BRISTOL WATER PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2024

Registered Number: 02662226

What's in this report?

STRATEGIC REPORT

BUSINESS REVIEW

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.

Financial performance summary and Key Performance Indicators (KPIs)

	2023/24	**2022/23 (10 months trading)**
Revenue	-	£109.0m
Underlying revenue[1,2]	-	£115.6m
Underlying profit/(loss) before tax[1]	0.2m	£(3.8m)
Non-underlying items before tax[1]	-	£(20.9m)
Profit/(loss) before tax	**£0.2m**	**£(24.7m)**
Earnings per share		
Statutory loss per share	(1.67p)	(336.7p)

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.

Dividends

During the financial year, the Company paid dividends of £143.0m to its parent company, SWW as part of the planned group restructuring steps post statutory transfer. This dividend reduced the intercompany debtor balance owed by SWW. In 2022/23 the Company paid £64.3m to its former immediate holding company Bristol Water Core Holdings limited. Of this dividend, £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 (2022/23: £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.

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[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+

STRATEGIC REPORT (continued)

Pensions

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

In 2018/19, a buy-in of the scheme was undertaken, and as a result the scheme assets were replaced with an insurance policy which matches the pension scheme's liabilities. The Company is working with the pension trustee and also insurers to affect a buy-out, whereby the insurer will take on the responsibility for the scheme liabilities. The completion of this process will substantially reduce balance sheet risk whilst providing long term benefit to members by fully securing their benefits and entitlements.

The process has taken longer than anticipated as a result of a number of judgements required to determine methodology and scope of the Guaranteed Minimum Pensions ("GMP") equalisation requirements which sought to ensure that all members receive a GMP on a consistent basis. As a result the pension scheme has not yet been wound up and bought-out.

The actuarial valuation under International Accounting Standard 19 (IAS 19), at 31 March 2024 shows a net pension surplus of £9.5m which has been recognised in the financial statements (2023: £8.2m). 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 25% refund tax rate (2023: 35%) which would be applicable if the funds were repaid to Bristol Water from the pension scheme. Legislation enacted in the year reduced this rate from 35% to 25%, the one-off gain of £1.2m as a result of this change has been recognised in OCI.

Further financial information in relation to defined benefit and defined contribution pension schemes is disclosed in notes 11 and 12 to the financial statements.

Principal Risks and Uncertainties

The Company's is wholly reliant on interest receipts from SWW to meet its external borrowing obligations.

The treasury operations of South West Water Group are managed by the Pennon Group plc treasury function. The Company does not engage in speculative activity.

The principal risk for the Company is that SWW does not meet its obligations in respect of its borrowings. A review of the principal risks and uncertainties of SWW which could result in its inability to meet those obligations has been undertaken. The categories of principal risks as outlined in SWW's annual report and accounts for the year ended 31 March 2024 are as follows:

- Law regulation and finance
- Market and economic conditions
- Operating performance; and
- Business systems and capital investment.

The Directors note significant risks in relation to:

- Changes in Government policy
- Changes in regulatory frameworks and requirements
- Failure to improve wastewater performance resulting in environmental commitments not being delivered
- Inadequate technological security results in a breach of the Company's assets, systems and data.

STRATEGIC REPORT (continued)

The Directors do not believe these risks will affect SWWs ability to settle capital and interest obligations when due.

The directors have also considered the impact of climate change on SWW to assess whether there is a significant risk to the going concern status of the business as a result. The Directors have also had access to South West Water's Limited internal financial viability assessment that covers a period from the balance sheet date to 2030 and are satisfied there is not a significant risk to the Company's going concern status to 30 June 2025 or long term viability.

Section 172 Companies Act 2006 Statement

The Directors of Bristol Water acknowledge and understand their duties 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 as a whole, and in doing so, must have regard to a range of broader issues. Therefore, when the Board makes a decision, the directors 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

The Company has no employees or customers with a single shareholder, SWW. Stakeholders include the holders of the debentures and the preference shares. The Company operates within the governance structure of the parent company, SWW, as well as the wider Pennon Group. Details of the governance of SWW can be found within its annual report at https://www.southwestwater.co.uk/about-us/performance/how-we-are-performing.

Taskforce for Climate Related Financial Disclosures ("TCFD")

As part of the Pennon Group the Company's TCFD reporting is included within the Pennon Group plc Annual Report 2024 which can be found on their website (www.pennon-group.co.uk/investor-information/five-year-financial-summary). As the Company has ceased operational trading, TCFD reporting is not reported separately in the Company's strategic report and any current and future impacts as set out in the Pennon Group plc Annual Report have limited to no direct impact on the Company.

Key Performance Indicators ("KPIs")

The company believes that analysis using KPIs for the Company is not necessary or appropriate to develop the understanding of the development, performance or position of the Company.

This strategic report was approved by the Board on 24 June 2024.

On behalf of the Board

S Buck
Director
26 June 2024

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 March 2024.

The directors who served on the Board during the period, and up to the date of signing the financial statements were:

S Davy
S Buck (appointed 1 January 2024)
P Boote (resigned 31 December 2023)

Financial results and dividends
The financial review including financial results and dividends is contained in the Strategic Report on pages 3 to 5.

The total dividend paid during the year ended 31 March 2024 was 2,383p (2023: 1,072p) per ordinary share. The Board has not proposed a final dividend in respect of the financial year 2023/24 (2023: £nil).

Capital structure
Details of the issued share capital are shown in note 18. 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 Act, the Company has in issue 5,998,025 ordinary shares as disclosed in note 18. 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 18.

Outlook
The Company's assets and liabilities consist of 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 have 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 £23.2m (2022/23: £165.1m) which includes £26.6m (2022/23 £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 Strategic (see page 4).

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 from approval of the 2024 financial statements through to 30 June 2025.

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 20 to the financial statements.

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 23 to the financial statements.

Research and Development

The Company does not undertake research and development projects in relation to its business.

Financial Instruments

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

Auditors

The external auditors for the 2023/24 financial year was Ernst & Young LLP. The independent auditors' report starting on page 36 sets out the information contained in the Annual Report which has been audited by the external auditor. The Audit Committee of the parent company, Pennon Group plc, considered the performance and audit fees of the external auditor and the level of non-audit work undertaken.

Following a formal comprehensive audit tender it is recommended to the Board that a resolution for the appointment of PricewaterhouseCoopers LLP as the Company auditor, in respect of the year ending 31 March 2025 be proposed.

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.

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.

DIRECTORS' REPORT (continued)

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

A statement of the amount of interest capitalised in accordance with IAS23 can be found in note 7. In line with current UK tax legislation, the amount is fully deductible against the Company's corporation tax liability. Tax relief is £nil (2022/23: £173,605).

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 10.

Corporate Governance Statement

The parent company, SWW, has a well-established internal control framework which is operated and applied in relation to the process for preparing the Company's financial statements and annual report. The framework incorporates activities and required reporting associated with Bristol Water plc. The internal control framework is discussed in the SWW annual report which does not form part of this report.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual 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 and functions are listed on page 6, 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.

On behalf of the Board:

Steve Buck
Director
26 June 2024

INCOME STATEMENT

for the year ended 31 March 2024

	Notes	2024 £m	2023 £m
Revenue before non underlying items	5	-	115.6
Non underlying revenue		-	(6.6)
Total revenue		-	109.0
Operating costs excluding impairment losses on trade receivables	6	(0.5)	(84.6)
Impairment losses on trade receivables	6	-	(3.5)
Operating costs before non underlying items		(0.5)	(88.1)
Non underlying operating costs	6	-	(1.2)
Total net operating costs	6	(0.5)	(89.3)
Operating (loss) / profit		(0.5)	19.7
Interest payable and similar charges before non underlying items	7	(1.1)	(34.0)
Interest receivable and similar charges before non underlying items	7	1.8	2.7
Non underlying interest payable and similar charges	7	-	(13.1)
Total net interest receivable/(payable) and similar charges	7	0.7	(44.4)
Profit / (loss) before tax		0.2	(24.7)
Taxation on profit on ordinary activities	8	(0.3)	4.5
Loss for the financial year		(0.1)	(20.2)
Loss per ordinary share	9	(1.67)p	(336.7)p

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

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2024

	Notes	2024 £m	2023 £m
Loss for the financial year		(0.1)	(20.2)
Other comprehensive income:			
Items that will not be reclassified to profit and loss			
Actuarial gain on retirement benefit surplus	11	-	0.5
Remeasurement of defined benefit pension scheme restriction	11	1.2	(0.1)
Other comprehensive income for the year, net of tax		1.2	0.4
Total comprehensive profit / (loss) for the year		1.1	(19.8)

STATEMENT OF FINANCIAL POSITION
at 31 March 2024

	Notes	2024 £m	2023 £m
Non-current assets			
Other receivables	10	26.6	26.6
Retirement benefit surplus	11	9.5	8.2
		36.1	34.8
Current assets			
Trade and other receivables	13	0.1	144.5
Current tax asset		0.5	0.7
Cash and cash equivalents	14	0.7	0.1
		1.3	145.3
Total assets		37.4	180.1
Non-current liabilities			
Borrowings	15	(1.6)	(1.6)
8.75% irredeemable cumulative preference shares	15,18	(12.5)	(12.5)
		(14.1)	(14.1)
Current liabilities			
Trade and other payables	16	(0.1)	(0.9)
		(0.1)	(0.9)
Total liabilities		(14.2)	(15.0)
Net assets		23.2	165.1
Equity			
Called-up share capital	18	6.0	6.0
Share premium account		4.4	4.4
Other reserves		5.8	5.8
Retained earnings		7.0	148.9
Total Equity		23.2	165.1

The financial statements of Bristol Water plc, registered number 02662226 on pages 11 to 14 approved by the Board of Directors on 26 June 2024 and signed on its behalf by:

Steve Buck
Director

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2024

	Called up share capital	Share premium account	Capital redemption reserve	Retained earnings	Total
	£m	£m	£m	£m	£m
Balance at 1 April 2022	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 loss 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
Balance as at 1 April 2023	6.0	4.4	5.8	148.9	165.1
Loss for the year	-	-	-	(0.1)	(0.1)
Other comprehensive income for the year:					
Remeasurement of defined benefit pension scheme	-	-	-	1.2	1.2
Total comprehensive profit for the year	-	-	-	1.1	1.1
Ordinary dividends	-	-	-	(143.0)	(143.0)
Balance as at 31 March 2024	6.0	4.4	5.8	7.0	23.2

The Board has not proposed a final dividend in respect of the financial year 2023/24 (2022/2023: £nil).

CASH FLOW STATEMENT
For the year ended 31 March 2024

	Notes	2024 £m	2023 £m
Cash flows from operating activities			
Profit / (loss) before taxation		**0.2**	(24.7)
Adjustments for:			
Share based payments	6	-	0.1
Deferred income amortisation	5	-	(3.3)
Depreciation	6	-	21.4
Amortisation of intangibles	6	-	2.9
Difference between pension charges and contributions paid	6	**0.5**	0.6
Loss on disposal of assets	6	-	0.1
Interest income	7	**(1.2)**	(2.4)
Interest expense	7	**1.1**	47.1
Pension interest income	7	**(0.6)**	(0.3)
Increase in inventory		-	(0.5)
Decrease in trade and other receivables		**1.1**	0.5
(Decrease)/increase in trade and other creditors and provisions		**(0.8)**	9.5
Cash generated from operations		**0.3**	51.0
Interest paid		**(0.1)**	(21.4)
Corporation taxes paid		**(0.1)**	(1.6)
Contributions received		-	2.8
Net cash generated from operating activities		**0.1**	30.8
Cash flows from investing activities			
Purchase of property, plant and equipment and intangibles		-	(40.7)
Interest received	7	**1.6**	2.4
Repayment of intercompany loan receivable		-	61.1
Transfer of trade and assets	25	-	(5.1)
Net cash used in investing activities		**1.6**	17.7
Cash flows from financing activities			
Proceeds from loans and borrowings		-	81.1
Repayment of loans and borrowings		-	(75.8)
Payment of lease liabilities		-	(0.3)
Preference dividends paid	7	**(1.1)**	(1.1)
Equity dividends paid		-	(64.3)
Net cash used in financing activities		**(1.1)**	(60.4)
Net increase/(decrease) in cash and cash equivalents		**0.6**	(11.9)
Cash and cash equivalents, beginning of year	14	**0.1**	12.0
Cash and cash equivalents, end of year	14	**0.7**	0.1

Substantially all of the Company's operations were discontinued in the prior 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, and in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework - Disclosure exemptions from 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

Following the transfer of the Company's licence, trade, assets and obligations to South West Water Limited on 1 February 2023, the Company's remaining obligations 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 2024 financial statements through to 30 June 2025. 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 22.

3.2 Revenue

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

Revenue from metered water supply was based on water consumption and is recognised upon delivery of water. It included 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 covered the period between the last meter reading and the reporting date, and for retailers the last month of the period. The estimate represented a contract asset under IFRS 15 and is recorded within accrued income.

Revenue from unmetered water supply was based on either the rateable value of the property or on an assessed volume of water supplied. Cash received from customers was 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 was recognised when the performance obligation to the customer was satisfied. Where the performance obligation related solely to a connection to the network, revenue was recognised at the point of connection when the customer was deemed to obtain control. Where assets were constructed or provided by the Company, or assets transferred to the Company, it was considered that there was 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 were expected to be provided. Unrecognised revenue was held in deferred income as a contract liability.

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

3.3 Research and development

Research and development expenditure was charged to the Income Statement as incurred. Development expenditure was capitalised only when it met 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 Depreciation and amortisation

All Property, plant and equipment and intangible assets held by the Company was transferred to SWW in the prior year. Depreciation and amortisation was charged prior to this transfer, where appropriate, on a straight-line basis on the original cost of assets over their expected economic lives. Freehold land was not depreciated. Depreciation of long-life assets commenced when the assets are brought into use.

3 Summary of significant accounting policies (continued)

3.6 Depreciation and amortisation (continued)

Depreciation

Assets were 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 were not depreciated.

Amortisation

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

Computer software	3 to 10 years

Assets under construction were not amortised

3.7 Taxation

The tax charge for the year comprises current 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 the Pennon Group for tax purposes and accordingly may use the tax group relief provisions whereby current tax liabilities can be offset by current tax losses arising in other Group companies.

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

The Organisation for Economic Co-operation and Development (OECD)/G20 inclusive Framework on Base Erosion and Profit Shifting published the Pillar Two model rules designed to address the tax challenges arising from the digitalisation of the global economy.

It is unclear if the Pillar Two rules created additional temporary difference, whether to remeasure deferred taxes for the Pillar Two model rules and which tax rate to use to measure deferred tax. In response to this uncertainty, the IASB and AASB on 23 May 2023 and 27 June 2023, respectively, introduced a mandatory temporary exception to the requirements of IAS12 under which a company does not recognise or disclose information about deferred tax assets and labilities relating to the proposed Pillar Two model rules. The Company applied the temporary exception at 31 March 2024.

Pillar Two legislation has been enacted in the UK which is the only jurisdiction in which the Company operates. The legislation will be effective for the financial year beginning 1 April 2024. The Company has performed an assessment of its potential exposure to Pillar two income taxes.

This assessment is based on the most recent tax filings, country-by-country reporting and financial statements of the Company. Based on the assessment performed, the Pillar Two effective tax rates in the UK, which is the only jurisdictions in which the Company operates are above 15% and management is not currently aware of any circumstances under which this might change. Therefore, the Company does not expect a potential exposure to Pillar Two top-up taxes.

3 Summary of significant accounting policies (continued)

3.8 Pension costs

The Company operates a defined benefit contribution pension arrangement and prior to the statutory transfer to SWW operated a 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 were charged to the Income Statement in the period in which they fell due. Administration costs of defined contribution schemes were borne by the Company. There were no costs in the current year.

3.9 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.

3.10 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.

3.11 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.

3.12 Trade and other payables

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

3.13 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.

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.

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 a refund tax deduction of 25% 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 11 for the disclosures of the defined benefit pension scheme.

5 REVENUE

	2024 £m	2023 £m
Appointed income		
Household – measured	-	50.0
Household – unmeasured	-	36.1
Non-household – measured	-	22.2
Non-household – unmeasured	-	0.3
Contributions from developers	-	3.3
Third party services	-	1.8
Rental income	-	1.0
	-	114.7
Non-appointed income		
Recreations	-	0.5
Rental income	-	0.2
Other	-	0.2
	-	0.9
Revenue before non underlying items	-	115.6
Non underlying income		
Watershare +	-	(6.6)
	-	109.0

Appointed income was 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 in the year ended 31 March 2023 included £107.9m for revenue from contracts with customers under IFRS 15 and £1.1m of leasing income under IFRS 16 "Leases".

In the year ending 31 March 2023, 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. This item was non-underlying in nature given its individual size and its non-recurring nature.

6 OPERATING COSTS

(a) Operating costs include:

	2024	2023
	£m	£m
Wages and salaries	-	19.0
Social security costs	-	2.1
Pension scheme costs	-	2.6
Share-based payments	-	0.1
Total payroll cost	-	23.8
Less capitalised as tangible and intangible assets	-	(9.8)
Net staff costs	-	14.0
Inventory recognised as an expense	-	4.5
Depreciation of tangible assets including impairment		
On owned assets	-	21.0
On leased assets	-	0.4
Amortisation of intangible assets		
On owned assets	-	2.9
Other operating charges		
Auditor's remuneration	-	0.3
Loss on disposal of tangible assets	-	0.1
Other charges less recoveries	**0.5**	41.4
Operating costs excluding impairment losses on trade receivables	**0.5**	84.6
Impairment of trade receivables	-	3.5
Total operating costs before non underlying items	**0.5**	88.1
Legal costs	-	1.0
Integration costs	-	0.2
Total non underlying items in the income statement	-	1.2
Total net operating costs	**0.5**	89.3

In the prior year £40m bonds due to be repaid in March 2041 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 was non-recurring and of a material value, hence the cost was treated as non-underlying.

In the prior year 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 were classified as non-underlying due to their non-recurring nature.

6 OPERATING COSTS (continued)

(b) Employee details

The monthly average number of employees by activity, including Directors on a service contract, (on a full-time equivalents basis) during the year to 31 March 2023 was as follows. On 1 February 2023 all the Company's employees were transferred to South West Water.

	2024	2023
	No.	No.
Water treatment and distribution	-	179
Support services	-	117
Administration	-	151
Non-appointed activities	-	12
	-	459

(c) Directors' emoluments

	2024	2023
	£m	£m
Aggregate emoluments of Directors, being remuneration, bonus, pension, LTIP and benefits in kind	-	0.7
	-	0.7

The highest paid Director during the year ended 31 March 2023 was Mr Karam.

(d) Independent auditors' remuneration

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

	2024	2023
	£m	£m
Fees payable for the audit of the Company's annual statutory financial statement	-	0.3

Fees amounting to £35,000 for the audit of the Company's annual statutory financial statements were paid by Pennon Group plc on behalf of the Company.

7 NET INTEREST PAYABLE AND SIMILAR CHARGES

	2024 **£m**	2023 £m
Interest payable and similar charges relate to:		
Bank borrowings	-	3.7
Term loans and debentures:		
Interest charges	-	9.4
Indexation	-	20.0
Leases	-	0.1
Capitalisation of borrowing cost	-	(0.9)
Dividends on 8.75% irredeemable cumulative preference shares	**1.1**	1.1
Loan from Pennon Group plc	-	0.6
	1.1	34.0
Less interest receivable and similar income:		
Interest income in respect of retirement benefit scheme (note 11)	**(0.6)**	(0.3)
Interest income on intercompany loans	**(1.2)**	(2.4)
	(1.8)	(2.7)
Total underlying net interest payable and similar charges	**(0.7)**	31.3
Bond redemption costs	-	13.1
Total net interest payable and similar charges	**(0.7)**	44.4

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.

In the prior year bonds with a carrying value of £59.2m were redeemed on 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 was non-recurring and of a material value, hence the debit was treated as non-underlying.

The rate used to determine the amount of borrowing costs eligible for capitalisation in the prior year was 7.8%, which was the weighted average interest rate of applicable borrowings.

8 TAXATION

	2024	2023
	£m	£m
Tax expense included in Income Statement		
Current tax:		
Corporation tax on profits for the year	**0.3**	0.4
Adjustment to prior years	-	(0.1)
Total current tax	**0.3**	0.3
Deferred tax:		
Origination and reversal of timing differences	-	(4.9)
Adjustment to prior years	-	0.1
Total deferred tax	-	(4.8)
Tax expense/(income) on profit	**0.3**	(4.5)

UK corporation tax is calculated at 25% (2022/23:19%) of the estimated assessable profit for the year.

UK corporation tax is stated after a credit relating to prior year current tax of £nil (2022/23: £0.1m credit) and a prior year deferred tax charge of £nil (2022/23: £0.1m charge).

Reconciliation of the tax on profit on ordinary activities
The tax charge for the year differs from the theoretical amount which would arise using the standard rate of corporation tax in the UK of 25% (2022/23: 19%), as follows:

	2024	2023
	£m	£m
Profit/(loss) before tax	**0.2**	(24.7)
At statutory income tax rate of 25% (2023: 19%)	**0.1**	(4.7)
Adjustment in respect of prior years' current tax	-	0.1
Adjustment in respect of prior years' deferred tax	-	(0.1)
Non-deductible expenses for tax purposes:		
8.75% irredeemable cumulative preference share	**0.2**	0.2
Non-qualifying asset depreciation	-	0.1
Other	-	0.1
Capital expenditure tax depreciation super deduction allowances	-	(0.2)
Total taxation expense /(credit) included in income statement	**0.3**	(4.5)

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 was available in respect of qualifying expenditure. Prior to the statutory transfer of trade and assets to SWW, the Company incurred significant capital expenditure each year as it maintained and enhanced 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 31 March 2021. These enhanced allowances increased capital allowance claims for the year ended 31 March 2023. There was also a consequently higher deferred tax liability and charge due to the additional capital allowance deductions prior to the transfer to SWW.

Factors affecting future tax charges
Pillar Two legislation has been enacted in the UK which is the only jurisdiction in which the Company operates. The legislation will be effective for the Company's financial year beginning 1 April 2024. The Company has performed an assessment of its potential exposure to Pillar two income taxes.

This assessment is based on the most recent tax filings, country-by-country reporting and financial statements of the constituent entities in the Group. Based on the assessment performed, the Pillar Two effective tax rates in the UK, which is the all jurisdiction in which the Company operates are above 15% and management is not
currently aware of any circumstances under which this might change. Therefore, the Company does not expect a potential exposure to Pillar Two top-up taxes

9 LOSS PER ORDINARY SHARE

	2024	2023

	m	m
Basic loss per ordinary share have been calculated as follows:		
Loss attributable to ordinary shares	**£0.1**	£20.2
Weighted average number of ordinary shares	**6.0**	6.0
	1.67p	336.7p

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

10 OTHER RECEIVABLES

Other receivables comprise loan notes issued to the Company on 1 February 2023 by SWW.

	Fixed interest rate	Principal outstanding	
		2024	2023
£25,000,000 fixed rate loan note	6%	**25.0**	25.0
£1,405,218 fixed rate loan note	4%	**1.4**	1.4
£72,900 fixed rate loan note	3.5%	**0.1**	0.1
£54,875 fixed rate loan note	4%	**0.1**	0.1
£36,740 fixed rate loan note	4.25%	**-**	-
		26.6	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.

11 RETIREMENT BENEFIT SURPLUS

Defined benefit scheme

Pension arrangements for former employees have historically been provided through the Company's membership of the Water Companies' Pension Scheme (WCPS), which provides defined benefits based on final pensionable pay. The Company's membership of WCPS is through a separate section of the scheme. 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. The pension liability, following the purchase of the bulk annuity policy, matches the value of the insurance asset.

The gross pension surplus of £12.7m at 31 March 2024 (31 March 2023 £12.6m) relates to the market value of assets still held by the scheme other than the annuity policy/insurance asset.

Looking ahead, we expect the insurer will take over responsibility for the payment and administration of member benefits. Once this has happened members will no longer be members of the Section, instead they will have individual policies with the insurer. At this point the Section will be wound up.

In June 2023, the High Court handed down a decision (Virgin Media Limited v NTL Pension Trustees II Limited and others) which potentially has implications for the validity of amendments made by schemes, including the Company defined benefit scheme, which were contracted-out on a salary-related basis between 6 April 1997 and the abolition of contracting-out in 2016. This decision has been appealed and is due to be reconsidered by the Court of Appeal in June 2024. The impact will therefore be uncertain for some time to come. Given this uncertainty, the updated valuation as at 31 March 2024 does not reflect the High Court ruling as it is currently unclear as to whether any additional liabilities might arise, and if they were to arise, how they would be reliably measured. The case is subject to appeal in 2024 and following the outcome of the appeal and any DWP response, management will conclude whether any subsequent actions or amendments to IAS 19 liabilities are required.

11 RETIREMENT BENEFIT SURPLUS (continued)

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 25% (2023: 35%) under UK tax legislation. An increase in the refund 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 2024, by LCP, using the following major assumptions in accordance with IAS 19 'Employee Benefits':

	2024	2023
Assumptions:		
RPI Inflation	**3.2%**	3.3%
CPI Inflation	**2.6%**	2.7%
Discount rate	**4.8%**	4.7%

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:

	2024	2023
Life expectancy at age 60 at the balance sheet date		
- Men	**27.2**	27.3
- Women	**29.6**	29.5
Life expectancy at age 60, 25 years from balance sheet date		
- Men	**30.0**	30.2
- Women	**31.9**	31.8

Reconciliation of scheme assets and liabilities:

	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 7)	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**

11 RETIREMENT BENEFIT SURPLUS (continued)

	Assets £m	Liabilities £m	Total £m
Pension scheme surplus at 1 April 2023	124.6	(112.0)	12.6
Section expenses	(0.5)	-	(0.5)
Interest income (note 7)	5.7	(5.1)	0.6
Remeasurements:			
Return on plan assets, excluding amounts included in interest income	(1.7)	-	(1.7)
Changes in financial assumptions	-	2.4	2.4
Changes in demographic assumption	-	0.9	0.9
Experience adjustments on obligation	-	(1.6)	(1.6)
	(1.7)	1.7	-
Benefits paid	(7.7)	7.7	-
Pension scheme surplus at 31 March 2024	**120.4**	**(107.7)**	**12.7**

Total amount recognised on the statement of financial position:	**2024 £m**	2023 £m
Fair value of plan assets	120.4	124.6
Pension scheme obligation	(107.7)	(112.0)
Pension scheme surplus	12.7	12.6
Less: restriction of surplus	(3.2)	(4.4)
Net pension scheme surplus	9.5	8.2

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

This benefit is only available as a refund as no additional defined pension benefits are being earned. Under UK tax legislation a refund tax deduction of 25% 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. Legislation enacted in the year reduced this tax rate from 35% to 25%. This change resulted in a one off gain of £1.2m which has been recognised in OCI.

Sensitivity

The sensitivity of the pension scheme obligation at 31 March 2024

	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	5.1

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.

11 RETIREMENT BENEFIT SURPLUS (continued)

Total cost recognised as (income)/ expense:

	2024	2023
	£m	£m
Interest income (note 7)	**(0.6)**	(0.3)
Section expenses	**0.5**	0.6
	(0.1)	0.3

The market value of the plan assets was:

	Quoted	**2024 Unquoted**	**2024**	**%**	Quoted	2023 Unquoted	2023	%
	£m	**£m**	**£m**		£m	£m	£m	
Liquidity funds	**-**	**13.2**	**13.2**	**11**	-	13.7	13.7	11
Insurance policy	**-**	**107.2**	**107.2**	**89**	-	110.9	110.9	89
Cash	**-**	**-**	**-**	**-**	-	-	-	-
	-	**120.4**	**120.4**	**100**	-	124.6	124.6	100

The return on the plan assets was:

	2024	2023
	£m	£m
Interest income	**5.7**	4.3
Remeasurements	**(1.7)**	(32.7)
Total return on plan assets	**4.0**	(28.4)

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

12 DEFINED CONTRIBUTION PENSION SCHEME

The Company operated a defined contribution retirement benefit scheme for employees in the prior year. Following the statutory transfer of trade and assets to SWW on 1 February 2023 there are no employees in the Company and consequently no charges to income. The total cost charged to income, for the period to 31 March 2023, of £2.2m represented contributions payable to the scheme. There were no charges to income for the period 1 February 2023 – 31 March 2023.

13 TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise:

	2024	2023
	£m	£m
Amounts owed by group undertakings	**0.1**	144.5
	0.1	144.5

The prior 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 were settled during the year.

14 CASH AND CASH EQUIVALENTS

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

	2024	2023
	£m	£m
Cash and cash equivalents	**0.7**	0.1
	0.7	0.1

15 BORROWINGS

	2024 £m	2023 £m
Irredeemable		
Debentures	**1.6**	1.6
8.75% irredeemable cumulative preference shares (note 18)	**12.5**	12.5
	14.1	14.1
Total	**14.1**	14.1

	Interest rate	Maturity	Total 2024 £m	Total 2023 £m
Non current loans and borrowings				
£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**	14.1

16 TRADE AND OTHER PAYABLES

	2024 £m	2023 £m
Trade and other payables		
Trade payables	**0.1**	-
Amounts owed to group undertakings	**-**	0.8
Accruals	**-**	0.1
	0.1	0.9

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

17 EMPLOYEE SHARE SCHEME

Sharesave scheme

An all-employee savings related plan operated up until 1 February 2023 enabling employees to invest up to a maximum of £500 per month for three or five years. These savings could 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.

From 1 February 2023 the Company had no employees.

	Ordinary shares	Weighted average exercise price per share	Ordinary shares	Weighted average exercise price per share
	Year ended 31 March 2024 thousands	Year ended 31 March 2024 Pence	Year ended 31 March 2023 thousands	Year ended 31 March 2023 Pence
At 1 April	-	-	201	879
Granted	-	-	43	828
Forfeited	-	-	(4)	872
Exercised	-	-	-	-
Expired	-	-	(49)	872
Transferred to SWW	-	-	(191)	869
At 31 March	-	-	-	-

18 CALLED UP SHARE CAPITAL

Ordinary shares of £1 each issued and fully paid	**No.**	**£m**
As at 1 April 2023 and 31 March 2024	**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 2023 and 31 March 2024	**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.

19 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.

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.

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.

Fair values of non-current financial assets and liabilities

	31 March 2024		31 March 2023	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Non-current financial liabilities				
Long-term borrowings	**(1.6)**	**(1.4)**	(1.6)	(1.5)
8.75% irredeemable cumulative preference shares	**(12.5)**	**(20.1)**	(12.5)	(21.5)
Non-current financial assets				
Intergroup receivables	**26.6**	**26.6**	26.6	26.6
	12.5	**5.1**	12.5	3.6

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.

20 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 2024 and 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% (2023: 100%) of the Company's gross financial liabilities were at fixed rates.

(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 2024 and 2023, the maximum exposure to credit risk was as follows:

	2024 £m	2023 £m
Cash and cash equivalents	**0.7**	0.1
Trade and other receivables, net of bad debt provisions made	**0.1**	144.5
Other receivables	**26.6**	26.6
	27.4	171.2

(d) Liquidity risk

The Company's 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.

Year ended 31 March 2024	**Due within one year £m**	**Between one and two years £m**	**Between two and five years £m**	**After five years £m**	**Total £m**
Trade payables	**0.1**	-	-	-	**0.1**
	0.1	-	-	-	**0.1**

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
Trade payables	0.1	-	-	-	0.1
	0.9	-	-	-	0.9

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.

21 COMMITMENTS

The Company had no commitments at 31 March 2024 (2023: £nil).

22 CASH FLOW INFORMATION

Net debt reconciliation

Analysis of net debt:

	31 March 2024 £m	31 March 2023 £m
Cash and cash equivalents	**0.7**	0.1
Borrowings – repayable after one year	**(14.1)**	(14.1)
Net debt	**(13.4)**	(14.0)
Cash and liquid investments	**0.7**	0.1
Gross debt – fixed interest rates	**(14.1)**	(14.1)
Net debt	**(13.4)**	(14.0)

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 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)**
Cash flows	**0.6**	-	-	-	**(1.2)**	**(0.6)**
Other non-cash movements	**-**	-	-	-	**1.2**	**1.2**
Net debt as at 31 March 2024	**0.7**	-	-	-	**(14.1)**	**(13.4)**

23 ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

As at 31 March 2023 and 31 March 2024 the immediate parent company for this entity was SWW.

As at 31 March 2023 and 31 March 2024 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.

24 RELATED PARTY TRANSACTIONS

Related parties include members and joint ventures of the Pennon Water plc group of companies 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.

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.

Trading transactions

During the prior year the Company entered into trading transactions with related parties. In the year ended 31 March 2024 there was no trade with these related parties:

	Sales of goods and services 2023 £m	Purchases of goods and services 2023 £m
Joint ventures and associates of the Pennon Group plc group		
BWBSL		
- management charges	-	2.5
- capital expenditure	-	0.3
- other recharges	-	0.1
W2B		
- non-household supply of water	16.2	-
PWS		
- non-household supply of water	0.9	-
	17.1	2.9

The prior 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. Consequently year end balances at 31 March 2024 were £nil (2023: £nil)

25 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 was made during the year ended 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 auditors' report

Opinion

We have audited the financial statements of Bristol Water plc for the year ended 31 March 2024 which comprise 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 notes 1 to 25 including material accounting policy information. 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 2024 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 30 June 2025.

- 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 30 June 2025.

- 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 30 June 2025, 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.

- We have evaluated management's stress test modelling including management's downside scenario and specific risk register probability-weighted scenarios, to understand the impact on the Pennon Group plc liquidity and covenant ratios. Management has also modelled a reverse engineered scenario (reverse stress test) assuming all the principal risks materialise within the going concern period with no probability weightings attached. We assessed the reasonableness of management's stress test scenarios by performing our own sensitivity analysis for severe but plausible scenarios.

- We have compared the risks identified and modelled in the cash flow forecasts of management's downside scenario to the group risk register and evaluated the quantification by management. We have considered whether there are other alternative risks that should be taken into consideration based on our knowledge of the business. Our procedures included evaluating management's assessment of 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, as well as sufficiency of funds available to the Group to support the required capital expenditure.

- 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 evaluated, including assistance from our specialist, events impacting immediately after the end of the going concern assessment period, including the effects of maturity of loans and facilities on the Pennon Group plc's ability to continue as going concern.

- We performed testing to consider the likelihood of a scenario causing a liquidity issue or breach of covenant for Pennon Group plc, including the impact of controllable mitigating actions, where relevant.

- We have reviewed 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.

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 30 June 2025.

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	• Valuation of the company's gross defined benefit pension obligation of £107.7 million (2023: £112.0 million)
Materiality	• Overall materiality of £0.5 million which represents 2% of net assets.

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 78 to 109 in the required Task Force for Climate related Financial Disclosures and on pages 59 to 64 in the principal risks and uncertainties including the climate commitments on pages 69 to 70.

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
Valuation of the company's gross defined benefit pension obligation of £107.7 million (2023: £112.0 million) *Refer to the Accounting policies (page 18); and Note 11 of the Financial Statements (page 25)* We identified an inherent risk relating to the subjective valuation using complex actuarial assumptions. Small changes in the assumptions and estimates used to value the pension scheme liabilities would have a significant effect on the carrying value of those pension obligations.	We have performed the below procedures in relation to the identified inherent risk: • We have understood management's process and methodology for calculating the liability in respect of the pension obligation, including discussions with management's external actuary and walkthrough of the process. • We have assessed the independence, objectivity, and competence of the company's external actuaries. This included understanding the scope of services being provided and considering the appropriateness of the qualifications of the external actuaries. • With the support of our pensions actuarial specialists, we assessed and challenged the appropriateness of the assumptions used in calculating the pension obligation by comparing them to the expectations of our pension actuarial specialists which they had derived from broader market data.	We concur that methodology and assumptions used by management at 31 March 2024 are reasonable and we found the valuation of retirement benefit obligations to be acceptable.

Changes from the prior year

In the prior year, our auditor's report included a key audit matter in relation to the accounting for the transfer of trade and assets of Bristol Water plc to South West Water Limited. In the current year, this is no longer applicable as the transfer has been completed in the prior year.

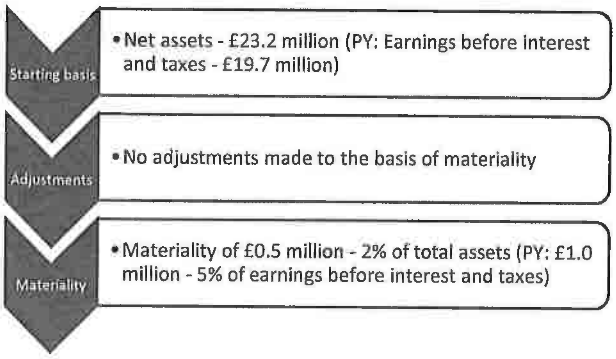
We have determined the valuation of the company's gross defined benefit pension obligation as key audit matter this year considering the significant attention directed to this area to address the inherent risk.

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 £0.5 million (2023: £1.0 million), which is 2% of net assets (2023: 5% of earnings before interest and taxes). We believe that net assets provides us with an appropriate and generally accepted benchmark for materiality for a company holding listed debt where the lenders to the company are focused on the ability of the company to repay back the loan and debt service costs. We believe that the earnings before interest and taxes is no longer appropriate as the company has transferred its operating activities to SWW in the prior year.



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 75% (2023: 50%) of our planning materiality, namely £0.4 million (2023: £0.5 million). We have set performance materiality at this percentage due to low-risk nature of the company's business. The basis has changed from prior year due to the limited transactions of the company in the current year following the statutory transfer of trade and majority of assets and liabilities to SWW.

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 £0.03 million (2023: £0.05 million), 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, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained with 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' reports 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 10, 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)
    - 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 and Head of Internal Audit. 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.

- 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.

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 2 year, covering the year ended 31 March 2024.

- 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
26 June 2024