam and Laura Flowerdew ACIP annual bonus for 2022/23 (audited)
The maximum opportunity under the 2022/23 ACIP for the year ended 31 March 2023 for the Bristol Water CEO and CFO was unchanged from the previous year at 60% and 50% of salary.

The table below represents the business performance measures which form 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 2022/23 financial year. The maximum 2022/23 bonus opportunity against each of the main performance measures is shown below together with the award to be received.

DIRECTORS' REMUNERATION REPORT (continued)

					Financial measures – 30% weighting
Measure	Threshold	Target	Maximum	Actual outturn	Bonus Outturn
OPEX	£(75.1)m	£(71.1)m	£(69.3)m	(£74.8)m	**0%**
					Customer and operational measures – 50% weighting
NB different weightings apply CEO/ CFO & COO	Target	Actual outturn		Target Achieved	Bonus outturn
Leakage (NHHNU) BRW (17% /22%)	31.8 Ml per day	36.3 Ml per day		0%	
*Negative Water Contacts BRW (17%/ 22%)	1.5*	1.21		54%	**50%/48%**
Interruptions to supply per property BRW (17%)/22%)	5 mins 45 sec	8 mins 05 sec		56%	
C-Mex BRW (50%) / (33%)	5th	6th		70%	
ESG metrics – 20% weighting					
Reduce carbon emissions in support of our strategy to meet zero by 2030	65%	65%		Yes	
Increase renewable generation	7%	6.89%		No	
Reduce onsite water usage	5 Ml/d	6.13 Ml/d		Yes*	
Great Place to Work accreditation	Maintain	Maintained		Yes	
Reduce Lost time injuries	22 (18% reduction)	28 (12% reduction)		No	
FTSE Women Leaders Survey position	20th.	14th.		Yes	**77.7%**
Achieve a Sustainalytics ESG	75	80		Yes	
Net debt through Sustainable Financing Framework	60% of new debt	100%		Yes	
Fair Tax Accreditation	Maintain	Maintained		Yes	
Summary					
Financial				**0%**	
Customer ODI (CEO / CFO)				**25%/24%**	
ESG				**15.6%**	
Total Bonus Outturn				**40.6% / 39.6%**	

The resulting bonus awards, were:

Mel Karam 40.6% of maximum bonus entitlement, i.e. 24% of applicable salary
Laura Flowerdew 39.6% of maximum bonus entitlement, i.e. 20% of applicable salary

Mel Karam's and Laura Flowerdew's bonus were based on the salary at the end of their period in role in which the bonus was earned.

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.

Vesting Level of the Bristol 2020 -2023 LTIP Award

Mel Karam and Laura Flowerdew 2020 – 2023 LTIP (audited)
The maximum opportunity for the Bristol Water CEO, Mel Karam, 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 Bristol Water CFO, Laura Flowerdew. The table below sets out the performance measures and outturns for the 2020 – 2023 LTIP.

DIRECTORS' REMUNERATION REPORT (continued)

Performance Measure	Description	Weighting	Performance Range		Outturn	Vesting Level
			Threshold	Max		
Totex	Achievement of defined total Totex targets	30%	35%	100%	55%	16.4%
Outcome Delivery Incentives	Achievement in relation to net penalties/rewards for delivery against all Performance Commitments which attract a penalty /reward	35%	35%	100%	49%	17.3%
C-MeX	Achievement of Ofwat C-MeX ranking in relation to other regulated water businesses	20%	35%	100%	80%	15.9%
Health & Safety	Achievement of long-term Health & Safety targets, as measured against a defined Maturity Matrix.	15%	35%	100%	0%	0%
TOTAL		**100%**				**49.6%**

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.

The vesting level agreed by the Remuneration Committee was approved following a detailed review, taking inputs from other Committees (Health and Safety and Audit) as well as considering the wider business performance and customer experience.

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 2023, no Director (2022: 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 8% of annual base salary to the scheme on Mr Karam's behalf. Contributions paid to the scheme for the financial year totalled £0 (2022: £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 2022/23 was £6,988 (2022: £11,267). This equates to an amount equivalent to 8.2% of annual base salary, slightly above the policy level, reflecting Ms Flowerdew's entitlement to Pennon Group employers' contributions on transfer to her new role.

The retirement benefits for Susan Davy and Paul Boote can be found on page 145 of the Pennon Group Annual Report and Accounts.

Interests in shares (audited)
During the year ended 31 March 2023 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 Executive Directors. Details relating to their shareholdings and share awards in Pennon Group can be found in the Pennon Group Annual Report and Accounts on page 149.

DIRECTORS' REMUNERATION REPORT (continued)

Single total figure for remuneration of NEDs for 2022/23 (audited)

	Salary/fees	
	2022/23 £'000	2021/22 £'000
Gill Rider	39	-
Iain Evans	13	1
Neil Cooper	15	1
Claire Ighodaro	13	-
Jon Butterworth	11	-
Loraine Woodhouse[(1)]	4	-
Dorothy Burwell	3	-

1. Lorraine Woodhouse received an additional payment in respect of attendance at the November Board meeting, prior to the commencement of her service agreement.

All Non-Executive Directors were Non-Executive Directors of Pennon Group plc. The fees reflected above were fees recharged from Pennon Group to the Company, reflective of the proportion of their time spent on Bristol Water matters prior to the TUPE transfer of Bristol Water employees to South West Water Ltd.

Change in Bristol Water 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 2013.

	Luis García					Mick Axtell[(2)]	Total	Mel Karam					
	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017[(1)] £'000	2017 £'000	2017 £'000	2018 £'000	2019 £'000	2020[(3)] £'000	2021 £'000	2022 £'000	2023[(3)] £'000
Base salary	185	189	194	194	173	42	215	230	237	240	240	244	213
Annual bonus % of maximum	*87%*	*79%*	*73%*	*57%*	*81%*	*84%*	*87%*	*60%*	*46%*	*74%*	*58%*	*74%*	41%
LTIP earned as proportion of salary	0%	25%	96%	0%	0%	0%	0%	0%	0%	80%	0%	0%	104%
Total remuneration	**252**	**306**	**454**	**257**	**226**	**56**	**282**	**359**	**316**	**544**	**341**	**372**	**538**

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 and 2023 for Mel Karam is the full amount of LTIP award covering the three years of Mr Karam's participation in the two three-year performance periods.

DIRECTORS' REMUNERATION REPORT (continued)

Percentage Change in Directors' Remuneration

	Percentage change in salary/fees			Percentage change in benefits			Percentage change in bonus		
	2022/23	2021/22	2020/21	2022/23	2021/22	2020/21	2022/23	2021/22	2020/21
Executive Directors									
Mel Karam	**4.6%**	1.5%	0%	**0%**	10.4%	7.8%	**(33)%**	29.9%	(22.3%)
Laura Flowerdew	**4.6%**	1.5%	0%	**0%**	3.7%	3.2%	**(33)%**	30.2%	55%
Susan Davy	**0%**	-	-	**(27)%**	-	-	**(100)%**	-	-
Paul Boote	**3%**	-	-	**(6)%**	-	-	**(11)%**	-	-
Bristol Water Employees	**4.6%**	1.75%	0%	**0%**	0%	0%	**(7)%**	4%	(22%)

CEO Pay Ratio

For 2022/23 the CEO pay ratio has been calculated using the combined remuneration of the Bristol Water CEO, Mel Karam, and the Group Chief Executive Officer, Susan Davy, reflecting the total paid to the two Chief Executive Officers. For transparency the ratio is also shown using the total single figure for the Group Chief Executive Officer, using the total single figure disclosed in the Pennon Group Annual Report and Accounts on page 142. 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 and 22/23 were impacted by the maturity of the Bristol LTIP awards (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. The employees at P25, Median and P75 remain constant in both calculations.

For 2022/23 the total remuneration for the employees identified at P25, P50 and P75 is £28,353, £34,797 and £46,171 respectively. The base salary of 2022/23 for the employees identified at P25, P50 and P75 is £26,748, £31,244 and £40,039 respectively.

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
2023 Combined CEOs remuneration	Option A	13:1 (excluding LTIP 22:1 (including LTIP)	11:1 (excluding LTIP) 18:1 (including LTIP)	8:1 (excluding LTIP) 14:1 (including LTIP)
2023 Group CEO	Option A	19:1	16:1	12:1

The remuneration committee and its advisers
Claire Ighodaro, Gill Rider, Iain Evans, Neil Cooper and Jon Butterworth were members of the Remuneration Committee throughout the year. Loraine Woodhouse and Dorothy Burwell joined the Committee on their appointment to the Board on 1 December, however there were no meetings between 1 December and 1 February when the Committee dissolved. During the year, the Committee received advice or services which materially assisted the Committee in the consideration of remuneration matters from Adele Barker (Group Chief People Officer) and from Deloitte LLP.

During 2018/19, Deloitte LLP was reappointed directly by the Pennon Group Remuneration Committee with a refreshed advisory team, following a comprehensive retendering process. Deloitte LLP is a member of the Remuneration Consultants Group and as such voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The Committee was satisfied that the advice it received from Deloitte LLP had been objective and independent.

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 March 2023. The corporate governance information on pages 20 to 66 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 2023, 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. Further details can be found on page 27.

Financial results and dividends
The financial review including financial results, KPIs and dividends is contained in the Strategic Report on pages 3 to 4.

The total dividend paid during the year ended 31 March 2022 was 1,072p (2022: 148p) per ordinary share. The Board has not proposed a final dividend in respect of the financial year 2022/23 (2022: £nil).

Capital structure
Details of the issued share capital are shown in note 26. The Company has one class of ordinary shares, which carry no right to fixed income. Each ordinary share carries the right to one vote at general meetings of the Company.

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

Under its Articles of Association and the Companies Acts, the Company has in issue 5,998,025 ordinary shares as disclosed in note 25. All the ordinary shares are owned by South West Water 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
On 1 February 2023, the merger of South West Water and Bristol Water completed with Bristol Water's operating licence transferring to South West Water Limited ('SWW'). As part of the transfer scheme, the trade and majority of assets and liabilities of Bristol Water plc ('BW') were transferred to SWW. SWW will continue to operate under the Bristol Water name in the area Bristol Water serves. From this date, the operating activities of BW ceased with only residual preference shares, debt and the pension surplus remaining in the Company. Any commitments under these instruments are fully supported by interest bearing loans receivable from SWW, as a result the Company is expected to be profit neutral going forward.

DIRECTORS' REPORT (continued)

Going Concern
In assessing the going concern basis, the Directors have considered the cash flow projections of the Company for 12 months from the date of approval of the Annual Report and Financial Statements. As noted above the operating activities of BW ceased with only residual preference shares, debt and the pension surplus remaining in the Company. The commitments under these instruments are fully supported by interest bearing loans receivable from SWW, as a result the Company is expected to be profit and cash neutral going forward.

The Company has a strong balance sheet position with net assets of £165.1m (2021/22: £249.1m) which includes £171.1m of receivables due from the parent company SWW.

The key risk to the Company in relation to the parent company funding commitment is set out in the Risk Review in the Strategic Report (see page 18). The Long-Term Viability Statement also details this risk in consideration of viability on page 19.

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 report that, after making enquiries, they have concluded that the Company has adequate resources or the reasonable expectation of raising further resources as required to continue in operation for the 12 months following signing of the report. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

Financial Risk Management
Details of financial risks faced by the Company and the related mitigating factors are included in note 28 to the financial statements.

Directors and their interests
The Directors who served during the year or were appointed during the year are set out on page 20.

Simon Pugsley was appointed Company Secretary on 1 April 2022 to be Company Secretary jointly with Colin Caldwell until their resignations on 1 December 2022 and 8 December 2022, respectively. On 1 December 2022, Andrew Garard was appointed Company Secretary.

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 31 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 27 to the financial statements.

DIRECTORS' REPORT (continued)

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.

Employees
Information on employment policies and practices is contained within the 'Staff Confidence' part of the Strategic Report on pages 15 to 16.

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 in the Bristol Water area, 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. During the year we continued 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 included Natural England, the Environment Agency, Wessex Water, Avon Wildlife Trust, Bristol Zoological Society, Farming & Wildlife Advisory Group and Catchment Sensitive Farming. During the year we continued 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.

As the Company has ceased operational trading the current and future impacts relating to environmental matters, as set out in the Pennon Group plc Annual Report, have limited to no direct impact on the Company going forward.

Greenhouse Gas Emissions
As part of the Pennon Group, Bristol Water's Streamlined Energy and Carbon Reporting (SECR) is included within the Pennon Group Report. The Company has taken advantage of the exemption offered under the Companies Act 2006 and has not reported details of Greenhouse gas emissions during the financial year. Details of the Company's greenhouse gas emissions can be found in the APR.

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 8. In line with current UK tax legislation, the amount is fully deductible against the Company's corporation tax liability. Tax relief is £173,605 (2021/22: £73,323).

Details of long-term incentive schemes can be found on page 62 to 63.

Details of significant contracts between the Company and Directors can be found on page 68. 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 71.

In accordance with the UK Corporate Governance Code, as set out in the Corporate Governance Report on page 20, 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.

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 Company 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 are listed on page 20, 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:

P. Boote

Paul Boote,
Group Chief Financial Officer
7 July 2023

INCOME STATEMENT

for the year ended 31 March 2023

	Notes	**2023** £m	2022 Restated* £m
Revenue before non underlying items	**6**	**115.6**	125.5
Non underlying revenue		**(6.6)**	-
Total revenue		**109.0**	125.5
Operating costs excluding impairment losses on trade receivables	**7**	**(84.6)**	(88.8)
Impairment losses on trade receivables	**7**	**(3.5)**	(2.7)
Operating costs before non underlying items		**(88.1)**	(91.5)
Non underlying operating costs	**7**	**(1.2)**	(0.1)
Total net operating costs	**7**	**(89.3)**	(91.6)
Operating profit		**19.7**	33.9
Interest payable and similar charges before non underlying items	**8**	**(34.0)**	(22.8)
Interest receivable and similar charges before non underlying items		**2.7**	3.9
Non underlying interest payable and similar charges	**8**	**(13.1)**	-
Total net interest payable and similar charges	**8**	**(44.4)**	(18.9)
(Loss) / profit before tax		**(24.7)**	15.0
Taxation on profit on ordinary activities	**9**	**4.5**	(25.5)
Loss for the financial year		**(20.2)**	(10.5)
Loss per ordinary share	**10**	**(336.7)p**	(175.0)p

Substantially all of the Company's operations were discontinued in the year.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2023

	Notes	**2023** £m	2022 Restated* £m
Loss for the financial year		**(20.2)**	(10.5)
Other comprehensive income / (loss):			
Items that will not be reclassified to profit and loss			
Actuarial gain / (loss) on retirement benefit surplus	**16**	**0.5**	(1.0)
Remeasurement of defined benefit pension scheme restriction	**9, 16**	**(0.1)**	0.4
Other comprehensive income / (loss) for the year, net of tax		**0.4**	(0.6)
Total comprehensive loss for the year		**(19.8)**	(11.1)

*See note 5

STATEMENT OF FINANCIAL POSITION
at 31 March 2023

	Notes	2023 £m	2022 Restated* £m
Non-current assets			
Property, plant and equipment	11	-	696.6
Intangible assets	12	-	12.7
Other investments - Loans to group undertakings	13	-	61.1
Other receivables	14	26.6	-
Retirement benefit surplus	16	8.2	8.1
		34.8	778.5
Current assets			
Inventory	18	-	1.9
Trade and other receivables	19	144.5	29.5
Current tax asset	19	0.7	-
Cash and cash equivalents	20	0.1	12.0
		145.3	43.4
Total assets		180.1	821.9
Non-current liabilities			
Lease liabilities	21	-	(1.1)
Deferred income tax liabilities	15	-	(99.6)
Borrowings and derivatives	22,28	(1.6)	(399.7)
8.75% irredeemable cumulative preference shares	22,26,28	(12.5)	(12.5)
Deferred income	23	-	(18.5)
Government grants		-	(0.3)
		(14.1)	(531.7)
Current liabilities			
Lease liabilities	21	-	(0.4)
Current portion of deferred income	23	-	(2.7)
Trade and other payables	24	(0.9)	(36.7)
Current tax liability	24	-	(1.3)
		(0.9)	(41.1)
Total liabilities		(15.0)	(572.8)
Net assets		165.1	249.1
Equity			
Called-up share capital	26	6.0	6.0
Share premium account		4.4	4.4
Other reserves		5.8	5.8
Retained earnings		148.9	232.9
Total Equity		165.1	249.1

The financial statements of Bristol Water plc, registered number 02662226 on pages 72 to 110 were approved by the Board of Directors on 7 July 2023 and signed on its behalf by:

Paul Boote
Director

*See note 5

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2023

	Called up share capital	Share premium account	Capital redemption reserve	Retained earnings	Total
	£m	£m	£m	£m	£m
Balance at 1 April 2021 (restated, note 5)	6.0	4.4	5.8	252.8	269.0
Loss for the year (restated, note 5)	-	-	-	(10.5)	(10.5)
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	-	-	-	(11.1)	(11.1)
Ordinary dividends	-	-	-	(8.9)	(8.9)
Share based payments				0.1	0.1
Balance as at 31 March 2022 (restated, note 5)	6.0	4.4	5.8	232.9	249.1
Balance as at 1 April 2022 (restated, note 5)	6.0	4.4	5.8	232.9	249.1
Loss for the year	-	-	-	(20.2)	(20.2)
Other comprehensive income for the year:					
Actuarial gain recognised in respect of retirement benefit obligations	-	-	-	0.5	0.5
Remeasurement of defined benefit pension scheme	-	-	-	(0.1)	(0.1)
Total comprehensive loss for the year	-	-	-	(19.8)	(19.8)
Ordinary dividends	-	-	-	(64.3)	(64.3)
Share based payments	-	-	-	0.1	0.1
Balance as at 31 March 2023	6.0	4.4	5.8	148.9	165.1

The Board has not proposed a final dividend in respect of the financial year 2022/23 (2022: £nil).

CASH FLOW STATEMENT

For the year ended 31 March 2023

	Notes	2023 £m	2022 Restated* £m
Cash flows from operating activities			
Loss / profit before taxation		**(24.7)**	15.0
Adjustments for:			
Share based payments	**25**	**0.1**	0.1
Deferred income amortisation	**23**	**(3.3)**	(3.2)
Depreciation	**7**	**21.4**	25.0
Amortisation of intangibles	**7**	**2.9**	3.9
Difference between pension charges and contributions paid	**16**	**0.6**	0.9
Loss / (profit) on disposal of assets	**7**	**0.1**	(0.1)
Interest income	**8**	**(2.4)**	(3.6)
Interest expense	**8**	**47.1**	22.8
Pension interest income	**8**	**(0.3)**	(0.3)
(Increase) in inventory		**(0.5)**	(0.2)
Decrease / (increase) in trade and other receivables		**0.5**	(1.3)
Increase / (decrease) in trade and other creditors and provisions		**9.5**	(0.7)
Cash generated from operations		**51.0**	58.3
Interest paid		**(21.4)**	(12.4)
Corporation taxes paid		**(1.6)**	(1.9)
Contributions received	**23**	**2.8**	2.1
Net cash generated from operating activities		**30.8**	46.1
Cash flows from investing activities			
Purchase of property, plant and equipment and intangibles		**(40.7)**	(40.4)
Proceeds from sale of fixed assets		**-**	0.2
Interest received	**8**	**2.4**	3.6
Repayment of intercompany loan receivable	**13**	**61.1**	-
Transfer of trade and assets	**32**	**(5.1)**	-
Net cash generated / (used) in investing activities		**17.7**	(36.6)
Cash flows from financing activities			
Proceeds from loans and borrowings	**22**	**81.1**	11.0
Repayment of loans and borrowings		**(75.8)**	(9.0)
Payment of lease liabilities		**(0.3)**	(0.4)
Preference dividends paid	**8**	**(1.1)**	(1.1)
Equity dividends paid		**(64.3)**	(8.9)
Net cash used in financing activities		**(60.4)**	(8.4)
Net (decrease) / increase in cash and cash equivalents		**(11.9)**	1.1
Cash and cash equivalents, beginning of year	**20**	**12.0**	10.9
Cash and cash equivalents, end of year	**20**	**0.1**	12.0

*See note 5

Substantially all of the Company's operations were discontinued in the year.

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Bristol Water plc ("the Company") 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 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.

In preparing the financial statements management has considered the impact of climate change. 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. As the Company has ceased operational trading the current and future impacts as set out in the Pennon Group plc Annual Report have limited to no direct impact on the Company.

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's licence, trade, assets and obligations were transferred to South West Water Limited as a going concern on 1 February 2023, the consideration being the net asset carrying value of £171.1m settled via an intercompany debtor. Post the statutory transfer, no transactions were recognised in the income statement except for those relating to the remaining preference shares, debentures, pension asset and intercompany loans. Going forward remaining obligations relating to these will be met from matching intra-group contracted assets and related receipts. 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 period which covers the period from approval of the 2023 financial statements through to 31 July 2024. 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 22.

3 Summary of significant accounting policies (continued)

3.2 Revenue (continued)

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 when the performance obligation to the customer is satisfied. Where the performance obligation relates solely to a connection to the network, revenue is recognised at the point of connection when the customer is deemed to obtain control. Where assets are constructed or provided by the Company, or assets transferred to the Company, it is considered that there is an explicit or implied performance obligation to provide an ongoing water service, with the result that revenue is recognised over the period of time water services are expected to be provided. Unrecognised revenue is held in deferred income as a contract liability. The Company has changed its policy on recognising revenue from developers to align with the Pennon Group plc's policy, see note 5 for further details.

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 Non underlying items

Non underlying 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. Expenditure to increase capacity or enhance infrastructure assets is capitalised where it can be reliably measured, and it is probable that incremental future economic benefits will flow to the Group. The cost of day to day servicing of infrastructure components is recognised in the income statement as it arises.

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.

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 Pennon Group plc 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 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 Summary of significant accounting policies (continued)

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.

3.13 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 Leased 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

Prior to the transfer of trade, assets and liabilities to SWW, an estimate of water consumption by metered customers but not yet billed (accrued income) was made each year. The accrual was estimated using historic data related to metered volumes, billed consumption and current tariffs. The accrued income at 31 March 2022 was £15.8m, of which £0.3m is included in note 19 prepayments and accrued income and, £1.3m and £0.1m relating to related party companies Water 2 Business Limited and Pennon Water Services Limited respectively, is included within amounts owed by group undertakings in note 19. There are no amounts relating to accrued income as at 31 March 2023.

Prior to the transfer of trade, assets and liabilities to SWW, contributions received from developers in respect of network and other assets were recognised as revenue as the performance obligation is satisfied. Where the performance obligation relates solely to a connection to the network, revenue was recognised at the point of connection when the customer is deemed to obtain control Where assets were constructed or provided by the Company, or assets transferred to the Company, it was considered that there is an explicit or implied performance obligation to provide an ongoing water service, with the result that revenue was recognised over the period of time water services are expected to be provided through this connection. We estimated the average connection would be in place for a period of 60 years which is based on the useful economic life of domestic properties and building industry expectations. The Company has changed this policy to align with the Pennon Group plc's policy, see note 5 for further details.

4 Critical accounting estimates and judgments (continued)

Classification of costs between operating expenditure and capital expenditure (judgement)

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.

Prior to the transfer of trade, assets and liabilities to SWW, the Company incurred a high level of infrastructure maintenance expenditure. Each infrastructure scheme was 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 were allocated to categories that reflect the nature of activity being undertaken and maybe classified as operating or capital in nature. A judgement was 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 7 for capitalised payroll costs.

Useful economic lives of property, plant and equipment (estimate)

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. These are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 11 for the carrying amount of the property, plant and equipment and note 3.6 for the useful economic lives for each class of assets.

Defined benefit pension scheme (estimate)

The Company has an obligation to pay pension benefits to certain former 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 16 for the disclosures of the defined benefit pension scheme.

Impairment of trade receivables (estimate)

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 2023 (for the prior year 48 months prior to 31 March 2022) 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. At 31 March 2022 the Company believed that there would be a future impact of cost of living increases on the recovery of household debt and 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 was based on historic collections data from previous financial crises and an assessment of the potential impact on household debt. At 31 March 2023 the Company has does not have any trade receivables.

See note 19 for the net carrying amount of the receivables and associated impairment provision.

5 Change in accounting policies

As a result of the acquisition of the Company by Pennon Group Plc on 3 June 2021, the Company's accounting policies adopted for the statutory financial statements have been aligned with those of Pennon Group Plc. This note explains the impact of these accounting policies on the Company's financial statements.

Reconciliation of equity as at 1 April 2021 and 31 March 2022

	Note	31 March 2021 as originally presented £m	change £m	31 March 2021 restated £m	31 March 2022 as originally presented £m	change £m	31 March 2022 restated £m
Non-current assets							
Property, plant and equipment		682.9	-	682.9	696.6	-	696.6
Intangible assets		13.3	-	13.3	12.7	-	12.7
Investments		61.1	-	61.1	61.1	-	61.1
Deferred tax assets	B	5.9	(5.9)	-	7.9	(7.9)	-
Retirement benefit surplus		9.1	-	9.1	8.1	-	8.1
		772.3	(5.9)	766.4	786.4	(7.9)	778.5
Current assets							
Inventory		1.7	-	1.7	1.9	-	1.9
Trade and other receivables		29.6	-	29.6	29.5	-	29.5
Cash and cash equivalents		10.9	-	10.9	12.0	-	12.0
		42.2	-	42.2	43.4	-	43.4
Total assets		814.5	(5.9)	808.6	829.8	(7.9)	821.9
Non-current liabilities							
Lease liabilities		(1.5)		(1.5)	(1.1)	-	(1.1)
Deferred tax liabilities	B	(72.3)	(6.3)	(78.6)	(93.2)	(6.4)	(99.6)
Borrowings and derivatives		(379.2)	-	(379.2)	(399.7)	-	(399.7)
8.75% irredeemable cumulative preference shares		(12.5)	-	(12.5)	(12.5)	-	(12.5)
Deferred income	A	(82.9)	63.3	(19.6)	(83.0)	64.5	(18.5)
Government grants		(0.3)	-	(0.3)	(0.3)	-	(0.3)
		(548.7)	57.0	(491.7)	(589.8)	58.1	(531.7)
Current liabilities							
Lease liabilities		(0.4)	-	(0.4)	(0.4)	-	(0.4)
Borrowings and derivatives		(9.0)	-	(9.0)	-	-	-
Deferred income	A	(1.8)	(0.9)	(2.7)	(1.9)	(0.8)	(2.7)
Trade and other payables		(35.3)	-	(35.3)	(38.0)	-	(38.0)
Provisions for liabilities		(0.5)	-	(0.5)			
		(47.0)	(0.9)	(47.9)	(40.3)	(0.8)	(41.1)
Total liabilities		(595.7)	56.1	(539.6)	(630.1)	57.3	(572.8)
Net assets		218.8	50.2	269.0	199.7	49.4	249.1
Equity							
Called-up share capital		6.0	-	6.0	6.0	-	6.0
Share premium account		4.4	-	4.4	4.4	-	4.4
Other reserves		5.8	-	5.8	5.8	-	5.8
Retained earnings	A,B	202.6	50.2	252.8	183.5	49.4	232.9
Total Equity		218.8	50.2	269.0	199.7	49.4	249.1

The impact of the above adjustments includes the correction of a presentational error whereby deferred tax assets should have been offset against deferred tax liabilities in line with IAS 12.

5 Change in accounting policies (continued)

Reconciliation of total comprehensive income for the year ended 31 March 2022

	Note	Year to 31 March 2022 as originally presented	change	Year to 31 March 2022 restated
		£m	£m	£m
Revenue	A	124.2	1.3	125.5
Total operating costs		(91.6)	-	(91.6)
Operating profit		32.6	1.3	33.9
Net interest payable and similar charges		(18.9)	-	(18.9)
Profit on ordinary activities before taxation		13.7	1.3	15.0
Taxation on profit on ordinary activities	B	(23.4)	(2.1)	(25.5)
Loss for the year		(9.7)	(0.8)	(10.5)
Other comprehensive loss for the year, net of tax		(0.6)	-	(0.6)
Total comprehensive loss for the year		(10.3)	(0.8)	(11.1)

Notes to the reconciliation of equity as at 1 April 2021 and 31 March 2022 and total comprehensive loss for the year ended 31 March 2022

Developer contributions
The Company previously recognised all contributions received from developers in respect of network and other assets as deferred income and amortised this to revenue over a period of 60 years. This policy has been changed to align with the Pennon Group plc's policy as disclosed below.

A Contributions relating to connections or alterations to the water network

Where the performance obligation relates solely to a connection to the network, revenue is recognised at the point of connection when the customer is deemed to obtain control.

Contributions paid in advance where the connection has not yet completed are treated as a contract liability and are recognised in deferred income on the balance sheet.

As at 31 March 2022, £63.7m (1 April 2021: £62.4m) additional revenue has been recognised.

Revenues and profit before tax for the year ended 31 March 2023 was increased by £1.9m (31 March 2022 increased by £1.3m).

B Taxation

The adjustments per note A lead to different temporary taxation differences. In line with the Company's accounting policies, the Company has accounted for such differences and recognised the related net deferred tax and corporation tax liabilities.

At 31 March 2022, an increase in deferred tax liability of £14.3m (1 April 2021: £12.2m) was recognised, resulting in a reclassification from assets to liabilities on the balance sheet.

6 REVENUE

	2023 £m	2022 Restated* £m
Appointed income		
Household – measured	**50.0**	55.3
Household – unmeasured	**36.1**	40.9
Non-household – measured	**22.2**	22.2
Non-household – unmeasured	**0.3**	0.3
Contributions from developers	**3.3**	3.2
Third party services	**1.8**	1.4
Rental income	**1.0**	1.0
	114.7	124.3
Non-appointed income		
Recreations	**0.5**	0.7
Rental income	**0.2**	0.2
Other	**0.2**	0.3
	0.9	1.2
Revenue before non underlying items	**115.6**	125.5
Non underlying income		
Watershare +	**(6.6)**	-
	109.0	125.5

*See note 5

Appointed income is income earned under the Company's licence to supply water for the period until 1 February 2023 when the licence was transferred to SWW. Non-appointed income relates to activities that do not require a water supply licence. All revenue relates to the trade and assets transferred to SWW.

The total revenue includes £107.9m for revenue from contracts with customers under IFRS 15 and £1.1m of leasing income under IFRS 16 "Leases".

In the year, the Company offered Pennon Group plc's, its parent company, WaterShare+ scheme to its customers whereby customers could choose to accept a credit on their bill or take shares in Pennon Group plc. The value of the rebate equated to £13 per customer and the total value of £6.6 million was recognised in full as a non-underlying reduction to revenue in the year ended 31 March 2023. This item was non-underlying in nature given its individual size and its non-recurring nature.

7 OPERATING COSTS

(a) Operating costs include:

	2023	2022
	£m	£m
Wages and salaries	**19.0**	22.2
Social security costs	**2.1**	2.4
Defined contribution scheme costs (note 17)	**2.2**	2.2
Defined benefit scheme costs (note 16)	**0.4**	0.9
Share-based payments	**0.1**	0.1
Total payroll cost	**23.8**	27.8
Less capitalised as tangible and intangible assets	**(9.8)**	(10.8)
Net staff costs	**14.0**	17.0
Inventory recognised as an expense	**4.5**	2.8
Depreciation of tangible assets including impairment (note 11)		
On owned assets	**21.0**	24.5
On leased assets	**0.4**	0.5
Amortisation of intangible assets (note 12)		
On owned assets	**2.9**	3.9
Other operating charges		
Auditor's remuneration	**0.3**	0.3
Loss / (profit) on disposal of tangible assets	**0.1**	(0.1)
Other charges less recoveries	**41.4**	39.9
Operating costs excluding impairment losses on trade receivables	**84.6**	88.8
Impairment of trade receivables (note 19)	**3.5**	2.7
Total operating costs before non underlying items	**88.1**	91.5
Legal costs	**1.0**	-
Integration costs	**0.2**	-
Acquisition costs	**-**	0.1
Total non underlying items in the income statement	**1.2**	0.1
Total net operating costs	**89.3**	91.6

On 17 October 2022 the Company gave notice of redemption of the £40m bonds due to be repaid in March 2041. The bonds were redeemed as part of the statutory transfer of the Company's business to South West Water. Associated legal costs of c£1m were incurred in relation to the bond redemption. The redemption of the bonds is non-recurring and of a material value, hence the credit has been treated as non-underlying.

The Company incurred expenses of £0.2m relating to the integration and statutory transfer of the Company's trade, assets and obligations to South West Water. These costs are classified as non-underlying due to their non-recurring nature.

In the year ended 31 March 2022 costs were incurred in relation to the acquisition of the Company by Pennon Group plc and the resulting merger review by the Competition and Markets Authority.

7 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 to 31 March 2023 was as follows. On 1 February 2023 all the Company's employees were transferred to South West Water .

	2023	2022
	No.	No.
Water treatment and distribution	**179**	207
Support services	**117**	137
Administration	**151**	182
Non-appointed activities	**12**	14
	459	540

(c) Directors' emoluments

	2022	2022
	£m	£m
Aggregate emoluments of Directors, being remuneration, bonus, pension, LTIP and benefits in kind	**0.7**	1.1
	0.7	1.1

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 52 to 66.

(d) Independent auditors' remuneration

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

	2023	2022
	£'000	£'000
Fees payable for the audit of the Company's annual statutory financial statement	**274.0**	188.0
Fees payable for other services:		
services pursuant to legislation, principally assurance and audit of regulatory accounts and returns	-	45.0
Review of interim financial statements	**20.0**	31.0
Total non-audit fees	**20.0**	76.0

8 NET INTEREST PAYABLE AND SIMILAR CHARGES

	2023	2022
	£m	£m
Interest payable and similar charges relate to:		
Bank borrowings	**3.7**	2.0
Term loans and debentures:		
Interest charges	**9.4**	10.4
Indexation	**20.0**	9.6
Leases	**0.1**	0.1
Capitalisation of borrowing cost	**(0.9)**	(0.4)
Dividends on 8.75% irredeemable cumulative preference shares	**1.1**	1.1
Loan from Pennon Group plc	**0.6**	-
	34.0	22.8
Less interest receivable and similar income:		
Interest income in respect of retirement benefit scheme (note 16)	**(0.3)**	(0.3)
Interest income on intercompany loans	**(2.4)**	(3.6)
	(2.7)	(3.9)
Total underlying net interest payable and similar charges	**31.3**	18.9
Bond redemption costs	**13.1**	-
Total net interest payable and similar charges	**44.4**	18.9

Bonds with a carrying value of £59.2m were redeemed on 17 November 2022 for £72.3 million. The difference of £13.1m arising on early settlement was debited to finance costs in the year. The redemption of the bonds is non-recurring and of a material value, hence the debit has been treated as non-underlying.

The rate used to determine the amount of borrowing costs eligible for capitalisation was 7.8% (2022: 5.0%), which is the weighted average interest rate of applicable borrowings.

Dividends on the 8.75% irredeemable cumulative preference shares are payable at a fixed rate of 4.375% on 1 April and 1 October each year. Payment by the Company to the share registrars is made two business days earlier. The payments are classified as interest in accordance with IFRS 9.

9 TAXATION

	2023	2022 Restated*
	£m	£m
Tax (income) / expense included in Income Statement		
Current tax:		
Corporation tax on profits for the year	**0.4**	1.3
Adjustment to prior years	**(0.1)**	3.3
Total current tax	**0.3**	4.6
Deferred tax:		
Origination and reversal of timing differences	**(4.9)**	1.6
Adjustment to prior years	**0.1**	(3.1)
Effect of change in UK corporation tax rate	**-**	22.4
Total deferred tax (note 15)	**(4.8)**	20.9
Tax (income)/expense on profit	**(4.5)**	25.5
Tax expense / (income) included in other comprehensive income /(loss)		
Remeasurement of post-employment benefit liability	**0.1**	(0.4)
Total tax expense /(income) included in other comprehensive income /(loss)	**0.1**	(0.4)

Reconciliation of the tax on profit on ordinary activities

The current tax rate for the year is lower than (2022: higher) the standard rate of tax. A reconciliation between tax (income)/expense and the product of accounting (loss)/profit multiplied by UK corporation tax rate is as follows:

	2023	2022 Restated*
	£m	£m
Profit before tax	**(24.7)**	15.0
At statutory income tax rate of 19% (2022: 19%)	**(4.7)**	2.9
Adjustment in respect of prior years' current tax	**0.1**	3.3
Adjustment in respect of prior years' deferred tax	**(0.1)**	(3.1)
Non-deductible expenses for tax purposes:		
8.75% irredeemable cumulative preference share	**0.2**	0.2
Non-qualifying asset depreciation	**0.1**	0.1
Other	**0.1**	0.1
Capital expenditure tax depreciation super deduction allowances	**(0.2)**	(0.4)
	(4.5)	3.1
Effective tax rate before change in UK corporation tax rate	**18.2%**	20.7%
Effect of tax rate change on opening balances	**-**	22.4
Total taxation expense included in income statement	**(4.5)**	25.5
Effective tax rate after change in UK corporation tax rate	**18.2%**	170.0%

*See note 5

9 TAXATION (continued)

From 1 April 2021 to 31 March 2023, a "super-deduction" on qualifying plant and machinery equivalent to 130% of spend on expenditure relating to contracts entered into after 3 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 increased capital allowance claims for the year and hence reduced the current tax change for the year ended 31 March 2022. The tax credit was increased for the year ended 31 March 2023 for the same reason. There was also a consequently higher deferred tax liability and charge due to the additional capital allowance deductions prior to the transfer to SWW.

10 LOSS PER ORDINARY SHARE

	2023	2022 Restated*
	m	m
Basic loss per ordinary share have been calculated as follows:		
Loss attributable to ordinary shares	**£20.2**	£10.5
Weighted average number of ordinary shares	**6.0**	6.0
	336.7p	175.0p

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

*See note 5

11 PROPERTY, PLANT AND EQUIPMENT

	Freehold land, operational properties and structures	Plant and equipment	Infra-structure assets	Assets under construction	Total
	£m	£m	£m	£m	£m
At 1 April 2021					
Cost	369.6	55.1	553.4	22.8	1,000.9
Accumulated depreciation and impairment	(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 7)	(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 and impairment	(188.8)	(38.6)	(108.1)	(4.7)	(340.2)
Net book amount	**191.2**	**19.5**	**460.6**	**25.3**	**696.6**
Year ended 31 March 2023					
Opening net book amount	**191.2**	**19.5**	**460.6**	**25.3**	**696.6**
Additions	-	-	-	38.1	38.1
Disposals	-	-	-	-	-
Capitalisation of completed assets	10.4	2.2	19.0	(31.6)	-
Depreciation charge (note 7)	(11.1)	(4.6)	(5.7)	-	(21.4)
Transferred to SWW	(190.5)	(17.1)	(473.9)	(31.8)	(713.3)
Closing net book amount	-	-	-	-	-
At 31 March 2023					
Cost	-	-	-	-	-
Accumulated depreciation and impairment	-	-	-	-	-
Net book amount	**-**	**-**	**-**	**-**	**-**

Included within disposals are assets with a nil net book value at time of disposal. The original cost of these assets was £6.5m (2022: £2.4m).

The net book value of property, plant and equipment includes £7.3m (2022: £6.5m) of borrowing costs capitalised in accordance with IAS 23. During the year ended 31 March 2023 £0.9m (2022: £0.4m) was capitalised using a weighted average interest rate of 7.8% (2022: 5.0%). 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 assets transferred to SWW was freehold land, not subjected to depreciation in the year, of £1.9m (2022: £1.9m).

12 INTANGIBLE ASSETS

	Computer Software	Assets under construction	Total
	£m	£m	£m
At 1 April 2022			
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 7)	(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
Year ended 31 March 2023			
Opening net book amount	8.8	3.9	12.7
Additions	-	3.8	3.8
Disposals	-	-	-
Capitalisation of completed assets	1.4	(1.4)	-
Amortisation charge (note 7)	(2.9)	-	(2.9)
Transferred to SWW	(7.3)	(6.3)	(13.6)
Closing net book amount	-	-	-
At 31 March 2023			
Cost	-	-	-
Accumulated amortisation	-	-	-
Net book amount	-	-	-

Included within disposals are assets with a nil net book value at time of disposal. The original cost of these assets was £1.2m (2022: £0.2m).

13 OTHER INVESTMENTS – LOANS TO GROUP UNDERTAKINGS

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	
				2023	2022
				£m	£m
4 December 2003	12 February 2004	6.042%	30 September 2033	-	47.0
10 June 2005	13 July 2005	5.550%	30 September 2032	-	14.1
				-	61.1

* 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.

On 1 February 2023, the two intra-group loans made to the intermediate parent company, BWHUK of £47.0m and £14.1m respectively were repaid by BWHUK.

14 OTHER RECEIVABLES

Other receivables comprise loan notes issued to the Company on 1 February by SWW.

	Fixed interest rate	Principal outstanding	
		2023	2022
£25,000,000 fixed rate loan note	6%	**25.0**	-
£1,405,218 fixed rate loan note	4%	**1.4**	-
£72,900 fixed rate loan note	3.5%	**0.1**	
£54,875 fixed rate loan note	4%	**0.1**	-
£36,740 fixed rate loan note	4.25%	**-**	-
		26.6	-

The amounts included above relate to loan notes issued on 1 February 2023 by SWW to the Company. The loan notes reflect the external borrowings held by the Company and as such any maturity dates are linked to the maturity of these external borrowings. All loan notes are unsecured. No expected credit loss provision has been recognised in respect of amounts owed by group undertakings.

15 DEFERRED TAXATION

	2023	2022
		Restated*
	£m	£m
Provision for deferred tax comprises:		
Accelerated capital allowances and capital element of finance leases	-	93.2
Deferred income		6.5
Short-term timing differences	-	(0.1)
Net deferred tax liability	-	99.6

15 DEFERRED TAXATION (continued)

Deferred tax liabilities	Deferred income	Accelerated capital allowances	Other	Total
	£m	£m	£m	£m
At 1 April 2021 restated	6.4	72.3	(0.1)	78.6
Charged to the income statement	2.0	(1.5)	-	0.5
Charged to the income statement – change of rate	(1.9)	22.4	-	20.5
At 31 March 2022	6.5	93.2	(0.1)	99.6
Charged to the income statement	**(9.0)**	**4.4**	**(0.2)**	**(4.6)**
Transferred to SWW	**2.5**	**(97.6)**	**0.3**	**(95.1)**
At 31 March 2023	**-**	**-**	**-**	**-**

*See note 5

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.

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.

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.

16 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. The section also provides benefits to former employees of the Company who transferred to BWBSL.

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 4 in the Strategic Report.

From 1 April 2016, there were no employer contributions to the scheme. On 30 June 2016, with the agreement of the trustees, deficit contributions also ceased.

16 RETIREMENT BENEFIT SURPLUS (continued)

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.

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 refund tax 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 2023, by LCP, using the following major assumptions in accordance with IAS 19 'Employee Benefits':

	2023	2022
Assumptions:		
RPI Inflation	**3.3%**	3.6%
CPI Inflation	**2.7%**	3.0%
Discount rate	**4.7%**	2.8%

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:

	2023	2022
Life expectancy at age 60 at the balance sheet date		
- Men	**27.3**	27.7
- Women	**29.5**	29.9
Life expectancy at age 60, 25 years from balance sheet date		
- Men	**30.2**	30.5
- Women	**31.8**	32.2

16 RETIREMENT BENEFIT SURPLUS (continued)

Reconciliation of scheme assets and liabilities:

	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)
Past service cost	-	-	-
Interest income (note 8)	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**

	Assets £m	Liabilities £m	Total £m
Pension scheme surplus at 1 April 2022	161.2	(148.8)	12.4
Section expenses	(0.6)	-	**(0.6)**
Interest income (note 8)	4.3	(4.0)	**0.3**
Remeasurements:			
Return on plan assets, excluding amounts included in interest income	(32.7)	-	**(32.7)**
Changes in financial assumptions	-	40.6	**40.6**
Changes in demographic assumption	-	1.8	**1.8**
Experience adjustments on obligation	-	(9.2)	**(9.2)**
	(32.7)	33.2	**0.5**
Benefits paid	(7.6)	7.6	-
Pension scheme surplus at 31 March 2023	**124.6**	**(112.0)**	**12.6**

Total amount recognised on the statement of financial position:	**2023 £m**	2022 £m
Fair value of plan assets	**124.6**	161.2
Pension scheme obligation	**(112.0)**	(148.8)
Pension scheme surplus	**12.6**	12.4
Less: restriction of surplus	**(4.4)**	(4.3)
Net pension scheme surplus	**8.2**	8.1

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.

16 RETIREMENT BENEFIT SURPLUS (continued)

This benefit is only available as a refund as no additional defined pension benefits are being earned. Under UK tax legislation a refund 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 2023

	Change in assumption	Increase in assumption £m
Discount rate	0.1% pa	(1.2)
Inflation assumption (CPI)	0.1% pa	1.1
Life expectancy	1 year	5.0

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

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

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

Total cost recognised as an expense / (income):

	2023	2022
	£m	£m
Interest income (note 8)	**(0.3)**	(0.3)
Section expenses	**0.6**	0.9
	0.3	0.6

The market value of the plan assets was:

	Quoted	**2023 Unquoted**	**2023**	**%**	Quoted	2022 Unquoted	2022	%
	£m	**£m**	**£m**		£m	£m	£m	
Liquidity funds	**-**	**13.7**	**13.7**	**11**	-	13.0	13.0	8.1
Insurance policy	**-**	**110.9**	**110.9**	**89**	-	147.8	147.8	91.7
Cash	**-**	**-**	**-**	**-**	-	0.4	0.4	0.2
	-	**124.6**	**124.6**	**100**	-	161.2	161.2	100

The return on the plan assets was:

	2023	2022
	£m	£m
Interest income	**4.3**	3.6
Remeasurements	**(32.7)**	(25.8)
Total return on plan assets	**(28.4)**	(22.2)

The current weighted average duration of the expected benefit payments from the Section is around 12 years.

17 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, for the period to 31 March 2023, of £2.2m (2022: £2.2m) represents contributions payable to the scheme. There were no charges to income for the period 1 February 2023 – 31 March 2023. As at 31 March 2023 and 31 March 2022, all contributions due have been paid over to the scheme.

18 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.

19 TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise:

	2023	2022
	£m	£m
Trade receivables (a)	-	25.7
Accrued income	-	14.1
Less bad debt provision (a)	-	(16.1)
	-	23.7
Amounts owed by group undertakings (b)	**144.5**	2.3
Other receivables	-	1.8
Prepayments and accrued income	-	1.7
Corporation tax	**0.7**	-
	145.2	29.5

(a) The aging of trade receivables was:

	2023	2022
	£m	£m
Past due by 0-30 days	-	3.8
Past due by 31-120 days	-	2.7
Past due by more than 120 days	-	19.2
	-	25.7

Bad debt provision:

	2023	2022
	£m	£m
Opening balance	**16.1**	15.9
Provision for trade receivables impairment (note 7)	**3.5**	2.7
Trade receivables written off during the year to 31 January 2023 as uncollectible	**(1.8)**	(2.5)
Transferred to SWW	**(17.8)**	-
Closing balance	-	16.1

As at 31 March 2022 £16.1m of trade receivables and accrued income were considered impaired and were provided for. See note 4 for further details.

The Company's policy is to consider the trade receivables impairment to be allocated on a collective basis and only impaired for the purposes of 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 were not impaired.

(b) The current year amounts owed by group undertakings relate to amounts owed by the Company's parent company, South West Water Limited, as a result of the transfer of the Company's trade and assets. The amounts due are repayable on demand. The prior year balance included the sum of £0.4m in respect of amounts advanced to BWBSL, a joint venture company between Bristol Water Holdings Limited ("BWH"), an intermediate parent company until 1 February 2023, and Wessex Water Services Limited, to fund the purchase of tangible assets. This amount had no fixed repayment date.

No expected credit loss provision has been recognised in respect of amounts owed by group undertakings.

20 CASH AND CASH EQUIVALENTS

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

	2023 £m	2022 £m
Cash and cash equivalents	**0.1**	5.9
Restricted cash	**-**	6.1
	0.1	12.0

Prior year restricted cash related to funds the Company was 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 were therefore not available for other operational use or distribution to shareholders. In the current year no restrictions are in place.

21 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

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	-	-

During the year a lease with a cost of £12.8m and a net book value of £0.6m of operational assets ended. The assets were not disposed of. Right of use assets with a NBV of £1.1m were transferred to SWW.

Lease liabilities

	31 March 2023 £m	31 March 2022 £m
Current	**-**	0.4
Non-current	**-**	1.1
	-	1.5

Additions and disposals to property, plant and equipment relating to assets under leases were £nil (2022: additions £nil and disposals £0.4m).

21 LEASES (continued)

b) Amounts recognised in the income statement

The Income Statement shows the following amounts relating to leases:

Depreciation charge relating to assets under leases

	2023	2022
	£m	£m
Freehold land, operational properties and structures	**-**	-
Plant and equipment	**0.3**	0.4
	0.3	0.4
Interest expense (included in finance cost)	**0.1**	0.1
Expense relating to short-term leases (included in administrative expenses)	**0.1**	0.1

	2023	2022
The future minimum lease payments are as follows:	**£m**	£m
Within one year	**-**	0.5
Between one and five years	**-**	0.5
Later than five years	**-**	0.9
Total gross payments	**-**	1.9
Impact of finance expenses	**-**	(0.4)
Carrying value of liability	**-**	1.5

The total cash outflow for leases in 2023 was £0.5m (2022: £0.6m)

22 BORROWINGS AND DERIVATIVES

	2023	2022
	£m	£m
Amounts falling due after more than one year but less than five years		
Bank and other term loans – secured	-	58.0
Net unamortised premiums arising on issue of term loans	-	0.3
	-	58.3
Amounts falling due after more than five years		
Bank and other term loans – secured	-	339.0
Net unamortised premiums arising on issue of term loans	-	0.8
	-	339.8
Irredeemable		
Debentures	**1.6**	1.6
8.75% irredeemable cumulative preference shares (note 26)	**12.5**	12.5
	14.1	14.1
Total	**14.1**	412.2

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

	Interest rate	**Maturity**	**Total 2023 £m**	Total 2022 £m
Non current loans and borrowings				
£42,000,000 bank loan	1.06%	21 Jun 2023	-	42.0
£16,000,000 bank loan	1.06%	2 Dec 2023	-	16.0
£50,000,000 bank loan	1.24%	14 Jun 2028	-	50.0
£25,000,000 bank loan	2.61%	24 Aug 2028	-	25.0
£91,109,686 indexed linked term loan	3.64%	30 Sept 2032	-	151.0
£57,500,000 term loan	6.01%	30 Sept 2033	-	57.5
£40,000,000 indexed linked term loan	2.70%	25 Mar 2041	-	55.5
Net unamortised premiums			-	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			**14.1**	412.2

Borrowing facilities

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

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

23 DEFERRED INCOME

	2023	2022
		Restated*
	£m	£m
Net book value, beginning of year	**21.2**	22.3
Additions	**2.8**	2.1
Recognised as income in the year (note 6)	**(3.3)**	(3.2)
Transferred to SWW	**(20.7)**	-
Net book value, end of year	**-**	21.2

	2023	2022
		Restated
	£m	£m
Current	**-**	2.7
Non-current	**-**	18.5
	-	21.2

*See note 5

24 TRADE AND OTHER PAYABLES

	2023	2022
	£m	£m
Trade and other payables		
Receipts in advance	**-**	13.4
Trade payables	**-**	4.5
Amounts owed to group undertakings	**0.8**	1.9
Other taxation and social security	**-**	1.1
Corporation tax payable	**-**	1.3
Payments received on account	**-**	1.5
Accruals	**0.1**	14.3
	0.9	38.0

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

25 EMPLOYEE SHARE SCHEME

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 2023	31 March 2022
6 July 2021	**879**	**2024-2026**	**-**	201
5 July 2022	**828**	**2025-2027**	**-**	-
			-	201

	Ordinary shares	Weighted average exercise price per share	Ordinary shares	Weighted average exercise price per share
	Year ended 31 March 2023 thousands	**Year ended 31 March 2023 Pence**	**Year ended 31 March 2022 thousands**	Year ended 31 March 2022 Pence
At 1 April	**201**	**879**	**-**	-
Granted	**43**	**828**	**212**	879
Forfeited	**(4)**	**872**	**(2)**	879
Exercised	**-**	**-**	**-**	-
Expired	**(49)**	**872**	**(9)**	879
Transferred to SWW	**(191)**	**869**	**-**	-
At 31 March	**-**	**-**	**201**	879

	2023	2022
Weighted average remaining life	**-**	3.18

The aggregate fair value of Sharesave options granted during the year was £nil (2022: £0.6m) determined using the Black-Scholes valuation model.

	2023	2022
Weighted average share price	957p	1187p
Weighted average exercise price	828p	879p
Expected volatility	25%	27%
Expected life	3.3 years	3.4 years
Risk-free rate	1.3%	0.1%
Expected dividend yield	4.0%	3.0%

26 CALLED UP SHARE CAPITAL

Ordinary shares of £1 each issued and fully paid	**No.**	**£m**
As at 1 April 2022 and 31 March 2023	**5,988,025**	**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 2022 and 31 March 2023	**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.

27 FINANCIAL INSTRUMENTS

Fair value estimation
The fair values of the cash deposits, trade receivables, other 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 assets and 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 loan notes issued by SWW with a maturity of over one year are assessed to approximate to their book values.

The fair value of the Company’s debentures and preference shares have been calculated by discounting the expected cash flows at prevailing market rates including an estimated margin over gilts. As at 31 March 2022 the fixed rate loans from Artesian Finance II plc were 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.

At 31 March 2022 the long-term loans to BWHUK Limited were discounted by reference to the UK Government fixed rate gilt 2032 plus an estimated margin. These loans were repaid by BWHUK on 1 February 2023.

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 cashflows at the Company’s current incremental borrowing rates for borrowings of similar types and maturities.

27 FINANCIAL INSTRUMENTS (continued)

Fair values of non-current financial assets and liabilities

	31 March 2023		31 March 2022	
	Carrying value	**Fair value**	Carrying value	Fair value
	£m	**£m**	£m	£m
Non-current financial liabilities				
Long-term borrowings	**(1.6)**	**(1.5)**	(399.7)	(525.3)
8.75% irredeemable cumulative preference shares	**(12.5)**	**(21.5)**	(12.5)	(24.9)
Leases	**-**	**-**	(1.1)	(1.1)
Non-current financial assets				
Intergroup loans	**-**	**-**	61.1	85.7
Intergroup receivables	**26.6**	**26.6**	-	-
	12.5	**3.6**	(352.2)	(465.6)

Financial risk factors

The Company's main financial instruments comprise:

- borrowings and cash;
- 8.75% irredeemable cumulative preference shares; and
- Intercompany receivables and payables.

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

28 FINANCIAL RISK MANAGEMENT

(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. As at 31 March 2022 there were interest-bearing fixed rate loans totaling £61.1m to BWHUK which were repaid by BWHUK on 1 February 2023. At 31 March 2023 there was also loan notes, totalling £26.6m, issued by SWW on 1 February 2023.

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

The financial liabilities consist of debentures and 8.75% irredeemable cumulative preference shares.

At the year-end, 100% (2022: 22%) of the Company's gross financial liabilities, excluding the 8.75% irredeemable cumulative preference shares, were at fixed rates. At 31 March 2022 73% 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. At 31 March 2022 100% of financial assets were at fixed rates.

28 FINANCIAL RISK MANAGEMENT (continued)

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. As at 31 March 2023 all the Company's debt is at fixed rates.

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

	31 March 2023		31 March 2022	
	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

Inflation rate sensitivity

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

	2023 £m	2022 £m
Index-linked debt	-	206.5

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 2023		31 March 2022	
	Profit before tax £m	**Equity £m**	Profit before tax £m	Equity £m
Movement in Retail Price Index by 1%	-	-	2.1	1.7

28 FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. At 31 March 2023 and 2022, the maximum exposure to credit risk was as follows:

	2023	2022
	£m	£m
Long-term loans	**-**	61.1
Cash and cash equivalents	**0.1**	12.0
Trade and other receivables, net of bad debt provisions made	**144.5**	29.5
Other receivables	**26.6**	-
	171.2	102.6

(d) Liquidity risk

Following the statutory transfer of the Company's trade and assets to SWW, the Company's remaining obligations to the preference shares and debentures will be met from matching intra-group contracted assets and related receipts. 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.

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 assumed that indexation would be applied at the rate of around 3% p.a. except in the first year where we have assumed around 6%. These were for each year until maturity. At 31 March 2023 there are no remaining indexed linked loans.

Year ended 31 March 2023	**Due within one year £m**	**Between one and two years £m**	**Between two and five years £m**	**After five years £m**	**Total £m**
Due to group and associated companies	**0.8**	**-**	**-**	**-**	**0.8**
	0.8	**-**	**-**	**-**	**0.8**

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	1.3	-	-	-	1.3
Accruals	0.3	-	-	-	0.3
Interest bearing loans and related interest	12.6	70.8	38.3	536.0	657.7
	21.7	70.8	38.3	536.0	666.8

Preference share and debenture liabilities are excluded from the table above as they are irredeemable. Contractual payments due within one year for these liabilities are £1.2m, with £1.2m due between 1-2 years and £3.5m due between 2-5 years. The amount due after 5 years cannot be quantified as the liabilities are irredeemable.

29 COMMITMENTS

Capital commitments at 31 March 2023 contracted for but not provided were £nil (2022: £6.9m).

30 CASH FLOW INFORMATION

Net debt reconciliation

Analysis of net debt:

	31 March 2023 £m	31 March 2022 £m
Cash and cash equivalents	**0.1**	12.0
Borrowings – repayable within one year (including overdraft)	**-**	(0.4)
Borrowings – repayable after one year	**(14.1)**	(413.3)
Net debt	**(14.0)**	(401.7)
Cash and liquid investments	**0.1**	12.0
Gross debt – fixed interest rates	**(14.1)**	(99.2)
Gross debt – variable and indexed interest rates	**-**	(314.5)
Net debt	**(14.0)**	(401.7)

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 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)
Cash flows	**(11.9)**	**0.4**	**-**	**(73.1)**	**68.9**	**(15.7)**
Other non-cash movements	**-**	**-**	**1.1**	**73.1**	**329.2**	**403.4**
Net debt as at 31 March 2023	**0.1**	**-**	**-**	**-**	**(14.1)**	**(14.0)**

31 ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

As at 31 March 2022 the immediate parent company for this entity was BWCH, a company incorporated in England and Wales. On 1 February 2023 the share capital of the Company was transferred to SWW, a subsidiary of Pennon Group plc. As a result SWW became the immediate parent company.

As at 31 March 2022 and 31 March 2023 the Directors considered the ultimate parent and controlling party to be Pennon Group plc.

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 annual report and accounts are available from Peninsula House, Rydon Lane, Exeter, Devon, England, EX2 7HR.

32 RELATED PARTY TRANSACTIONS

From 3 June 2021 related parties include members and joint ventures of the Pennon Water plc group of companies and key management personnel. Until 2 June 2021 related parties included members and joint ventures of the Bristol Water Group Limited group of companies; members of the iCON Infrastructure LLP group of companies; members of Itochu Corporation; 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.

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

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

BWCH, 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	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Joint ventures and associates of the Pennon Group plc group				
BWBSL				
- management charges	**-**	-	2.5	2.8
- capital expenditure	**-**	-	0.3	0.2
- other recharges	**-**	-	0.1	0.1
W2B				
- non-household supply of water	**16.2**	16.7	**-**	-
PWS				
- non-household supply of water	**0.9**	0.6	**-**	-
	17.1	17.3	**2.9**	3.1

The current year amounts above relate to the period to 31 January 2023. The trade and assets of the Company were transferred to SWW on 1 February 2023. The prior year 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.

32 RELATED PARTY TRANSACTIONS (continued)

Non trading transactions

During the year BW received £nil (2022: £1.6m) from BWG for employee services to BWG relating to the sale of the business. At 31 March 2022 the balance was £nil.

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

	Amounts due from		Amounts due to	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Joint ventures and associates of the Pennon Group plc group				
BWBSL	**-**	0.9	**-**	1.4
W2B	**-**	1.4	**-**	0.3
PWS		-		-
	-	2.3	**-**	1.7

The amounts outstanding at 31 March 2022 were unsecured and were settled in cash. The trade and assets of the Company were transferred to SWW on 1 February 2023.

Remuneration of key management personnel

Information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 52 to 66.

33 DISCONTINUED OPERATIONS

On 1 February 2023 the trade and majority of assets and liabilities of the Company were transferred to SWW, the Company's parent company. Consideration for the transfer was settled via an intercompany debtor created as part of the transfer. Settlement of this intercompany debtor is expected in the year to 31 March 2024. The net assets transferred on the date of transfer are shown below.

Assets	£m
Property, plant and equipment	713.3
Intangible assets	13.6
Inventory	2.4
Trade and other receivables	29.1
Cash and cash equivalents	5.1
Total assets	763.5
Liabilities	
Borrowings	(423.9)
Leases	(1.2)
Deferred income	(20.6)
Government grants	(0.3)
Trade and other payables	(51.5)
Deferred tax liabilities	(94.9)
Total liabilities	(592.4)
Net assets disposed of	171.1
Net cash outflow arising on disposal	
Cash and cash deposits disposed of	(5.1)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRISTOL WATER PLC

Opinion

We have audited the financial statements of Bristol Water plc for the year ended 31 March 2023 which comprise of the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the cash flow statement and the related notes1 to 33, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- We obtained an understanding of the process undertaken by management to perform the going concern assessment. The company's licence, trade, assets and obligations were transferred to South West Water Limited as a going concern on 1 February 2023. Post the transfer, no transactions were recognised in the income statement except for those relating to the remaining preference shares, debentures, pension asset and intercompany loans. Going forward remaining obligations relating to these will be met from matching intra-group contracted assets and related receipts. The company has received confirmation from its ultimate parent company, 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 period from when the financial statements are authorised for issue through to 31 July 2024.
- We obtained the signed confirmation from Pennon Group plc confirming its ability and intention to provide support to the company if required, from when the financial statements are authorised for issue through to 31 July 2024.
- In order to check the ability of Pennon Group plc to provide support to the company, we have obtained management's going concern assessment for Pennon Group plc, including the cash flow forecast, liquidity requirements and forecast covenant calculations for the going concern period which covers the period from when the financial statements are authorised for issue through to 31 July 2024, and have tested this for mathematical accuracy. Pennon Group plc management has modelled a downside scenario in their cash flow forecast and covenant calculations in order to incorporate unexpected changes to the forecasted liquidity of Pennon group plc.
- We have reviewed the Pennon Group plc forecasts used for the going concern assessment period, agreed the data to the board approved plan, and where applicable, corroborated the data with the audit information from other areas, including capital commitments. We have evaluated the appropriateness of the key assumptions in management's forecasts including revenue growth, by comparing these to year-to-date performance and through consideration of historical forecasting accuracy and the impact of regulatory price increases determined by Ofwat.
- We have evaluated Pennon Group plc management's downside scenario, to understand the impact of the principal risks on Pennon Group plc's liquidity and covenant ratios. Our procedures included evaluating Pennon Group plc management's

assessment for the impact of climate change within the going concern period, including the principal risk of availability of sufficient water resources to meet current and future demand.

- Management has also modelled a reverse engineered scenario (reverse stress test) which breaks the liquidity headroom in the cash flow forecast by assuming all the principal risks materialise within the going concern period. We performed testing to consider the likelihood of a scenario causing a liquidity issue or breach of covenants, including the impact of controllable mitigating actions, where relevant.

- We have compared Pennon Group plc's facilities assumed in the forecasts to supporting loan documentation and to covenant terms. For a portion of the facilities, where changes to terms are not finalised at the date of approval of the financial statements, we have evaluated the impact on covenants and liquidity headroom based on existing terms.

- We have read the company’s going concern disclosures included in the annual report in order to assess whether the disclosures were appropriate and in conformity with the reporting standards.

We observed the letter of support provided to the company by its ultimate parent company and concluded Pennon Group plc had adequate funding to provide this support if needed. 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 to 31 July 2024.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company’s ability to continue as a going concern.

Overview of our audit approach

Key audit matters	• Accounting for the transfer of trade and assets of Bristol Water to South West Water
Materiality	• Overall materiality of £1.0m which represents 5% of earnings before interest and taxes.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, the potential impact of climate change and changes in the business environment when assessing the level of work to be performed.

Climate change

Disclosures on Bristol Water plc’s Taskforce for Climate Related Financial Disclosures (“TCFD”) are included within the Pennon Group plc Annual Report and are not reported separately in the Bristol Water plc Annual Report. Pennon Group plc has determined that the most significant future impacts from climate change on their operations will be from physical and transitional climate-related risks. These are explained in Pennon Group plc’s Annual Report on pages 74 to 95 in the required Task Force for Climate related Financial Disclosures and on pages 52 to 62 in the principal risks and uncertainties including the climate commitments on pages 42 to 43.

In planning and performing our audit we assessed the potential impacts of climate change on the company’s business and any consequential material impact on its financial statements. The company has explained in its strategic report that as the company has ceased operational trading the current and future impacts as set out in the Pennon Group plc Annual Report have limited to no direct impact on the company.

As the company relies on support from Pennon Group plc to continue as a going concern, we also challenged the Directors’ considerations of climate change risks in Pennon Group plc’s assessment of going concern and viability and associated disclosures. We have described our considerations of climate change, relevant to our assessment of going concern in the ‘Conclusions relating to going concern’ section of our report.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our 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) that we identified. These matters included 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 were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Accounting for the transfer of trade and assets of Bristol Water plc to South West Water Limited *Refer to Note 33 of the Financial Statements (page 110)* On 3 June 2021, Pennon Group plc acquired the entire share capital of Bristol Water plc. Pennon Group plc also own 100% of the entire share capital of South West Water Limited. Following clearance from the CMA of the license merger of Bristol Water plc and South West Water Limited, Pennon Group plc transferred the trade and majority of assets and liabilities of Bristol Water plc into South West Water Limited on 1 February 2023. The combined water business now operates under one licence held by South West Water Limited. The step plan for the transfer of trade and assets was based on the transfer scheme agreement between Bristol Water plc and South West Water Limited. There is a risk around the appropriate execution of the step plan and that the transfer scheme agreement is not followed. The step plan also required management to record a number of manual journal entries. We have determined that there is also a risk that the manual journal entries may be misstated.	We obtained management's step plan and legal documentation, including the board minutes, for the transfer of trade and assets. We performed a walkthrough of the process put in place for the transfer of trade and assets. We have obtained and examined the transfer scheme agreement between Bristol Water plc and South West Water Limited and verified that the assets and liabilities transferred to South West Water Limited or retained by Bristol Water plc are in line with the agreement. We tested and validated the step plan by tracing the transactions to legal documentation and other supporting documents including verification of the accounting entries recorded by management.	We concluded that the transfer of trade and assets were properly accounted for with no exceptions noted.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be £1.0 million, which is 5% of earnings before interest and taxes. We believe that the earnings before interest and taxes provides us with an appropriate measure of the underlying performance of the company, as this excludes the impact of higher interest costs on the company's index-linked debt, driven by the significantly higher levels of inflation and is a measure of focus for users of the financial statements.

The Company's previous auditor set materiality at £0.7m.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £0.5m. We have set performance materiality at this percentage given this is our first-year audit of the company.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.1m (2022: £0.1m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 71, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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 course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 71, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

Auditor's 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 auditor's 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. 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. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.
However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are:

    - Companies Act 2006
    - Financial Reporting Council (FRC) and the UK Corporate Governance Code
    - Tax legislation (governed by HM Revenue & Customs)
    - Health and Safety legislation
    - Environment Agency environmental permits
    - Ofwat regulations
    - UK listing rules

- We understood how Bristol Water plc is complying with those frameworks by reading internal policies and codes of conduct and assessing the entity level control environment, including the level of oversight of those charged with governance. We made enquiries of the Pennon group's legal counsel, regulatory team and internal audit of known instances of non-compliance or suspected non-compliance with laws and regulations. We corroborated our enquiries through review of correspondence with regulatory bodies. We designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraph above. As well as enquiry and attendance at meetings, our procedures involved a review of board and other committee minutes to identify any non-compliance with laws and regulations. Our procedures also involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business.

- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by making enquiries of senior management, including the Chief Executive Officer, Chief Financial Officer, Head of Internal Audit and Audit Committee Chair. We planned our audit to identify risks of management override, tested higher risk journal entries and performed audit procedures to address the potential for management bias, particularly over areas involving significant estimation and judgement. Further discussion of our approach to address the identified risks of management override are set out in the key audit matters section of our report.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of key management, those charged with governance and legal counsel, reviewing key policies, inspecting legal registers and correspondence with regulators and reading key management meeting minutes. We involved our internal specialists where appropriate. We also completed procedures to conclude on the compliance of significant disclosures in the Annual Report and Accounts with the requirements of the relevant accounting standards, UK legislation and the UK Corporate Governance Code.

- We communicated regularly with management and attended key meetings with management and legal counsel in order to identify and communicate any instances of non-compliance with laws and regulations.

- The company operated in the water sector which is highly regulated. As such the Senior Statutory Auditor reviewed the experience and expertise of the engagement team to ensure that the team had appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the approval of the Board of the Company we were appointed on 21 July 2022 to audit the financial statements for the year ending 31 March 2023 and subsequent financial periods.

  The period of total uninterrupted engagement including previous renewals and reappointments is 1 year, covering the year ending 31 March 2023.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.

- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:
Ernst & Young LLP
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Christabel Cowling (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
7 July 2023