

# FINANCIAL HIGHLIGHTS

Year ended 31 March	2004 £m	2003 £m	% change
Turnover	70.7	70.0	+1%
Operating profit	19.5	19.4	+1%
Profit before tax	13.5	14.6	-7%
Profit after tax	11.1	8.5	+30%
Earnings per ordinary share	166.0p	123.0p	+35%
Dividend per ordinary share	103.37p	263.21p	-61%

# CHAIRMAN'S STATEMENT

## FINANCIAL OVERVIEW

In last year's annual report we signalled that profits for 2003/04 and 2004/05 would be constrained. This is due to the relatively low level of increases in charges to customers of 2.7% for 2003/04 and 0.7% for 2004/05, and the additional costs arising from the continuing capital programme.

Against this background the company has performed extremely well. Profit before tax was £13.5m, a reduction of £1.1m from 2003.

The Board has proposed a final ordinary dividend for the year of 74.27p bringing the total ordinary dividend to 103.37p (£6.2m) compared to 263.21p (£15.8m) in the previous year. The 2003 ordinary dividend included a special interim dividend of £10m which is not repeated. After adjusting for the special interim dividend the underlying ordinary dividend per share increased by 7.1%.

During the year we carried out a major refinancing of the company, based on a financial ringfencing of the company. In May 2003 we raised £45m of long term funds and used £20m to repay an existing bank loan.

In February 2004 we raised a further £53m and used £47m to make an interest bearing intercompany loan to the ultimate parent company Bristol Water Group plc. Together with other cash balances, the ultimate parent used this to finance a £51m return of capital to shareholders.

The new financing structure provides the company with considerable financial flexibility and a much improved debt maturity profile consistent with the long term nature of its asset base. It has increased the level of debt to Regulatory Capital Value to 67% compared to 41% in March 2003. The Board currently regard this as being within an appropriate range bearing in mind the expected future investment requirements and risk profile of the company.

## OPERATIONAL PERFORMANCE

Once again we were ranked highly in Ofwat's latest report on service levels by water companies in England and Wales for 2002/03. This continued our record of consistently high rankings and recognises our commitment to the delivery of high levels of service to customers.

A key operational issue during the year was the prolonged warm and dry weather over the summer and autumn, which meant that surface reservoir levels dropped steadily. We avoided significant operational difficulties and reasonably heavy winter rainfall levels have largely recharged the reservoirs. We reviewed drought contingency plans carefully and commissioned a temporary plant at our Cheddar reservoir to increase the security of supply in adverse operating conditions.

The joint venture with Wessex Water, to enable the two companies to issue combined bills to customers, is continuing to progress well and is delivering real efficiency gains.

We are now in the fourth year of the current five year regulatory period and making good progress towards delivery of the outputs agreed with Ofwat as part of the 1999 price determination.

We are now forecasting a capital programme of approximately £109m (2002/03 prices) for the five year period compared to the price determination assumption of £128m. The variation mainly relates to the lead supply pipe replacement programme of around £24m assumed in the price determination. In accordance with the Drinking Water Inspectorate's protocol we have not undertaken the original replacement programme as orthophosphate dosing has enabled us, to date, to achieve substantial compliance with the lead standard that comes into force in 2013.

Net capital investment during the year was £25m (2003 - £20m), the key project being the £14m major upgrade of our Barrow treatment plant which will be completed by mid 2004.

The operating cost assumptions that Ofwat made in the 1999 determination included extremely challenging efficiency targets. To date we have managed to reduce costs in line with these targets by a radical restructuring of the business in 1999/00 and the creation of the joint billing venture with Wessex Water. Additional costs we are having to meet (including increased bad debts and insurance premiums, the government's climate levy and increased pension contributions), together with the reduced scope for further efficiency gains means that by the end of the 5 year regulatory period we will anticipate spending more than the Ofwat assumed levels.

## PERIODIC REVIEW

A key activity during the period was the preparation and submission in April 2004 to Ofwat of our business plan and price limit proposals for the period 2005-10. This is an important part of Ofwat's periodic review process, which will determine price limits for our charges to customers and related obligations for the five year period. The outcome of this process will have a very important bearing on the company's financial prospects. Ofwat will issue its draft determination of price limits in August 2004 and then the final determination in December 2004.

In our plan we have proposed the following:

- A significant increase in the level of infrastructure maintenance
- Four schemes to provide a better level of security of mains water supply to large numbers of customers
- Two new treatment works to provide increased security of access to supplies in adverse operating conditions
- Improvements to the taste and appearance of water at customers' taps.

Delivering this plan would require a capital investment programme for the five year period of some £156m (2002/03 prices). To finance this and meet our other obligations, which include an expected increase in the level of corporation tax payable, we have proposed real price increases (K factors) as follows:

2005/06	20%
2006/07	6%
2007/08	6%
2008/09	0%
2009/10	0%

We believe that the proposals set out in our plan are balanced and in the best short and long term interests of customers. A fuller explanation of our proposals is available on our website at [www.bristolwater.co.uk](http://www.bristolwater.co.uk).

## AMENDMENTS TO LICENCE OF APPOINTMENT

We have agreed with Ofwat some changes to the licence of appointment. These modifications principally concern the ringfencing of the regulated water business, the management and conduct of the business and the role of Bristol Water Group plc as the ultimate parent. The modifications are broadly similar to those agreed by other companies who have significantly increased gearing levels through financial restructuring. These modifications came into force in February 2004.

One of the changes is a requirement for non executive directors on the board of the company. Professor Blockley and Messrs McIlwraith and Smallwood from the Board of Bristol Water Group plc together with Chris Curling, an external appointee, have been appointed as non executives of Bristol Water plc.

## OUTLOOK

As previously indicated profits for 2004/05 will be constrained by the below inflation increase in charges to customers of just 0.7% and additional costs arising from the continuing capital programme.

Beyond 2004/05 the key factor is clearly the outcome of the periodic review.

My thanks go to our employees who have all contributed to the success of the company during the year.

ALAN PARSONS  
Chairman  
27 May 2004

# OPERATING AND FINANCIAL REVIEW

## RESULTS OVERVIEW

In November 1999, Ofwat issued the Periodic Review Final Determination. This set maximum price limits for charges to customers for the five years 2000/05. The limits, known as K factors, plus movements in the RPI index, determine the allowed increase or decrease in overall charges each year. For 2003/04 the K factor was 0%, which, together with an RPI movement of 2.7%, meant an average increase in charges to customers of 2.7%.

Overall turnover increased by £0.7m to £70.7m, reflecting the RPI+K increase offset by the loss of our largest commercial customer in April 2003 following a factory closure.

Operating costs before net depreciation were £36.3m, slightly lower than the £36.6m recorded in 2003. After taking the effect of inflation into account, this represents a substantial reduction in real terms.

Net depreciation increased by £0.9m to £14.9m reflecting the commissioning of new assets.

Overall profit before tax of £13.5m represents a £1.1m reduction from 2003.

The tax charge for the year of £2.4m was much lower than the equivalent charge of £6.1m for 2003. This reflects a deferred tax credit of £0.5m rather than the deferred tax charge of £3.8m in 2003, due to two factors. The first is an increase in discount rates used to calculate our overall deferred tax liability. As required by FRS19 the discount rates applied are based on government gilts for the relevant periods and the change to some extent reverses the impact of the reduction in rates in the previous year. The second factor is a disclaimer of capital allowances in respect of a prior year allowing us to reclaim Advance Corporation Tax previously paid, which also reduces the future deferred tax liability.

Net capital investment in the year after grants and contributions from developers was £24.5m, compared to £20.0m in 2003.

## PENSIONS

The last triennial actuarial review of the company's section within the Water Companies' Pension Scheme was as at 1 April 2002 and showed a net surplus on an actuarial basis of £6.3m. The next full triennial review is due as at 1 April 2005.

An updated interim valuation, for SSAP24 purposes only, was carried out as at 1 April 2003 to recognise the significant change in the funding level following the downturn in the equity markets since 1 April 2002. The interim valuation shows a net deficit of £3.0m.

The section is currently invested primarily in equities. In consultation with both the trustees and the scheme actuary, we have carefully examined the investment strategy and concluded that the appropriate long term strategy is to reduce the proportion of equities with a corresponding increase in investments in bonds and other fixed income securities. Given the current equity market position we have delayed the implementation of this change until we see some further recovery in equity market values.

We agreed a significant increase in cash contributions to the pension funds effective from 1 April 2003 to a total of £1.3m. We have now agreed a further increase to £1.4m pa from 1 April 2004.

The total SSAP24 charge for the year is £1.6m. Considerable uncertainty remains over the appropriate assumptions and we will review the basis of the SSAP24 charge for 2004/05 during the forthcoming year.

In these accounts the appropriate transitional disclosures required under FRS17, the accounting standard on pensions, are made. These show that the company's pension position would be represented on the balance sheet as a deficit net of deferred tax under FRS17 of £12.4m (2003 - £13.0m).

## TREASURY

Net cash inflow from operating activities was £33.0m (2003 - £29.7m), net cash outflows from servicing of finance totalled £7.1m (2003 - £6.7m) and net capital expenditure and investment activities (including the £47m intercompany loan to the ultimate parent company) amounted to £71.2m (2003 - £16.1m). Total cash outflows before management of liquid resources and financing were £64.2m (2003 - £1.7m).

Net borrowings increased from £74.8m to £140.3m during the year and at 31 March 2004 represented approximately 67% of Regulatory Capital Value.

In May 2003 we finalised new financing arrangements. Prior to the refinancing, we had a relatively short debt maturity profile and the new structure provides a better mix and considerably longer maturity profile appropriate to the long term nature of the assets being financed. The new facilities provided for the repayment of £20m of existing bank debt and financing of the ongoing capital expenditure programme. £15m of index-linked debt was drawn through the existing Artesian Finance plc monoline wrapped bond programme arranged by the Royal Bank of Scotland, previously used by three other water companies. An equivalent £30m financing was also drawn on a fixed interest basis through a new bond programme issued by Artesian Finance II plc. The facilities extend to 2032 and 2033 respectively.

The new financing is based on a ringfenced structure and some existing lenders have entered into an intercreditor arrangement to share the ringfencing security package. It is expected that all new senior debt will also become part of the intercreditor arrangement.

The intercreditor structure is governed by two key financial ratio covenants: debt to Regulatory Capital Value and a cash interest cover ratio.

In February 2004 we raised further funds through the Artesian vehicles amounting to £26.0m of index-linked debt and £27.5m of fixed rate debt.

The company then advanced £47m of the new funds in the form of a long term interest bearing loan to the ultimate parent company. Together with other cash balances the ultimate parent used this to finance a £51m return of capital to shareholders.

The company uses interest rate derivatives to manage exposures to fluctuations in interest rates. Positions on hedges are deferred and matched to appropriate underlying transactions. In preparation for the refinancing arrangements, during 2002/03 the company redesignated a £20m interest rate swap, which swaps variable rate LIBOR to fixed rate. This was previously matched to the £20m bank loan now repaid. The redesignation matches it to a £10m variable rate bank loan and to £10m of variable rate leases.

Net interest charges in the year totalled £6.3m (2003 - £5.2m) and were covered 3.1 times (2003 - 3.7 times).

The net interest charge will increase during 2004/05 reflecting the full year effect of the additional borrowings raised, offset by interest receivable on the intercompany loan to the ultimate parent company.

We maintain cash surpluses for a number of purposes:

- To pre-fund future capital expenditure
- To meet future debt maturities
- To meet working capital requirements
- To satisfy cash balance requirements specified in our financing agreements.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS

### Background

International Financial Reporting Standards (IFRS) will be mandatory for all UK listed groups for financial statements for accounting periods beginning on or after 1 January 2005. Bristol Water plc therefore plans to adopt IFRS for the year ended 31 March 2006.

### Nature of the changes

There are many areas in which financial performance measured under IFRS differs from financial performance measured under UK accounting standards. Some of these are not relevant to the circumstances of the company; the likely impact of those which are relevant is under review.

At the present time the Board consider that the principal areas in which the financial performance of Bristol Water plc as reported under IFRS will differ materially from the financial performance of the company as reported under existing accounting policies are as follows:

- Deferred tax liabilities will be required to be provided for in full and not discounted
- Pension fund surpluses and deficits will be included within the company results rather than disclosed by way of note
- Renewals accounting for infrastructure assets will no longer be permitted
- Depreciation of long-life assets will commence at the time the assets are capitalised, instead of from the beginning of the next financial year
- Inclusion of fair values of financial assets and liabilities and derivatives will be mandatory unless effective hedges are in place
- Proposed dividends will be excluded from the financial statements.

In some areas the relevant standards have not yet been endorsed by the EU, nor the detailed methodology of the calculations finalised. Other material issues may become apparent during the conversion process therefore this list should not be regarded as definitive.

### The conversion process

A team has been established to identify and resolve all conversion issues. Financial performance covenants with external sources of finance will be reviewed as part of the conversion process. Bristol Water plc will work with its advisors, Ofwat and other companies in the water industry to establish so far as practical a common application and interpretation of the new standards.

### Timetable

In accordance with the conversion timetable laid down in IFRS 1 dealing with first-time adoption of IFRS, the interim financial statements for the six months ending 30 September 2004 and the annual financial statements for the year ending 31 March 2005 will be prepared under UK accounting standards. The interim financial statements for the six months ending 30 September 2005 and the annual financial statements for the year ending 31 March 2006 will be prepared under IFRS.

Comparative figures included within the financial statements as at 30 September 2004 and 31 March 2005 will be prepared under UK accounting standards.

Comparative figures included within the financial statements as at 30 September 2005 and 31 March 2006 will be those originally prepared under UK accounting standards, restated under IFRS.

### Consequences of the adoption of IFRS

It is anticipated that the first time adoption of IFRS will result in a reduction in the level of distributable reserves within Bristol Water plc. It is also likely that the reported financial performance of the company will become more dependent upon external factors outside the company's control, and therefore more volatile, as a result of the adoption of IFRS.

There will also be significant changes to the format of financial statements.

### MONITORING THE BUSINESS

A number of systems are used to monitor the financial and operational performance of the company including:

- Monthly management accounts and budgetary control
- Monthly key performance indicators
- Ad hoc internal audits of business processes
- Detailed Quality Assurance systems.

Internal controls and risk management are discussed in the Corporate Governance Report of the ultimate holding company, Bristol Water Group plc.

### OUTLOOK

As explained in the Chairman's Statement profits for 2004/05 will be constrained by two key factors:

- The low allowed level of increase in charges to customers of 0.7% (based on RPI of 2.6% less a negative K factor of 1.9%)
- The additional financing and other costs arising from the continuing capital programme.

ANDY NIELD

Finance Director

27 May 2004

# DIRECTORS' REPORT

for the year ended 31 March 2004

The directors have pleasure in submitting their report and the accounts for the year ended 31 March 2004.

## PRINCIPAL ACTIVITIES

The company's principal activities are the provision of water supply and related services to a population of more than one million people and businesses in an area of 2,391 square kilometres centred on Bristol.

The company is a water undertaker and its duties are discharged under the terms of the Water Industry Act 1991. During the year the company agreed with Ofwat some changes to its licence of appointment. These modifications principally concern the ringfencing of the regulated water business, the management and conduct of the business and the role of Bristol Water Group plc as the ultimate parent. The modifications are broadly similar to those agreed by other companies who have significantly increased gearing levels through financial restructuring. These modifications came into force in February 2004.

## RESULTS FOR THE YEAR

The results for the year are shown in the profit and loss account and together with future developments are discussed in the Operating and Financial Review. Dividends are disclosed in Note 5. A final ordinary dividend of 74.27p per share is proposed, equating to a total ordinary dividend for the year of 103.37p.

## DIRECTORS AND THEIR INTERESTS

The directors during the year, and their beneficial interests in the ordinary shares of the ultimate parent company, were:

	1 April 2003 or date of appointment	31 March 2004
A Parsons, <i>Chairman</i>	26,768	38,938
Dr A J Bates	9,739	9,762
Professor D I Blockley, <i>Non Executive</i> – appointed 5 December 2003	463	463
C J Curling, <i>Non Executive</i> – appointed 3 March 2004	-	-
P D Knowlson	914	6,733
P McIlwraith, <i>Non Executive</i> – appointed 5 December 2003	-	-
A S Nield, Finance Director	1,325	1,325
T Smallwood, <i>Non Executive</i> – appointed 5 December 2003	-	-
R W Wyatt, Managing Director	13,522	13,522

The numbers of shares as at 1 April 2003 have been restated to reflect the five for one share split effected by the then ultimate holding company Bristol Water Holdings plc on 28 July 2003 and the consolidation of ordinary shares by Bristol Water Group plc on 3 February 2004. The numbers of shares as at 31 March 2004 relate to the new ultimate holding company Bristol Water Group plc.

The directors had interests in the following numbers of B shares issued by the ultimate holding company Bristol Water Group plc and amounts repaid following cancellation and redemption as a result of the return of capital by that company to shareholders:

	Numbers of B shares issued	Amount repaid on redemption £000	Numbers of B shares not yet redeemed
A Parsons	50,510	55	10,000
Dr A J Bates	18,375	25	-
Professor D I Blockley	875	1	-
P D Knowlson	9,317	13	-
A S Nield	2,500	3	-
R W Wyatt	25,515	34	-

There have been no changes in directors' interests from 31 March 2004 to the date of this report.

The following options over ordinary shares of the ultimate holding company have been granted to and not been exercised by the directors under the terms of the Executive Share Option Scheme and group Savings Related Share Option Scheme:

	Date of grant	Options		Exercise price £	Exercisable	
		Unexercised at 31.3.03	Unexercised at 31.3.04		from	to
A Parsons	20.12.95	12,170	-	2.360	Dec 1998	Dec 2005
	16.07.02*	8,140	8,140	2.032	Sept 2007	March 2008
Dr A J Bates	20.12.95	4,575	-	2.360	Dec 1998	Dec 2005
	16.07.02*	8,140	8,140	2.032	Sept 2007	March 2008
P D Knowlson	05.07.00*	7,565	-	1.280	Sept 2003	March 2004
	15.07.03*	-	4,855	1.904	Sept 2006	March 2007
A S Nield	13.07.01*	10,310	10,310	1.636	Sept 2006	March 2007
R W Wyatt	20.12.95	10,680	-	2.360	Dec 1998	Dec 2005
	16.07.02*	4,675	4,675	2.032	Sept 2005	March 2006

\*Savings Related Share Option Scheme

The numbers of options, and the exercise prices, as at 31 March 2003 have been restated to reflect the five for one share split effected by the then ultimate holding company Bristol Water Holdings plc. The number of options, and the exercise prices, as at 31 March 2004 relate to the new ultimate holding company Bristol Water Group plc.

Executive share options were issued at mid-market value and must be exercised between three and ten years after grant subject to the approval of the Remuneration Committee of the ultimate holding company and the meeting of earnings per share growth criteria. All remaining executive share options were exercised on 9 March 2004.

Savings Related Share Option Scheme options were issued at a 20% discount to the market price to any employee entering an Inland Revenue approved Save As You Earn contract for a period of three or five years. The market price of the relevant shares at 31 March 2004 was £3.545 and ranged from £2.536 to £3.560 during the year.

Gains in respect of options exercised under the Executive Share Option Scheme and the Savings Related Share Option Scheme are as follows:

	Options exercised	Cost of exercise £000	Mid-market price £000	Gain £000
A Parsons	12,170	29	43	14
Dr A J Bates	4,575	11	16	5
P D Knowlson	*7,565	10	20	10
R Wyatt	10,680	25	38	13

\*Savings Related Share Option Scheme

During the year Mr A Parsons, Mr A S Nield and Mr R W Wyatt had service contracts with Bristol Water Holdings plc. After the year end their service contracts were transferred to Bristol Water plc. Details are set out in the Remuneration Committee Report of the ultimate parent company.

Dr A J Bates has a provision in his service contract for the enhancement of his Water Companies' Pension Scheme pensionable service by a maximum of 6<sup>2</sup>/<sub>3</sub> years in the event of redundancy. Executive Directors appointed since 1995 do not have this benefit.

Dr A J Bates, who has a service contract with a 12-month notice period, and Professor D I Blockley, Mr P McIlwraith, Mr T Smallwood and Mr C Curling will offer themselves for re-election or election as appropriate at the Annual General Meeting.

# DIRECTORS' REPORT CONTINUED

for the year ended 31 March 2004

Professor D I Blockley, Mr P McIlwraith and Mr T Smallwood are also non executive directors of the ultimate parent company. Details of their fees are set out in the Remuneration Committee Report of the ultimate parent company. They receive no additional remuneration from Bristol Water plc.

At no time during the year has any director had a material interest in any contract of significance with any company in the group, other than his service contract. After the incorporation of Bristol Water Group plc, and prior to it becoming the ultimate holding company of Bristol Water plc, Mr A Parsons and Mr A Nield held the issued ordinary shares in Bristol Water Group plc, fully paid. Apart from this no director held any shares in any group company except the ultimate holding company.

## ULTIMATE PARENT COMPANY

At 31 March 2003, all the company's ordinary shares were owned by Bristol Water Holdings plc. As part of the refinancing arrangements described in the Operating and Financial Review, the ownership of the shares was transferred to a new company, Bristol Water Core Holdings Ltd. The new company is a wholly owned subsidiary of Bristol Water Holdings plc. On 27 November 2003, by way of a scheme of arrangement under Section 425 of the Companies Act 1985, the former ultimate parent company, Bristol Water Holdings plc, became a wholly owned subsidiary of Bristol Water Group plc. Bristol Water Group plc is now the ultimate parent company of Bristol Water plc.

As noted in the Chairman's Statement and the Operating and Financial Review, the company made an interest bearing intercompany loan to the ultimate parent company Bristol Water Group plc (see note 8 for details) in connection with the return of capital to shareholders of Bristol Water Group plc.

All of the company's irredeemable preference shares are owned outside the Bristol Water Group plc group.

## FIXED ASSETS

In the opinion of the directors there is no material difference between the book value and market value of land expected to be disposed of within the next twelve months.

## EMPLOYEE MATTERS

The company is committed to policies of employee involvement, communication, training and sound relationships with trade unions. The company participates in a Savings Related Share Option Scheme for all eligible employees. The company operates bonus schemes for all eligible employees.

The company is an equal opportunity employer providing employment and appropriate facilities for disabled people. High standards for health and safety policies have been set together with targets for quality and customer service.

## PAYMENT PRACTICES

It is company policy to comply with the terms of payment agreed with a supplier. Where payment terms are not negotiated, the company endeavours to adhere to the supplier's standard terms. The company pays creditors in accordance with agreed payment terms on receipt of valid invoices. At the end of the year, trade creditors represented the equivalent of 18 days' purchases (2003 - 8 days), the low level at 31 March 2003 reflecting the timing of payments to suppliers at the year end.

## CHARITABLE DONATIONS

The company made no donations to charitable causes during the year (2003 - £Nil) as such payments are made by the ultimate parent company.

## RESEARCH AND DEVELOPMENT

The company undertakes research and development projects in relation to its business. Expenditure during the year amounted to £86,000 (2003 - £59,000).

## AUDITORS

A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the company will be proposed at the Annual General Meeting.

## APPOINTMENT AND REGULATORY ACCOUNTS

In accordance with its Instrument of Appointment made under the Water Act 1989, the directors are of the opinion that the company is in compliance with paragraph 3.1 of Condition K of that Instrument, which relates to the control over the assets of the Appointed Business. Copies of the Regulatory Accounts required under the Instrument of Appointment will be available from the Company Secretary.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS

The company plans to adopt International Financial Reporting Standards (IFRS) for its financial statements for the year ended 31 March 2006. These will incorporate comparative data for the year ended 31 March 2005, which will be prepared and published initially under UK accounting standards and subsequently restated under IFRS.

The likely impact of the change from UK accounting standards is discussed further in the Operating and Financial Review.

## CORPORATE GOVERNANCE AND OTHER DISCLOSURES REQUIRED BY A LISTED COMPANY

As the company has listed debt and fixed income preference shares only, a statement on Corporate Governance and certain other requirements of the Listing Rules are not required. However, a statement does appear in the accounts of Bristol Water Group plc, the ultimate parent company, and the policies and procedures outlined there are applicable to the company.

## DIRECTORS' RESPONSIBILITIES FOR THE PREPARATION OF FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the statement of responsibilities set out in the independent auditors' report, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss for that period.

In preparing the financial statements the directors are required to select and apply consistently suitable accounting policies framed by reference to reasonable and prudent judgements and estimates. Applicable accounting standards also have to be followed and a statement made to that effect in the financial statements, subject to any material departures being disclosed and explained in the notes to the financial statements. The directors are required to prepare the financial statements on a going concern basis unless it is inappropriate to presume the company will continue in business. The directors are responsible for ensuring proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

S C ROBSON

Secretary

27 May 2004

# ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the accounts, which have been applied consistently, are set out below.

## a. ACCOUNTING CONVENTION

The accounts of the company are prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom and with the provisions of the Companies Act 1985, except for the treatment of certain capital contributions as explained in note d.

## b. TURNOVER

Turnover comprises charges to and accrued income from customers for water and other services, exclusive of VAT.

Income from metered supplies is based upon volumes of water invoiced plus estimated volumes of uninvoiced water delivered to customers during the year.

## c. TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets comprise infrastructure assets and other assets.

### i. Infrastructure assets

Infrastructure assets comprise the integrated network of impounding and pumped raw water storage reservoirs and water mains and associated underground pipework. Expenditure on such assets relating to increases in capacity, enhancements or planned maintenance of the network is treated as an addition to fixed assets and is included at cost. The cost of infrastructure assets is their purchase cost together with incidental expenses of acquisition and directly attributable labour costs which are incremental to the company.

### ii. Other assets

Other assets include land and buildings, operational structures, fixed and mobile plant, equipment and motor vehicles. All are included at cost. The cost of other assets is their purchase cost together with incidental expenses of acquisition and any directly attributable labour costs which are incremental to the company.

### iii. Depreciation

Depreciation is charged, where appropriate, on a straight-line basis on the original cost of assets over their expected economic lives. Freehold land is not depreciated. Depreciation of long-life assets is charged from the start of the financial year following capitalisation.

Depreciation of infrastructure assets under renewals accounting takes account of planned expenditure levels to maintain the operating capability of the company's infrastructure assets in perpetuity. Regard is primarily taken of the five year plans submitted to Ofwat for use in setting price limits under the RPI+K formula.

Other assets including assets under construction are depreciated after commissioning over the following estimated economic lives:

Operational properties and structures	40 to 100 years
Treatment, pumping and general plant	20 to 24 years
Computing and communications and telemetry equipment	3 to 15 years
Vehicles and mobile plant	5 to 7 years

## d. GRANTS AND CONTRIBUTIONS

Contributions received in respect of tangible assets other than infrastructure assets are treated as deferred income and amortised in the profit and loss account over the expected useful lives of the related assets. Contributions received in respect of enhancing the infrastructure network are not shown as deferred income but are deducted from the cost of the related fixed assets. This treatment is permitted by Statement of Standard Accounting Practice Number 4 but is a departure from the Companies Act 1985 which requires such contributions to be shown as deferred income.

It is the directors' opinion that this treatment is necessary to show a true and fair view as the related assets do not have determinable finite lives and therefore no basis exists for the amortisation of the contributions. The effect on tangible fixed assets is shown in note 7(d) to the accounts.

Grants and contributions in respect of expenditure charged to the profit and loss account are netted against such expenditure as received.

**e. LEASED ASSETS**

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

Operating lease rental payments are charged to the profit and loss account as incurred over the term of the lease.

**f. PENSION COSTS**

The cost of providing pension benefits is charged to the profit and loss account to spread the cost over the expected average service lives of employees. Differences between the amounts funded and amounts charged to the profit and loss account are recorded as prepayments or provisions, as appropriate, in the balance sheet.

The appropriate transitional disclosures under FRS17, "Retirement Benefits", the accounting standard on pensions, are included in note 19 to the accounts.

**g. RESEARCH AND DEVELOPMENT**

Research and development expenditure is charged to the profit and loss account as incurred.

**h. TAXATION**

The charge for taxation is computed based on the profit for the period adjusted according to tax legislation.

Advance Corporation Tax in respect of dividends in previous years is written off to the profit and loss account unless it could be recovered against mainstream corporation tax in the current year or with reasonable assurance in the future. Credit is taken for Advance Corporation Tax previously written off when it is recovered against mainstream corporation tax liabilities.

Deferred tax is recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is not recognised to the extent that the transfer of economic benefits in future years is not probable. Deferred tax assets and liabilities recognised have been discounted at rates equivalent to the post-tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates similar to those of the deferred tax assets and liabilities.

**i. STOCKS**

Stocks are valued at the lower of cost and net realisable value. Following established practice in the water industry no value is included in the accounts in respect of water held in store.

**j. FINANCIAL INSTRUMENTS**

The company uses interest rate derivatives to manage exposures to fluctuations in interest rates. Positions on hedges are deferred and matched to the underlying transaction.

The net costs of issue of loans (being expenses incurred less premiums received) are amortised over the lives of the respective loans and disclosed within net borrowings.

# PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2004

	Note	2004 £000	2003 £000
<b>Turnover</b>	1	<b>70,668</b>	69,974
Operating costs	2	<u>(51,133)</u>	(50,613)
<b>Operating profit</b>		<b>19,535</b>	19,361
Profit on disposal of tangible fixed assets		<b>206</b>	386
Net interest payable and similar charges	3	<u>(6,260)</u>	(5,184)
<b>Profit on ordinary activities before taxation</b>		<b>13,481</b>	14,563
Taxation on profit on ordinary activities	4	<u>(2,430)</u>	(6,093)
<b>Profit on ordinary activities after taxation</b>		<b>11,051</b>	8,470
Dividends:	5		
On irredeemable preference shares		<b>(1,094)</b>	(1,094)
On ordinary shares		<u>(6,200)</u>	(15,788)
<b>Total dividends</b>		<u><b>(7,294)</b></u>	(16,882)
<b>Profit/(loss) retained for the financial year</b>		<u><b>3,757</b></u>	(8,412)
<b>Earnings per ordinary share</b>	6	<u><b>166.0p</b></u>	123.0p

All of the turnover and operating costs relate to continuing operations.

The company has no recognised gains or losses other than those included in the profit and loss account above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit/(loss) for the year stated above and their historical cost equivalents.

*The accompanying notes to the accounts form an integral part of this statement.*

# BALANCE SHEET

at 31 March 2004

	Note	2004 £000	2003 £000
<b>Fixed assets</b>			
Tangible fixed assets	7	193,847	184,685
Investment - Loan to ultimate holding company	8	47,000	-
<b>Current assets</b>			
Stocks	9	655	634
Debtors	10	19,625	16,765
Cash at bank and on deposit	11	17,437	9,661
		<b>37,717</b>	<b>27,060</b>
<b>Creditors: Amounts falling due within one year</b>			
Short term borrowings	11	(6,941)	(6,760)
Other creditors	12	(24,308)	(34,056)
		<b>(31,249)</b>	<b>(40,816)</b>
<b>Net current assets/(liabilities)</b>		<b>6,468</b>	<b>(13,756)</b>
<b>Total assets less current liabilities</b>		<b>247,315</b>	<b>170,929</b>
<b>Creditors: Amounts falling due after more than one year</b>	11	<b>(150,843)</b>	<b>(77,724)</b>
<b>Deferred income</b>	13	<b>(8,472)</b>	<b>(8,429)</b>
<b>Provisions for liabilities and charges</b>	15	<b>(18,709)</b>	<b>(19,242)</b>
<b>Net assets</b>		<b>69,291</b>	<b>65,534</b>
<b>Capital and reserves</b>			
Called up share capital	16	18,498	18,498
Share premium account	17	4,415	4,415
Other reserves	17	5,770	5,770
Profit and loss account	17	40,608	36,851
<i>Total shareholders' funds</i>	17	<b>69,291</b>	<b>65,534</b>
<i>Analysed as:</i>			
<i>Equity shareholders' funds</i>		<b>56,791</b>	<b>53,034</b>
<i>Non-equity shareholders' funds</i>		<b>12,500</b>	<b>12,500</b>

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The accounts were approved by the Board on 27 May 2004 and signed on its behalf by:

**A Parsons** Chairman  
**A Nield** Finance Director

*The accompanying notes to the accounts form an integral part of this statement.*

# CASH FLOW STATEMENT

for the year ended 31 March 2004

	Note	2004 £000	2003 £000
<b>Net cash inflow from operating activities</b>	20(a)	<b>32,982</b>	29,743
<b>Returns on investments and servicing of finance</b>			
Interest received		1,073	517
Interest paid on term loans and debentures		(5,918)	(4,761)
Interest paid on finance leases		(1,163)	(1,354)
Dividends paid on non-equity shares		(1,094)	(1,094)
		<b>(7,102)</b>	(6,692)
<b>Taxation</b>			
Corporation tax paid		(3,032)	(3,010)
<b>Capital expenditure and investing activities</b>			
Purchase of tangible fixed assets		(28,056)	(20,395)
Contributions received		3,446	3,409
Proceeds on disposal of tangible fixed assets		414	887
Loan advanced to ultimate holding company		(47,000)	-
		<b>(71,196)</b>	(16,099)
<b>Dividends paid on equity shares</b>		<b>(15,870)</b>	(5,592)
<b>Cash outflow before management of liquid resources and financing</b>		<b>(64,218)</b>	(1,650)
<b>Management of liquid resources</b>			
being (increase)/decrease in short term deposits		(9,368)	7,500
<b>Financing</b>			
New term loans		98,520	-
Capital element of lease repayments		(1,532)	(1,580)
Loan repayments		(24,307)	(1,785)
Net costs of issue of new loans		(687)	-
		<b>71,994</b>	(3,365)
<b>(Decrease)/increase in cash</b>	20(c)	<b>(1,592)</b>	2,485
Cash, beginning of year		3,161	676
<b>Cash, end of year</b>		<b>1,569</b>	3,161

The accompanying notes to the accounts form an integral part of this statement.

# NOTES TO THE ACCOUNTS

## 1. TURNOVER

Turnover is wholly derived from water supply and related activities in the United Kingdom. The maximum level of prices the company may levy for the majority of water charges is controlled by the Director General of the Office of Water Services.

## 2. OPERATING COSTS

The directors believe that the nature of the company's business is such that the analysis of operating costs required by the Companies Act 1985 is not appropriate. As required by the Act the directors have therefore adapted the prescribed format so that disclosure of operating costs is appropriate to the company's principal business.

(a) Operating costs comprise -	2004 £000	2003 £000
Wages and salaries	10,105	10,053
Social security costs	823	721
Pension costs (note 19(b) below)	1,622	1,258
Total payroll cost	12,550	12,032
less charged to fixed assets	(3,008)	(3,003)
<b>Net payroll cost</b>	<b>9,542</b>	<b>9,029</b>
<b>Other operating costs</b>		
Operating lease rentals on plant and machinery	139	115
Research and development expenditure	86	59
Auditors' remuneration*		
Statutory audit	36	47
Other audit services including audit of regulatory returns	133	28
Other non-audit services mainly tax advice and compliance work	12	12
Raw materials, consumables, bad debts and other charges less recoveries	26,315	27,355
<b>Total other operating costs</b>	<b>26,721</b>	<b>27,616</b>
<b>Depreciation of tangible fixed assets -</b>		
On owned assets	12,724	11,693
On leased assets	2,447	2,567
Amortisation of related deferred income	(301)	(292)
<b>Net depreciation</b>	<b>14,870</b>	<b>13,968</b>
<b>Total operating costs</b>	<b>51,133</b>	<b>50,613</b>

\*Other audit services including audit of regulatory returns is higher than the corresponding amount for 2003 as the auditors were engaged in the audit of the company's Periodic Review submission to Ofwat during the year. The costs of other non-audit services were borne by the current and former ultimate holding companies and recharged through a management fee to the company.

### (b) Employee details -

The average number of employees (full time equivalents) during the year was 409 (2003 – 422).

### (c) Directors' emoluments -

	2004 £000	2003 £000
Aggregate emoluments of executive directors, being remuneration, bonus and benefits in kind	782	685
Fees paid to non executive director	2	-
Payments to approved pension schemes, all in respect of executive directors	106	56

The emoluments above include charges towards the remuneration of three directors – Mr A Parsons, Mr A Nield and Mr R Wyatt – who were employed and paid by the former ultimate parent company Bristol Water Holdings plc up to 30 November 2003, and for whom a charge was made to this company. After that date all three were paid by Bristol Water plc, while continuing in employment by Bristol Water Holdings plc. Bonus represents amounts accrued and approved, but not paid as at 31 March 2004.

# NOTES TO THE ACCOUNTS

The remuneration of each director is established by the Remuneration Committee of the ultimate parent company on the basis of duties and responsibilities held using market data for comparable positions in other companies. Bonuses relate to the achievement of corporate objectives and are subject for the year to 31 March 2004 to a maximum of 30% of base salary.

In total, at 31 March 2004 five executive directors were accruing retirement benefits under a defined benefit scheme (2003 - five).

In addition, during the year four directors exercised options to purchase shares in the ultimate parent company with a net gain on exercise of £42,000, of which £14,000 relates to the highest paid director.

Details of options previously granted to directors are shown in the Directors' Report.

The aggregate emoluments of the highest paid director in the year, paid under his service contract with the ultimate parent company, were £194,000 (2003 - £193,000). At the end of the year, the highest paid director in the year had an accrued pension entitlement available on his normal retirement date of £34,000 (2003 - £32,000) and an accrued lump sum entitlement of three times that amount.

### 3. NET INTEREST PAYABLE AND SIMILAR CHARGES

The net interest payable and similar charges for the year relate to -	2004 £000	2003 £000
Bank borrowings	1,525	3,131
Term loans and debentures	4,324	1,166
Finance leases	1,087	1,375
Indexation of term loans	377	-
Amortisation of net costs of issue of loans	22	-
	<u>7,335</u>	<u>5,672</u>
Less, interest receivable		
Ultimate holding company	(382)	-
Other external	(693)	(488)
	<u>(1,075)</u>	<u>(488)</u>
	<u>6,260</u>	<u>5,184</u>

### 4. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2004 £000	2003 £000
<b>(a) Analysis of charge for the year, all arising in the United Kingdom:</b>		
<b>Current tax</b>		
Corporation tax at 30% (2003 - 30%)	2,984	2,535
Advance Corporation Tax written (back)/off	(713)	1,379
Adjustment to prior periods	1,131	(1,643)
Receipts in respect of group relief	(439)	-
	<u>2,963</u>	<u>2,271</u>
<b>Deferred tax</b>		
Current year movement	1,019	1,413
Adjustment to prior periods	(953)	1,204
Effect of discounting	(599)	1,205
	<u>(533)</u>	<u>3,822</u>
<b>Tax on profit on ordinary activities</b>	<u>2,430</u>	<u>6,093</u>

The adjustment to prior periods primarily relates to the effect of the company reducing its capital allowance claim for the year ended 31 March 2002. This amendment led to the company being able to write back Advance Corporation Tax to be utilised against the resulting increased taxable profits.

**Factors that may affect future tax charges**

Based on current capital investment plans accounted for under current UK GAAP, the company expects to continue to be able to claim capital allowances in excess of depreciation in the year ended 31 March 2005. However, beyond this point the relationship is likely to be affected by the adoption of International Financial Reporting Standards and the implementation of Inland Revenue guidance regarding deferred revenue expenditure from 1 April 2005 on capitalised repair projects.

Advance Corporation Tax is recognised as an asset to the extent that it is foreseen to be recoverable in the next 12 months. There is a further £4.8m (2003 - £5.4m) of unrecognised Advance Corporation Tax carried forward at 31 March 2004.

**(b) Reconciliation of the current tax charge**

The current tax for the year is lower (2003 - lower) than the standard rate of corporation tax in the United Kingdom (30%). The differences are explained below:

	2004 £000	2003 £000
Profit on ordinary activities before tax	<u>13,481</u>	14,563
Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom at 30% (2003 - 30%)	4,044	4,369
Effects of:		
Advance Corporation Tax set off for the current year	-	(266)
Expenses not deductible for tax	(191)	(87)
Capital allowances in excess of depreciation	(1,159)	(1,994)
Other net (credits)/charges	(149)	247
	<u>2,545</u>	2,269
Adjustment to tax in respect of prior periods	1,131	(1,643)
Adjustment in respect of Advance Corporation Tax for prior years	(713)	1,645
	<u>2,963</u>	2,271

**5. DIVIDENDS**

	2004 £000	2003 £000
<b>On non-equity shares -</b>		
Irredeemable 8.75% preference shares -		
Paid	547	547
Payable 1 April	547	547
	<u>1,094</u>	1,094
<b>On ordinary shares (equity shares) -</b>		
Interim dividend paid of 29.10p (2003 - 27.72p)	1,745	1,663
Second interim dividend Nil p (2003 - 166.72p)	-	10,000
Proposed final dividend of 74.27p (2003 - 68.77p)	4,455	4,125
	<u>6,200</u>	15,788
Total dividends paid and proposed	<u>7,294</u>	16,882

**6. EARNINGS PER SHARE**

	2004 000	2003 000
Earnings per share have been calculated as follows -		
On average number of ordinary shares in issue during the year -		
Earnings attributable to ordinary shares	£9,957	£7,376
Weighted average number of ordinary shares	<u>5,998</u>	<u>5,998</u>

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

# NOTES TO THE ACCOUNTS

## 7. TANGIBLE FIXED ASSETS

(a) The movements for the year comprise –

	Freehold land & operational structures £000	Plant and equipment £000	Infra- structure assets £000	Assets under construction £000	Total £000
<b>Cost</b>					
At 1 April 2003	136,454	26,449	154,762	3,199	320,864
Additions	-	-	-	27,987	27,987
Capitalisation of completed assets	5,079	2,302	10,094	(17,475)	-
Disposals	(1,161)	(3,631)	(1,764)	-	(6,556)
Grants and contributions	(257)	-	(3,189)	-	(3,446)
<b>At 31 March 2004</b>	<b>140,115</b>	<b>25,120</b>	<b>159,903</b>	<b>13,711</b>	<b>338,849</b>
<b>Depreciation</b>					
At 1 April 2003	48,988	15,724	71,467	-	136,179
Charge for year	5,235	2,781	7,155	-	15,171
Disposals	(962)	(3,622)	(1,764)	-	(6,348)
<b>At 31 March 2004</b>	<b>53,261</b>	<b>14,883</b>	<b>76,858</b>	<b>-</b>	<b>145,002</b>
<b>Net book value</b>					
<b>At 31 March 2004</b>	<b>86,854</b>	<b>10,237</b>	<b>83,045</b>	<b>13,711</b>	<b>193,847</b>
At 31 March 2003	87,466	10,725	83,295	3,199	184,685

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

At 31 March 2004, assets under construction included £13,229,000 (2003 - £1,680,000) in respect of the upgrade of the Barrow treatment plant.

(b) Included above at 31 March 2004 is freehold land, not subjected to depreciation in the year, of £1,312,000 (2003 - £1,316,000).

(c) Included above at 31 March 2004 are fixed assets held under finance leases analysed by asset type as follows -

	Freehold land & operational structures £000	Plant and equipment £000	Infra- structure assets £000	Total £000
<b>At 31 March 2004</b>				
Cost	38,021	8,089	1,152	47,262
Depreciation	(14,958)	(6,924)	-	(21,882)
Net book value	23,063	1,165	1,152	25,380
<b>At 31 March 2003</b>				
Cost	38,568	9,694	1,152	49,414
Depreciation	(13,421)	(8,350)	-	(21,771)
Net book value	25,147	1,344	1,152	27,643

(d) The net book value of infrastructure assets is stated after the deduction of contributions of £37,114,000 (2003 - £33,887,000) as explained in Accounting Policy d.

## 8. INVESTMENT - LOAN TO ULTIMATE HOLDING COMPANY

	£000
At 1 April 2003	-
Additions during year	47,000
<b>At 31 March 2004</b>	<b>47,000</b>

The unsecured loan to the ultimate holding company Bristol Water Group plc was advanced on 12 February 2004, under an agreement dated 4 December 2003, out of the proceeds of the new loans entered into during the year (as set out in note 11). The loan is due for repayment on 30 September 2033 and bears a fixed interest rate of 6.042%.

## 9. STOCKS

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

## 10. DEBTORS

Debtors comprise -

	2004 £000	2003 £000
Trade debtors	8,550	6,693
Due from group and associated companies	2,875	2,502
Other debtors	1,710	1,127
Prepayments and accrued income	6,490	6,443
	<b>19,625</b>	<b>16,765</b>

## 11. NET BORROWINGS

(a) At 31 March 2004 net borrowings comprise -

	Term loans less cash £000	Finance leases £000	Debentures £000	Total 2004 £000	Total 2003 £000
<b>Repayment due:</b>					
Between one and two years	-	1,936	1,776	3,712	5,137
Between two and five years	25,000	6,676	-	31,676	24,704
After five years:					
Other than by instalment	98,897	-	-	98,897	16,776
By instalment	-	15,630	-	15,630	29,537
Net costs of issue of loans, not yet amortised (note 11(b))	(642)	-	-	(642)	-
Irredeemable debentures	-	-	1,570	1,570	1,570
<b>Total borrowings due after one year</b>	123,255	24,242	3,346	150,843	77,724
Current portion of debt	-	1,681	5,283	6,964	6,760
Current portion of net costs of issue of loans, to be amortised within one year (note 11(b))	(23)	-	-	(23)	-
Less cash balances and short term deposits	(17,437)	-	-	(17,437)	(9,661)
<b>Net borrowings</b>	<b>105,795</b>	<b>25,923</b>	<b>8,629</b>	<b>140,347</b>	<b>74,823</b>

Debentures amounting to £1,828,000 were repaid in full on 1 April 2004. Debentures amounting to £3,455,000 are due to be repaid in full on 30 November 2004.

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

In respect of Bristol Water plc

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

Prior to enforcement of the security by the lender, Bristol Water plc is entitled to exercise all its rights, and perform its obligations in relation to the charged assets in accordance with the provisions set out in the Security and Intercreditor Deed.

In respect of Bristol Water Core Holdings Ltd (the immediate parent of Bristol Water plc), as security for the obligations of Bristol Water plc, a fixed charge over its shares in Bristol Water plc together with a floating charge over the whole of its undertaking.

# NOTES TO THE ACCOUNTS

## 11. NET BORROWINGS *continued*

(b) The net costs of issue of new loans incurred during the year are made up as follows -

	2004 £000	2003 £000
Professional fees and expenses	1,711	-
Payment to bank under terms of gilt locks entered into prior to and in connection with the loans raised in February 2004 (note 14)	1,174	-
	<u>2,885</u>	-
Premiums on receipt of new loans	(2,198)	-
Net costs of issue of new loans	687	-
Amortisation during the year	(22)	-
Net costs not yet amortised	<u>665</u>	-

The net costs of issue of new loans are amortised over the terms of the respective loans. Amortisation charges due in future years are as follows:

Within one year	23	-
Between one and two years	23	-
Between two and five years	69	-
After five years	550	-
	<u>665</u>	-

(c) Details of borrowings not wholly repayable within five years -

### Debentures (listed on the London Stock Exchange) -

11.20% Redeemable 2005 to 2009 at the company's option	-	1,776
4.00% Consolidated irredeemable	1,405	1,405
4.00% Perpetual irredeemable	55	55
4.25% Perpetual irredeemable	37	37
3.50% Perpetual irredeemable	73	73
	<u>1,570</u>	3,346

### Bank loans -

Unsecured, repayable in instalments between 2006 and 2010, fixed interest at 7.75% pa to 2003 then LIBOR related	-	20,000
Unsecured, repayable 2008, fixed interest at 6.137% pa	-	5,000
Unsecured, repayable 2008, fixed interest at 6.537% pa	-	10,000

### Finance leases

15,630      17,537

### Other term loans -

Secured, repayable 2032, principal index-linked to RPI, fixed interest at 3.635% on the indexed principal	41,397	-
Secured, repayable 2033, fixed interest at 6.01%	57,500	-
	<u>116,097</u>	55,883

## 12. OTHER CREDITORS DUE WITHIN ONE YEAR

	2004 £000	2003 £000
Other creditors due within one year comprise -		
Receipts in advance	5,982	4,546
Trade creditors	2,564	3,546
Due to group and associated companies	2,072	2,686
Dividends payable	5,002	14,672
Tax, social security and payroll deductions	629	559
Corporation tax payable	1,403	1,041
Accruals and deposits received	6,656	7,006
	<u>24,308</u>	34,056

### 13. DEFERRED INCOME

Deferred income represents grants and contributions received in respect of non-infrastructure assets less amounts amortised to the profit and loss account.

	2004 £000	2003 £000
Beginning of year	8,429	8,396
Contributions received	344	325
Less amortised	(301)	(292)
End of year	<u>8,472</u>	<u>8,429</u>

### 14. FINANCIAL INSTRUMENTS

The company's financial instruments, other than derivatives, comprise irredeemable preference shares, borrowings, cash and various items, such as trade debtors and trade creditors, that arise directly from its operations, together with a long term loan made to the ultimate parent company. The company also enters into interest rate swaps and gilt locks to manage the interest rate risk arising from its operations and sources of finance. It is the company's policy not to trade in financial instruments.

#### Interest rate risk management

The company borrows at fixed, index-linked and floating rates of interest; it then uses interest rate swaps to generate the desired interest rate profile and manage its exposure to interest rate fluctuations. The company's policy is to maintain the majority of its net debt on a fixed or index-linked interest basis, using swaps where appropriate to manage this position. At the year end, 66% (2003 - 61%) of the company's financial liabilities, including irredeemable preference shares, were at fixed rates after taking into account interest rate swaps.

#### Liquidity risk management

It is company policy to ensure continuity of funding. At the year end at least 76% (2003 - 62%) of its financial liabilities, including irredeemable preference shares, mature after five years. Short term flexibility is achieved using committed bank facilities and short term deposits.

#### Interest rate risk profile of financial liabilities

The interest rate risk profile of the company's financial liabilities at 31 March 2004, after taking account of the interest rate swaps used to manage the interest rate profile, and after deducting net costs of issue of loans not yet amortised, was -

	Floating rate financial liabilities £000	Fixed rate financial liabilities £000	Total £000
Financial liabilities	57,320	98,894	156,214
Irredeemable debentures	-	1,570	1,570
Irredeemable preference shares	-	12,500	12,500
<b>At 31 March 2004</b>	<u><b>57,320</b></u>	<u><b>112,964</b></u>	<u><b>170,284</b></u>
Financial liabilities	37,358	45,556	82,914
Irredeemable debentures	-	1,570	1,570
Irredeemable preference shares	-	12,500	12,500
At 31 March 2003	<u>37,358</u>	<u>59,626</u>	<u>96,984</u>

For the purposes of this table the index-linked loans disclosed in note 11(c) are treated as floating rate financial liabilities. All financial liabilities are denominated in sterling.

Short term debtors, creditors, cash and deposits have been excluded from the above disclosures. All the company's creditors falling due within one year (other than borrowings) are excluded from the above table either due to the exclusion of short term balances or because they do not meet the definition of a financial liability within FRS13, such as tax balances.

At 31 March 2004, the company was party to one interest rate swap. This swap commenced in September 2002 and originally hedged for a five year period £20m of borrowings that became floating rate at that time. In preparation for the refinancing completed in May 2003, during the year ended 31 March 2003 the Board redesignated the swap against a £10m variable rate bank loan and £10m of variable rate leases. As part of the refinancing the bank loan was replaced in May 2003 by a similar loan with a 5 year maturity with a 0.075% pa increase in margin. The swap exchanges LIBOR rates on a 3 monthly basis for a fixed rate of 7.72%.

The Board's current intention is to maintain a future interest rate management profile consisting of financial liabilities at either fixed or index-linked rates amounting to 70% or more of such liabilities.

# NOTES TO THE ACCOUNTS

## 14. FINANCIAL INSTRUMENTS *continued* Analysis of fixed rate financial liabilities

	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Financial liabilities*	6.6	18.0
Irredeemable debentures	4.0	-
Irredeemable preference shares	8.8	-
<b>As at 31 March 2004</b>	<b>6.7</b>	
Financial liabilities *	7.6	3.8
Irredeemable debentures	4.0	-
Irredeemable preference shares	8.8	-
<b>As at 31 March 2003</b>	<b>7.7</b>	

\*including £10m variable rate bank loan, hedged by the swap, for its remaining term as at 31 March 2004.

Floating rate liabilities bear interest at rates based on relevant LIBOR equivalents, which are fixed in advance for periods of up to one year.

The maturity profile of the financial liabilities is disclosed in note 11. The maturity profile of the financial asset (the loan to the ultimate holding company) is disclosed in note 8.

### Interest rate risk of financial assets

The financial assets comprise:

- Cash at bank and short term deposits. Cash and short term deposits are placed with banks and building societies on a rolling basis of up to one year earning interest based on LIBID equivalents
- A loan of £47m to the ultimate parent company bearing interest at a fixed rate at a small margin over related external financial liabilities with the same maturity date.

### Borrowing facilities

At 31 March 2004, the company had two 5-year term £10m committed undrawn borrowing facilities expiring in May 2008 and December 2008 respectively in respect of which all conditions precedent have been met. The facilities are floating rate and incur non-utilisation fees at market rates.

### Fair values of financial assets and financial liabilities

Although the company does not intend to trade in any financial instruments, the following table provides a comparison, by category, of the carrying amounts and the fair value of the company's financial assets and financial liabilities. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest rates. The table below summarises the methods and assumptions used for each category of financial instrument.

	31 March 2004		31 March 2003	
	Book value £000	Fair value £000	Book value £000	Fair value £000
<b>Primary financial instruments held or issued to finance the company's operations:</b>				
Cash at bank and short term deposits	17,437	17,437	9,661	9,661
Short term borrowings	(6,941)	(6,941)	(6,760)	(6,760)
Long term borrowings	(150,843)	(156,551)	(77,724)	(79,354)
Irredeemable preference shares	(12,500)	(16,281)	(12,500)	(16,625)
<b>Primary financial instruments issued to finance the ultimate holding company:</b>				
Long term loan	47,000	48,061	-	-
<b>Derivative financial instruments held to manage the interest rate profile:</b>				
Interest rate swaps	-	(1,081)	-	(2,145)
	<b>(105,847)</b>	<b>(115,356)</b>	<b>(87,323)</b>	<b>(95,223)</b>

**Summary of methods and assumptions**

Short term borrowings	The fair value of short term borrowings approximates to the carrying amount because of the short maturity of these instruments.
Long term borrowings	The fair value of the company's debentures has been calculated by discounting the expected cash flows at prevailing market rates including an estimated margin over gilts. Fixed rate bank loans and leases have been discounted on a similar basis but to LIBOR futures. In the case of floating rate facilities the fair values approximate to the carrying values as payments are reset to market rates at intervals of one year or less. Fixed rate loans from Artesian Finance II plc have been discounted by reference to the UK Government fixed rate gilt 2032 plus an estimated margin. Index-linked loans from Artesian Finance plc have been discounted by reference to the UK Government index-linked gilt 2030 plus an estimated margin.
Preference shares	The company's preference shares are listed on the London Stock Exchange and their fair value is based on their quoted market price.
Long term loans	The long term loan to the ultimate holding company has been discounted by reference to the UK Government fixed rate gilt 2032 plus an estimated margin.
Interest rate swaps	Fair value is based on the market price of comparable instruments at the balance sheet date.

**Interest rate hedges**

The company hedges interest rate risk using interest rate swaps. The table below shows the extent to which the company has unrecognised off-balance sheet positions in respect of financial instruments used as hedges at the beginning and end of the year. It also shows how they are expected to be included in the profit and loss account by year. Relative to interest rates at the year end, the hedges will increase future interest costs as follows -

	<b>2004</b> <b>£000</b>
Unrecognised positions on hedges at 31 March 2003	<b>2,145</b>
Arising in previous years included in 2004 net interest charge	<b>(804)</b>
<b>Positions not included in 2004 net interest charge</b>	
Arising before 1 April 2003	<b>1,341</b>
Arising in 2004	<b>(260)</b>
	<b>1,081</b>
<b>Positions on hedges at 31 March 2004</b>	
of which:	
Expected to be included in 2005 net interest charge	<b>576</b>
Expected to be included in 2006 net interest charge or later	<b>505</b>

**Gilt locks**

During the year, in connection with the refinancing of the company, the company entered into two gilt locks to provide a hedge against adverse movements in gilt yields between December 2003 and February 2004 when the additional borrowings were priced and drawn down. On maturity of the gilt locks the company paid to the counterparty a total of £1,174,000. This amount is included within the net costs of issue of loans as detailed in note 11(b). The net costs of issue are amortised over the terms of the respective loans.

# NOTES TO THE ACCOUNTS

## 15. PROVISIONS FOR LIABILITIES AND CHARGES

All provisions relate to deferred tax as follows:

	2004 £000	2003 £000
<b>Analysis of deferred tax</b>		
Accelerated capital allowances and capital element of finance leases	35,367	35,163
Deferred income	(2,541)	(2,529)
Short term timing differences	(520)	(393)
	<b>32,306</b>	<b>32,241</b>
Effect of discounting	(13,597)	(12,999)
<b>Net provision</b>	<b>18,709</b>	<b>19,242</b>

### Deferred tax movement:

Provision brought forward at 1 April	19,242	15,236
(Credit)/charge to Profit and Loss Account	(533)	3,822
Advance Corporation Tax utilised	-	184
<b>Provision carried forward at 31 March</b>	<b>18,709</b>	<b>19,242</b>

## 16. CALLED UP SHARE CAPITAL

The authorised and issued share capital of the company is -

	Authorised		Issued and fully paid	
	2004 £000	2003 £000	2004 £000	2003 £000
Ordinary shares of £1 each	5,998	5,857	5,998	5,857
Non-voting ordinary shares of £1 each	-	141	-	141
6.75% redeemable preference shares of £1 each	-	5,770	-	-
8.75% irredeemable cumulative preference shares of £1 each	14,000	14,000	12,500	12,500
	<b>19,998</b>	<b>25,768</b>	<b>18,498</b>	<b>18,498</b>

Following resolutions passed at the Annual General Meeting on 21 July 2003:

- all non-voting ordinary shares of £1 each were reclassified as ordinary shares of £1 each
- the authorised share capital of the company was reduced to £19,998,025 by the cancellation of all of the 5,770,250 authorised but unissued 6.75% cumulative convertible preference shares of £1 each.

## 17. MOVEMENT IN SHAREHOLDERS' FUNDS

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Profit and loss £000	Total 2004 £000	Total 2003 £000
Beginning of year	18,498	4,415	5,770	36,851	65,534	73,946
Profit for year	-	-	-	11,051	11,051	8,470
Dividends	-	-	-	(7,294)	(7,294)	(16,882)
End of year	18,498	4,415	5,770	40,608	69,291	65,534

## 18. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments at 31 March 2004 contracted for but not provided were £3,438,000 (2003 - £10,890,000). The relatively high level of commitment at 31 March 2003 related to the major upgrade of the Barrow treatment plant.

(b) The company has the following non-cancellable operating lease commitments payable during the next financial year -

	2004 £000	2003 £000
Operating leases expiring -		
Within one year, in respect of plant and machinery	7	-
Within one to two years, in respect of plant and machinery	5	-
Within two to five years, in respect of buildings	3	-
Within two to five years, in respect of plant and machinery	102	74
After five years, in respect of buildings	4	9
	<b>121</b>	<b>83</b>

- (c) Contingencies - The company is a member of a VAT group and is jointly liable for the VAT liabilities of its ultimate holding company and certain other companies within the Bristol Water Group plc group. Other than as shown in these accounts the directors are not aware of any other contingent liabilities that require disclosure.

## 19. PENSIONS

### (a) Pension arrangements

Pension arrangements for the majority of the company's employees are provided through the company's membership of the Water Companies' Pension Scheme (WCPS), which provides defined benefits based on final pensionable pay. Bristol Water plc's membership of WCPS is through a separate section. The assets of the section are held separately from those of the company and are invested by discretionary fund managers appointed by the trustees of the Scheme. The section has been closed to new entrants and all new eligible employees are offered stakeholder pensions.

In addition to providing benefits to employees and ex-employees of Bristol Water plc, the section provides benefits to employees and ex-employees of Bristol Water Holdings plc and former Bristol Water plc employees who transferred to Bristol Wessex Billing Services Ltd. The majority of the section assets and liabilities relate to Bristol Water plc employees and ex-employees.

The financial position of the section is determined by an independent actuary based on triennial valuations using the projected unit method. The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return on section investments and the rate of increase in salaries, wages, pensions and dividends.

The most recent triennial actuarial valuation at 1 April 2002 assumed that investment returns would be 7.2% pa pre-retirement and 5.2% pa post-retirement, salaries would increase on average by 4.8% pa, and pensions by 2.8% pa. The actuarial valuation at 1 April 2002 showed the market value of section assets relating to the company as £97.0m and that the actuarial value of these assets represented 107% of accrued benefits allowing for future earnings increases.

The section is currently invested primarily in equities. The investment strategy has been carefully examined and it has been concluded that the appropriate long term strategy is to reduce the proportion of equities with a corresponding increase in investments in bonds and other fixed income securities. The implementation of this change has been delayed until there is further recovery in equity market values. This policy has been agreed with the Trustees.

A significant increase in the level of cash contributions to the WCPS section effective from 1 April 2003 was agreed with the Trustees. A further increase has been agreed effective from 1 April 2004. The estimated cash contributions for 2004/05 are approximately £1.4m.

### (b) Accounting under SSAP24

Pension costs charged to the profit and loss account are computed in accordance with Statement of Standard Accounting Practice Number 24 to spread the cost of pensions over the employees' expected working lives with the company.

An updated interim valuation, for SSAP24 purposes only, was carried out as at 1 April 2003 to recognise the significant change in the funding level following the downturn in the equity markets since 1 April 2002. The interim valuation assumed that investment returns would be 7.5% pa pre-retirement and 5.5% pa post-retirement. General salary increases were assumed to be 4.5% pa and pensions to be 2.5% pa. The assets were brought in at 112% of their market value to anticipate part of the subsequent upturn in the equity markets over the year to 31 March 2004. The interim valuation showed the market value of section assets relating to the company as £82.8m and that these represented 97% of accrued benefits allowing for future earnings increases.

The SSAP24 charge has been based on the updated interim valuation. Considerable uncertainty remains over the appropriate assumptions and we will review the basis of the SSAP24 charge for 2004/05 during the forthcoming year.

The total pension charge for the year was £1,622,000 (2003 - £1,258,000) including £38,000 in respect of contributions to defined contribution schemes and including £368,000 (2003 - £661,000) accrued in accordance with SSAP24 bringing the total accrued at 31 March 2004 to £1,229,000 (2003 - £861,000). Past service surpluses/deficits are amortised over the expected remaining service lives of members. There were no outstanding or prepaid contributions at the balance sheet date.

# NOTES TO THE ACCOUNTS

## 19. PENSIONS continued

### (c) Accounting under FRS17 "Retirement Benefits"

Full implementation of FRS17 "Retirement Benefits" in the primary financial statements will become mandatory for accounting periods starting on or after 1 January 2005 which for the company will be the year ending 31 March 2006. The following transitional disclosures are required:

#### Basis of valuation

The formal actuarial valuation of the Bristol Water plc section of the Water Companies' Pension Scheme as at 1 April 2002 was updated to 31 March 2004, by an independent qualified actuary, using the following major assumptions in accordance with the transitional arrangements of FRS17:

	2004	2003	2002
<b>Assumptions:</b>			
RPI Inflation	2.9%	2.5%	2.8%
Pension increases in payment (RPI)	2.9%	2.5%	2.8%
Pension increases in payment (LPI)	2.7%	2.4%	2.8%
Salary increases	4.9%	4.5%	4.8%
Discount rate	5.5%	5.6%	6.1%

#### Asset distribution and expected return

The following table sets out the key FRS17 assumptions used for the section. The table also sets out as at the accounting date the fair value of the assets, a breakdown of the assets into the main asset classes, the present value of the section liabilities, and the resulting deficit.

	Expected long term rate of return			Market values of section assets		
	2004	2003	2002	2004 £000	2003 £000	2002 £000
Equities	7.9%	7.5%	8.2%	67,282	53,900	77,092
Bonds	4.7%	4.5%	5.2%	18,428	5,400	11,198
Corporate bonds	5.5%	5.6%	6.1%	-	7,000	4,445
Property	6.3%	6.0%	6.7%	-	1,600	2,900
Cash	4.6%	3.8%	5.2%	16	5,700	1,597
Market value of section assets				85,726	73,600	97,232
Present value of the company WCPS pension section's liabilities				(103,417)	(92,100)	(82,882)
(Deficit)/surplus in the section				(17,691)	(18,500)	14,350
Deferred taxation				5,307	5,500	(4,305)
<b>Net pension (liability)/asset</b>				<b>(12,384)</b>	<b>(13,000)</b>	<b>10,045</b>

#### Effect on financial statements

If the above amounts had been recognised in the financial statements, the company's net assets and Profit and Loss Account reserve at 31 March 2004 would have been:

	2004 £000	2003 £000
Net assets excluding pension liability	69,291	65,534
Adjustment in respect of SSAP24 accrual	1,229	861
Deferred tax relating to SSAP24 accrual	(369)	(258)
Net pension liability	(12,384)	(13,000)
Net assets including pension liability	57,767	53,137
Profit and Loss Account reserve excluding pension liability	40,608	36,851
Adjustment in respect of SSAP24 accrual	1,229	861
Deferred tax relating to SSAP24 accrual	(369)	(258)
Net pension liability	(12,384)	(13,000)
Profit and Loss Account reserve including pension liability	29,084	24,454

## Contributions

Contributions paid in the year to the section including those from other companies in the section were £1,332,000 (2003 - £638,000). In accordance with the terms of the scheme, during the year Bristol Water plc was required to contribute at the rates of 18.1% (2003 - 9.8%) for the main sub section and 8.1% (2003 - Nil%) for the alternative sub section.

### Analysis of charges to Profit and Loss Account had FRS17 been fully implemented:

	2004 £000	2003 £000
<b>Analysis of the amount charged to operating profit</b>		
Employer's part of current service cost	1,812	1,700
Total operating charge	<u>1,812</u>	<u>1,700</u>

### Analysis of the amount credited/(charged) to other finance income

Expected return on pension section assets	4,922	7,400
Interest on post-retirement liabilities	(5,111)	(5,100)
Net return – (charge)/credit to other finance income	<u>(189)</u>	<u>2,300</u>

### Analysis of amount recognised in the Statement of Recognised Gains and Losses (STRGL)

Actual return less expected return on pension section assets	9,327	(28,450)
Experience gains/(losses) arising on section liabilities	(217)	2,100
Changes in assumptions underlying the present value of section liabilities	(7,581)	(7,800)
Actuarial gain/(loss) recognised in STRGL	<u>1,529</u>	<u>(34,150)</u>

### Movement in section pretax (deficit)/surplus during the year

(Deficit)/surplus in section at beginning of the year	(18,500)	14,350
Movement in year:		
Current service cost (employer and employee)	(2,196)	(2,100)
Aggregate contributions	1,665	1,100
(Charge)/credit to other finance income	(189)	2,300
Actuarial gain/(loss) recognised in STRGL	1,529	(34,150)
(Deficit) in section at end of the year	<u>(17,691)</u>	<u>(18,500)</u>

### The history of experience gains and losses is:

#### Difference between expected and actual return on section assets:

Amount – surplus/(deficit)	9,327	(28,450)
Percentage of section assets	11%	(39)%

#### Experience gains and losses on section liabilities

Amount – (loss)/gain	(217)	2,100
Percentage of the present value of the section liabilities	0%	2%

#### Total amount recognised in STRGL

Amount - gain/(loss)	1,529	(34,150)
Percentage of the present value of the section liabilities	1%	(37)%

# NOTES TO THE ACCOUNTS

## 20. ADDITIONAL INFORMATION TO THE CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow from operating activities -

	2004 £000	2003 £000
Operating profit	19,535	19,361
Depreciation, net	14,870	13,968
Cash flow from operations	<u>34,405</u>	33,329
Working capital movements -		
Stocks	(21)	(197)
Debtors	(2,427)	(4,051)
Creditors	1,025	662
Net cash inflow from operating activities	<u>32,982</u>	29,743

(b) Reconciliation of net cash flow to movement in net borrowings -

(Decrease)/increase in net cash in year	(1,592)	2,485
Cash used to repay borrowings	25,839	3,365
Cash from new borrowings	(98,520)	-
Net costs of issue of loans	687	-
Increase/(decrease) in short term deposits	9,368	(7,500)
Increase in net borrowings	<u>(64,218)</u>	(1,650)
New debt not affecting cash flow	(1,306)	(1,669)
Net borrowings at beginning of year	<u>(74,823)</u>	(71,504)
Net borrowings at end of year	<u>(140,347)</u>	(74,823)

(c) Analysis of changes in net borrowings during the year -

	Opening net borrowings £000	Cash flows in year £000	Debt not maturities £000	New debt not affecting cash flow £000	Closing net borrowings £000
Cash at bank	3,161	(1,592)	-	-	1,569
Short term deposits	6,500	9,368	-	-	15,868
	<u>9,661</u>	<u>7,776</u>	-	-	<u>17,437</u>
Borrowings due within one year	(6,760)	7,667	(6,941)	*(907)	(6,941)
Borrowings due after one year	(77,724)	(79,661)	6,941	**(399)	(150,843)
Net borrowings	<u>(74,823)</u>	<u>(64,218)</u>	-	(1,306)	<u>(140,347)</u>

Cash at bank includes overnight deposits.

\*Represents deferred payment terms for capital expenditure relating to the joint billing arrangements established with Wessex Water.

\*\*Represents indexation of term loans £377,000 and amortisation of net costs of issue of loans £22,000.

## 21. ULTIMATE PARENT COMPANY AND RELATED PARTY TRANSACTIONS

During April 2003, all the ordinary and issued shares of the company were transferred to Bristol Water Core Holdings Ltd, a wholly owned subsidiary of the then ultimate parent company Bristol Water Holdings plc.

On 27 November 2003, by way of a scheme of arrangement under Section 425 of the Companies Act 1985, the former ultimate parent company, Bristol Water Holdings plc, became a wholly owned subsidiary of Bristol Water Group plc. This company is the new ultimate parent company of Bristol Water plc. Copies of its consolidated accounts are available from PO Box 218, Bridgwater Road, Bristol BS99 7AU.

The company has taken advantage of the exemptions within Financial Reporting Standard 8 (Related Party Disclosures) and not disclosed transactions with other Bristol Water Group plc group undertakings and associated undertakings.

# INDEPENDENT AUDITORS' REPORT

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BRISTOL WATER PLC

We have audited the financial statements which comprise the accounting policies, the profit and loss account, the balance sheet, the cash flow statement and the related notes.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. This other information comprises the Directors' Report, the Chairman's Statement and the Operating and Financial Review.

### Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 2004 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**PricewaterhouseCoopers LLP**

**Chartered Accountants and Registered Auditors, Bristol**

27 May 2004

**Note:** The maintenance and integrity of the Bristol Water website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# FINANCIAL HISTORY

<b>PROFIT AND LOSS ACCOUNTS</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>Years ended 31 March</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Turnover	70,668	69,974	68,013	64,887	69,672
Operating profit	19,535	19,361	17,741	17,629	18,962
Profit on disposals	206	386	760	268	207
Interest	(6,260)	(5,184)	(4,598)	(4,543)	(4,970)
Profit before taxation	13,481	14,563	13,903	13,354	14,199
Taxation	(2,430)	(6,093)	(3,622)	(3,399)	(4,598)
Profit after taxation	11,051	8,470	10,281	9,955	9,601
Dividends paid and proposed	(7,294)	(16,882)	(6,606)	(6,102)	(5,449)
Profit/(loss) retained	3,757	(8,412)	3,675	3,853	4,152
<b>BALANCE SHEETS</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>At 31 March</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fixed assets	193,847	184,685	179,426	170,029	165,309
Loan to ultimate holding company	47,000	-	-	-	-
Net current assets/(liabilities)	6,468	(13,756)	977	(6,912)	(9,559)
Total assets less current liabilities	247,315	170,929	180,403	163,117	155,750
Debt due after one year	(150,843)	(77,724)	(82,825)	(71,096)	(67,619)
Other liabilities	(8,472)	(8,429)	(8,396)	(8,780)	(9,372)
Provision for deferred taxation	(18,709)	(19,242)	(15,236)	(12,970)	(12,340)
Net operating assets	69,291	65,534	73,946	70,271	66,419
<b>CASH FLOW</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>Years ended 31 March</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cash flow from operations	32,982	29,743	28,869	32,304	29,624
Interest and non-equity dividends paid	(7,102)	(6,692)	(5,709)	(5,321)	(5,893)
Tax paid	(3,032)	(3,010)	(1,995)	(2,764)	(2,015)
Capital expenditure	(24,196)	(16,099)	(22,761)	(15,130)	(17,420)
Loan to ultimate holding company	(47,000)	-	-	-	-
Dividends paid on equity shares	(15,870)	(5,592)	(5,151)	(4,629)	(3,888)
Cash flow before management of liquid resources and financing	(64,218)	(1,650)	(6,747)	4,460	408
Management of liquid resources	(9,368)	7,500	(5,200)	(8,800)	-
Net increase/(decrease) in financing	71,994	(3,365)	11,954	3,457	(1,306)
(Decrease)/increase in cash	(1,592)	2,485	7	(883)	(898)
<b>RATIOS AND STATISTICS</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Operating profit margin	28%	28%	26%	27%	27%
Interest cover (times)	3.1	3.7	3.9	3.9	3.8
Earnings per ordinary share	166.0p	123.0p	153.2p	147.7p	141.8p

Notes: All comparative data have been restated where necessary to conform with current accounting practices.

All data include exceptional items where relevant.