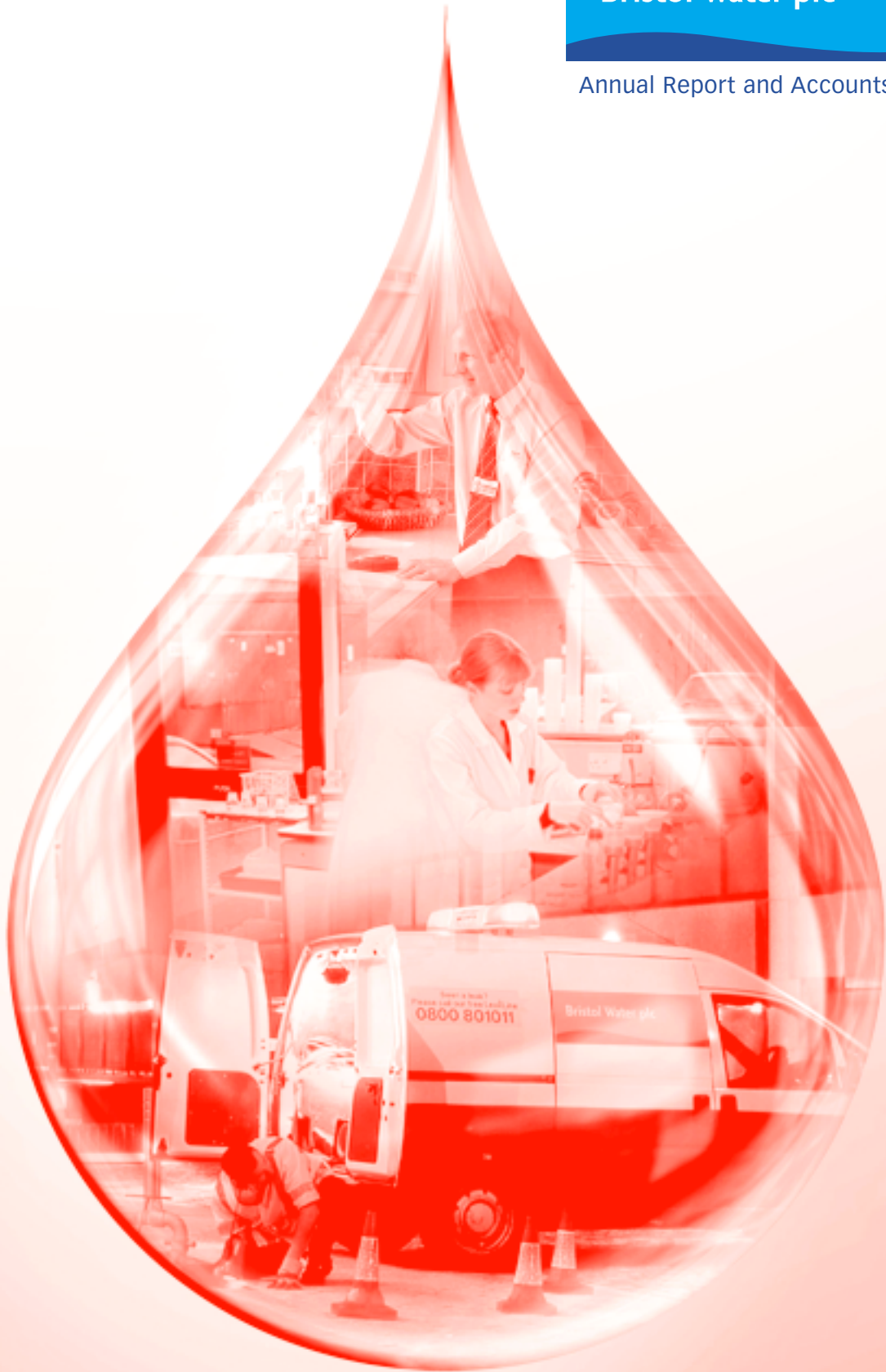


Bristol Water plc

Annual Report and Accounts 2005



Contents

	Page
Financial highlights	1
Chairman's statement	2
Operating and financial review	4
Directors' report	7
Accounting policies	10
Profit and loss account	12
Balance sheet	13
Cash flow statement	14
Notes to the accounts	15
Independent auditors' report	32
Financial history	Inside back cover

BRISTOL WATER plc supplies water to over one million people and businesses in an area of almost 2,400 square kilometres centred on Bristol.

Financial highlights

1

Year ended 31 March	2005 £m	2004 £m	% change
Turnover	70.6	70.6	-
Operating profit			
- normal activities	18.7	19.7	-6%
- exceptional restructuring costs	(2.0)	-	na
	16.7	19.7	-15%
Profit before tax	10.1	13.5	-25%
Profit after tax	8.8	11.1	-21%
Earnings per ordinary share	128.1p	166.0p	-23%
Dividend per ordinary share	135.15p	103.37p	31%

2 Chairman's statement

Introduction

The last year has seen further major changes and developments for the company.

New Financing

In May 2005 the company announced that it planned to raise £57m of additional borrowings through the Artesian programmes. Approximately £35m of these borrowings will be utilised to finance the capital expenditure and debt maturity requirements for the current year and part of 2006/07 and a contribution of £7m to reduce the deficit in the final salary pension scheme. Approximately £22m of the additional borrowings will be used to provide a loan from the company to the ultimate parent company. The parent company intends to use this loan to partially finance a £30m return to its shareholders. Should approval for the return not be obtained, the surplus funds will be used to finance this company's longer term capital expenditure, debt maturity and working capital requirements.

On a pro forma basis the return of capital will increase the net indebtedness in the company from £140m at 1 April 2005 to approximately £169m, representing approximately 62 per cent and 75 per cent respectively of the company's Regulatory Capital Value (RCV) at 1 April 2005.

Whilst the company will need to raise additional debt over the current regulatory period to fund its capital expenditure obligations, the Board believes that it will be able to maintain a debt to RCV ratio in the range 75 to 80 per cent over the current regulatory period.

Trading Performance

The results for the year are affected by a £2.0m charge in respect of the costs of a restructuring programme instigated by the Board to improve future operating efficiency. The results are considered in detail in the Operating and Financial Review.

Operational Performance

The company continued to deliver high quality services to customers and at the end of March had substantially delivered the key required outputs for the five year period 2000-05 as agreed with Ofwat in the 1999 Final Determination of price limits.

Rainfall during the winter period was much lower than normal, but impounding reservoirs have now recovered to approximately 84% full against a normal guideline target of 93%. The difference does not represent a significant operational risk but does mean that full use of abstraction available from the Sharpness Canal will be made during the next few months to manage the rate of reservoir draw down.

Ofwat's PR04 Final Determination

Ofwat completed its determination of price limits for the five year period 1 April 2005 to 31 March 2010 for the company as part of the industry wide review. In December 2004, Ofwat set out its Final Determination which, after careful consideration, the Board accepted.

The new price limits are expressed as K factors, which are the overall adjustments to tariffs before inflationary effects are taken into account. The limits are:

2005/06	13.8%
2006/07	2.8%
2007/08	1.5%
2008/09	0.7%
2009/10	-2.3%

Although Ofwat set challenging efficiency targets, the Board believes that it will be able to deliver the relevant service outputs within the targets set.

The average annual household water bill for our customers in 2004/05 was £108, some 8% lower than the industry average of £117. Under the new price limits by 2009/10 the average household water bill for our customers will increase to £122 (2004/05 prices) remaining well below the expected industry average of £140.

Board changes

After 37 years service, Roger Wyatt, managing director of the company, has indicated that he will retire at the end of March 2006. We currently expect his duties to be shared between the other executives rather than seek a replacement.

Moger Woolley, chairman of the ultimate parent company, will be proposed as a director at the Annual General Meeting and subject to election will become Chairman. This will allow separation of my role as Chief Executive from the Chairman's position in line with good Corporate Governance.

Prospects

The year again saw the delivery of high quality services to our customers. Other than this the results for the year are not representative of the future. They reflect the final year of the 2000-05 regulatory period and restructuring costs preparing for the next five year period.

The new price limits agreed with Ofwat for the five year period 2005-10 will enable us to deliver the obligations set out in Ofwat's Final Determination and to improve profitability and at the same time make further improvements to services to customers.

We remain determined that our consistently high standards of service to customers and quality of water supplied will remain key features of the business.

It remains for me to thank all of our staff for their continuing contribution and willingness to take on the challenges of the future.

Alan Parsons
Chairman
26 May 2005

4 Operating and financial review

Results Overview

As previously indicated the allowed price increase under the RPI + K formula for 2004/05 was just 0.6% (RPI of 2.5% less a real price reduction of 1.9%). This is significantly lower than inflationary increases on our operating cost base and therefore operating profits were reduced.

Income from our main water supply charges fell by £0.4m to £65.9m, this represents the net effect of price increases of £0.6m and new connections of £0.4m offset by lower consumption levels by metered customers during the poor summer weather compared to the previous year.

Operating costs before depreciation and exceptional restructuring costs increased by £1.3m to £37.3m. The increase reflects inflation, including significantly higher energy prices, offset by further efficiency gains.

Net depreciation reduced by £0.3m to £14.6m reflecting the re-living of meters which reduced the charge by £0.5m offset by depreciation on new assets coming into service.

The exceptional charge of £2.0m represents redundancy costs related to the restructuring programme that the Board instigated to improve the operational efficiency of the company.

Operating profit before the exceptional charge reduced by £1.0m to £18.7m, and after the exceptional charge reduced by £3.0m to £16.7m.

Profit before tax reduced by £3.4m to £10.1m.

The tax charge for the year was £1.3m and represented 13% of profit before tax, compared to £2.4m and 18% in the previous year.

Net capital investment in the year after grants and contributions from developers was £16.6m, compared to £24.5m in 2004.

Ordinary dividends increased from £6.2m to £8.1m. They comprise a base element which increased from £5.9m to £6.1m together with an amount equivalent to the after tax cost of interest payable by the ultimate parent company in respect of the £47m intercompany loan made in February 2004. The intercompany loan element increased from £0.3m to £2.0m reflecting the full year effect of the loan interest.

Treasury

Net cash inflow from operating activities was £34.1m (2004 - £33.4m), net cash outflows from servicing of finance totalled £7.0m (2004 - £7.8m) and net capital expenditure and investment activities amounted to £16.4m (2004 - £71.6m which included the £47m intercompany loan to the ultimate parent company). Total cash inflows before management of liquid resources and financing were £1.5m (2004 - £64.9m outflow).

Net borrowings decreased from £140.3m to £140.1m during the year and at 31 March 2005 represented approximately 62% of Regulatory Capital Value (RCV) at that date.

Net interest charges in the year totalled £6.6m (2004 - £6.2m) and were covered 2.5 times (2004 - 3.1 times).

New Financing Arrangements

In May 2005 the company announced that it planned to raise further funds under the Artesian monoline wrapped bond programmes arranged by The Royal Bank of Scotland amounting to £57m of index-linked debt. No provision has been made in these accounts for the cost of raising the funds, estimated at £0.4m.

The company has agreed to advance approximately £22m 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 company plans to use this to finance a £30m return to shareholders.

The remaining approximate £35m of new funds will be used by the company to finance capital expenditure, debt maturities and working capital requirements together with a payment of £7m to reduce the deficit in the pension scheme.

On a pro forma basis the new arrangements will increase the net indebtedness of the company from £140m at 1 April 2005 to approximately £169m, representing approximately 62% and 75% respectively of RCV at 1 April 2005.

Pensions

The last triennial actuarial valuation of the company's section within the Water Companies' Pension Scheme (WCPS) was as at 1 April 2002 and showed a net surplus on an actuarial basis of £6.3m.

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 showed a net deficit of £3.0m.

Since the actuarial valuation, increases in the level of cash contributions to the WCPS section effective from 1 April 2003 and 1 April 2004 have been agreed with the trustee. The estimated normal cash contributions for 2005/06 are approximately £1.6m (2004/05 - £1.4m).

The next triennial actuarial valuation is due as at 1 April 2005. The valuation is currently in progress and results will be available during late summer/early autumn 2005. It is anticipated that following the valuation new increased cash contribution rates will be agreed with the trustee effective from 1 April 2006.

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. In accordance with this strategy £15m of investments were switched from equities to bonds during February 2005.

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 under FRS17 be represented on the balance sheet as a deficit before tax of approximately £11.9m (2004 - £13.5m). After taking provisions already made within these accounts for pension liabilities, adoption of FRS17 would reduce net assets by approximately £6.7m.

In connection with the proposed new financing and return to shareholders by the ultimate parent company, the company intends to make a one-off contribution to WCPS of £7m. It also intends to make additional contributions of £1m in each of the four years beginning 1 April 2006 and a further £0.9m in 2010/11. The amounts are in addition to the normal pension contributions required by the WCPS trustee. The additional contributions are conditional on the proposed £30m return to shareholders by the ultimate parent company being made.

International Financial Reporting Standards

The company stated in its financial statements for the year ended 31 March 2004 that it planned to adopt International Financial Reporting Standards (IFRS) for its financial statements for the year ended 31 March 2006.

Following further guidance issued by the Department of Trade and Industry (DTI), as the company does not prepare consolidated accounts it will not be mandatory for the company to adopt IFRS.

The company has decided at this stage not to adopt IFRS. The company will therefore continue to prepare its financial statements using UK GAAP accounting standards for the foreseeable future.

The ultimate parent company, Bristol Water Group plc, which consolidates these accounts, will however adopt IFRS in its consolidated financial statements for the year ended 31 March 2006. A reconciliation to UK GAAP will be provided in those group financial statements.

6 Operating and financial review

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

Ofwat issued their Final Determination of price limits for the five year period 2005-10 in December 2004. After careful consideration the Board accepted the Determination.

The price limits are expressed as K factors, which are the overall adjustments to tariffs before inflationary effects are taken into account. The limits, compared to the company's proposals, are:

	Company business plan proposal	Final Determination
2005/06	20%	13.8%
2006/07	6%	2.8%
2007/08	6%	1.5%
2008/09	0%	0.7%
2009/10	0%	-2.3%

The main reasons for these differences are:

- A smaller capital expenditure programme of £117m compared to the £156m we proposed (2002/03 price base). This reflects the deletion of a number of schemes, mainly related to improvements to the security of supply for customers, together with more challenging efficiency assumptions.
- An operating cost efficiency target of 2.5% compared to the 0.8% p.a. we proposed.
- The Final Determination deals with a number of uncertainties through Ofwat's Notified Item process which could trigger interim price determinations within the period. In our business plan we had built a number of these uncertainties into the proposed K factors.

Ofwat have set challenging efficiency targets, however the Board believes that it will be able to deliver the relevant service outputs within the targets set.

Andy Nield
Finance Director
26 May 2005

Directors' report

for the year ended 31 March 2005

7

The directors have pleasure in submitting their report and the accounts for the year ended 31 March 2005.

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 as amended and its Instrument of Appointment.

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 to the accounts. A final ordinary dividend of 88.0p per share is proposed, equating to a total ordinary dividend for the year of 135.15p.

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 2004	31 March 2005
A Parsons, <i>Chairman</i>	38,940	38,940
Dr A J Bates	9,762	9,781
Professor D I Blockley, <i>Non Executive</i>	463	463
C J Curling, <i>Non Executive</i>	-	-
P D Knowlson	6,676	6,708
P McIlwraith, <i>Non Executive</i>	-	-
A S Nield, <i>Finance Director</i>	1,325	1,325
T Smallwood, <i>Non Executive</i>	-	-
R W Wyatt, <i>Managing Director</i>	13,522	13,522

Alan Parsons had, at the beginning of the year, an interest in 10,000 redeemable B shares issued by the ultimate holding company, Bristol Water Group plc, and received £13,500 on redemption as a result of the return of capital by that company to shareholders.

There have been no changes in directors' interests from 31 March 2005 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 Group Savings Related Share Option Scheme:

	Date of grant	Options unexercised at 31.3.04	Options unexercised at 31.3.05	Exercise price £	Exercisable from	to
A Parsons	16.07.02	8,140	8,140	2.032	Sept 2007	March 2008
Dr A J Bates	16.07.02	8,140	8,140	2.032	Sept 2007	March 2008
P D Knowlson	15.07.03	4,855	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	16.07.02	4,675	4,675	2.032	Sept 2005	March 2006

8 Directors' report

for the year ended 31 March 2005

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 2005 was £6.385 and ranged from £3.545 to £6.40 during the year.

Mr A Parsons, Mr A S Nield and Mr R W Wyatt, who are also executive directors of the ultimate parent company, have service contracts with Bristol Water plc. Details are set out in the Remuneration Committee Report of the ultimate parent company.

Mr A Parsons, Dr A J Bates and Mr R W Wyatt have a provision in their service contracts for the enhancement of their Water Companies' Pension Scheme pensionable service by a maximum of 6²/₃ years in the event of redundancy.

Mr A Parsons, Mr A S Nield, Mr R W Wyatt, Dr A J Bates and Mr P D Knowlson have service contracts with 12 month notice periods.

Mr A Parsons, Professor D I Blockley and Mr P McIlwraith will offer themselves for re-election at the Annual General Meeting.

Mr J M Woolley, chairman of the ultimate parent company, will be proposed for election as a director at the Annual General Meeting, and subject to election will become Chairman.

Professor D I Blockley, Mr P McIlwraith, Mr T Smallwood and Mr J M Woolley 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. No director holds any shares in any group company except the ultimate holding company.

ULTIMATE PARENT COMPANY

Bristol Water Group plc is the ultimate parent company of Bristol Water 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 and buildings 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. A Share Incentive Plan is being proposed for 2005/06 onwards. The company operates bonus schemes for all 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.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

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 23 days purchases (2004 - 18 days).

CHARITABLE DONATIONS

The company made no donations to charitable causes during the year (2004 - £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 £0.1m (2004 - £0.1m).

AUDITORS

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

INSTRUMENT OF APPOINTMENT AND REGULATORY ACCOUNTS

In accordance with its Instrument of Appointment made under the Water Act 1991 as amended, the directors are of the opinion that the company is in compliance with paragraph 3.1 of Condition K of that Instrument, which relates to the control 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 stated in its financial statements for the year ended 31 March 2004 that it planned to adopt International Financial Reporting Standards (IFRS) for its financial statements for the year ended 31 March 2006.

Following further guidance issued by the Department of Trade and Industry (DTI), as the company does not prepare consolidated accounts it will not be mandatory for the company to adopt IFRS.

The company has decided at this stage not to adopt IFRS. The company will therefore continue to prepare its financial statements using UK GAAP accounting standards for the foreseeable future.

The parent company, Bristol Water Group plc, which consolidates these accounts, will however adopt IFRS in its consolidated financial statements for the year ended 31 March 2006. A reconciliation to UK GAAP will be provided in those group financial statements.

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 ensuring the operation of systems of internal control, 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
26 May 2005

10 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 below and the disclosure of operating costs as explained in note 2.

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:

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.

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.

Depreciation

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

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.

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, communications, meters 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 (ACT) 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 ACT 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 exposure 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.

12 Profit and loss account

for the year ended 31 March 2005

	Note	2005 £m	2004 £m
Turnover	1	70.6	70.6
Operating costs		(51.9)	(50.9)
Exceptional operating costs		(2.0)	-
Total operating costs	2	(53.9)	(50.9)
Operating profit		16.7	19.7
Net interest payable and similar charges	3	(6.6)	(6.2)
Profit on ordinary activities before taxation		10.1	13.5
Taxation on profit on ordinary activities	4	(1.3)	(2.4)
Profit on ordinary activities after taxation		8.8	11.1
Dividends:	5		
On irredeemable preference shares		(1.1)	(1.1)
On ordinary shares		(8.1)	(6.2)
Total dividends		(9.2)	(7.3)
Retained (loss)/profit for the financial year		(0.4)	3.8
Earnings per ordinary share	6	128.1p	166.0p

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 (loss)/profit for the financial 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 2005

13

	Note	2005 £m	2004 £m
Fixed assets			
Tangible fixed assets	7	195.6	193.8
Investment - Loan to ultimate holding company	8	47.0	47.0
Current assets			
Stocks	9	0.6	0.7
Debtors	10	18.5	19.6
Cash at bank and on deposit	11	12.0	17.4
		<u>31.1</u>	<u>37.7</u>
Creditors: amounts falling due within one year			
Short-term borrowings	11	(3.7)	(6.9)
Other creditors	12	(24.3)	(24.3)
		<u>(28.0)</u>	<u>(31.2)</u>
Net current assets		<u>3.1</u>	6.5
Total assets less current liabilities		245.7	247.3
Creditors: amounts falling due after more than one year	11	(148.4)	(150.8)
Deferred income	13	(8.6)	(8.5)
Provisions for liabilities and charges	15	(19.8)	(18.7)
Net assets		<u>68.9</u>	<u>69.3</u>
Capital and reserves			
Called up share capital	16	18.5	18.5
Share premium account	17	4.4	4.4
Other reserves	17	5.8	5.8
Profit and loss account	17	40.2	40.6
Total shareholders' funds	17	<u>68.9</u>	<u>69.3</u>
<i>Analysed as:</i>			
<i>Equity shareholders' funds</i>		<u>56.4</u>	56.8
<i>Non-equity shareholders' funds</i>		<u>12.5</u>	<u>12.5</u>

The accounts were approved by the Board on 26 May 2005 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.

14 Cash flow statement

for the year ended 31 March 2005

	Note	2005 £m	2004 £m
Net cash inflow from operating activities	20(a)	<u>34.1</u>	<u>33.4</u>
Returns on investments and servicing of finance			
Interest received		3.6	1.1
Interest paid on term loans and debentures		(7.8)	(5.9)
Interest paid on finance leases		(1.1)	(1.2)
Dividends paid on non-equity shares	5	(1.7)	(1.1)
Net costs of issue of new loans		-	(0.7)
		<u>(7.0)</u>	<u>(7.8)</u>
Taxation			
Corporation tax paid		(1.9)	(3.0)
Capital expenditure and investing activities			
Purchase of tangible fixed assets		(20.1)	(28.0)
Contributions received		3.7	3.4
Loan advanced to ultimate holding company		-	(47.0)
		<u>(16.4)</u>	<u>(71.6)</u>
Dividends paid on equity shares		(7.3)	(15.9)
Cash inflow/(outflow) before management of liquid resources and financing		1.5	(64.9)
Management of liquid resources			
being decrease/(increase) in short-term deposits		5.4	(9.4)
Financing			
New term loans		-	98.5
Capital element of lease repayments		(1.6)	(1.5)
Loan repayments		(5.3)	(24.3)
		<u>(6.9)</u>	<u>72.7</u>
Increase/(decrease) in cash	20(c)	-	(1.6)
Cash, beginning of year		1.6	3.2
Cash, end of year		<u>1.6</u>	<u>1.6</u>

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

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 through the RPI + K price formula.

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 -

	Operating costs before exceptional items 2005 £m	Exceptional operating costs* 2005 £m	Operating costs after exceptional items 2005 £m	2004 £m
Wages, salaries and severance costs	10.9	0.4	11.3	10.1
Social security costs	0.9	-	0.9	0.8
Pension costs (note 19(b))	1.7	1.4	3.1	1.6
Total payroll cost	13.5	1.8	15.3	12.5
less charged to fixed assets	(2.6)	-	(2.6)	(3.0)
Net payroll cost	10.9	1.8	12.7	9.5
Other operating costs				
Operating lease rentals on plant and machinery	0.2	-	0.2	0.1
Research and development expenditure	0.1	-	0.1	0.1
Auditors' remuneration**	0.1	-	0.1	0.2
Raw materials, consumables, bad debts and other charges less recoveries	26.0	0.2	26.2	26.1
Total other operating costs	26.4	0.2	26.6	26.5
Depreciation of tangible fixed assets***				
On owned assets	13.1	-	13.1	12.7
On leased assets	1.8	-	1.8	2.5
Amortisation of related deferred income	(0.3)	-	(0.3)	(0.3)
Net depreciation	14.6	-	14.6	14.9
Total operating costs	51.9	2.0	53.9	50.9

*Exceptional operating costs - Restructuring

Before the year end the Board instigated a restructuring programme to improve the operating efficiency of the company. This involves a number of redundancies and related pension funding payments, asset write downs and incidental expenses. Accordingly the restructuring costs have been recognised in the profit and loss account for the year ended 31 March 2005. There were no exceptional operating costs in 2004.

**Auditors' remuneration includes £42,000 (2004 - £36,000) in respect of statutory audit fees and other audit services including audit of regulatory returns totalled £45,000 (2004 - £133,000). The current year amount is lower than the corresponding amount for 2004 as the auditors were engaged in the audit of the company's Periodic Review submission to Ofwat during 2004. 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.

***During the year the company reviewed the estimated economic lives of water meters in the light of operational experience. As a result, the estimated useful lives were increased from 7 to 10 years. The effect of this change was to reduce the depreciation charge for the year on owned assets by £0.1m (2004 - £Nil) and on leased assets by £0.4m (2004 - £Nil).

16 Notes to the accounts

(b) Employee details -

The average number of employees (full time equivalents) during the year was 403 (2004 – 409).

(c) Directors' emoluments -

	2005 £m	2004 £m
Aggregate emoluments of executive directors, being remuneration, bonus and benefits in kind	0.7	0.8
Payments to approved pension schemes, all in respect of executive directors	0.1	0.1

The emoluments above for 2004 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 27 November 2003, and for whom a charge was made to the company. From that date all three have held service contracts with, and been paid by, Bristol Water plc. Bonus represents amounts accrued and approved, but not paid as at 31 March 2005.

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 2005 to a maximum of 30% of base salary. For the year to 31 March 2006 the maximum bonus level has been increased to 50%.

In total, at 31 March 2005 five executive directors were accruing retirement benefits under a defined benefit scheme (2004 - five).

No directors exercised options to purchase shares in the ultimate parent company during the year. In 2004 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 related to the highest paid director.

Details of options previously granted to directors and the redemption of B shares are shown in the Directors' Report.

The aggregate emoluments of the highest paid director in the year, paid under his service contract with the company, were £203,000 (2004- £194,000) paid by both the company and its ultimate parent company. 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 £38,000 (2004 - £34,000) 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 -

	2005 £m	2004 £m
Bank borrowings	1.5	1.5
Term loans and debentures - interest charges	6.2	4.3
- indexation	1.3	0.4
Finance leases	1.1	1.1
	10.1	7.3
Less: interest receivable from		
Loan to ultimate holding company	(2.8)	(0.4)
Other external investments and deposits	(0.7)	(0.7)
	(3.5)	(1.1)
	6.6	6.2

4. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2005 £m	2004 £m
(a) Analysis of charge for the year, all arising in the United Kingdom:		
Current tax:		
Corporation tax at 30% (2004 - 30%)	1.0	3.0
Advance Corporation Tax written back	(1.5)	(0.7)
Adjustment to prior periods	1.7	1.1
Receipts in respect of group relief	1.0	(0.4)
	<u>2.2</u>	<u>3.0</u>
Deferred tax:		
Current year movement	1.2	1.0
Adjustment to prior periods	(1.8)	(1.0)
Effect of discounting	(0.3)	(0.6)
	<u>(0.9)</u>	<u>(0.6)</u>
Tax on profit on ordinary activities	<u>1.3</u>	<u>2.4</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 2003. This amendment enabled the company to write back Advance Corporation Tax (ACT) to be utilised against the resulting increased taxable profits.

The ACT written back was not recognised as a deferred tax asset in the previous year.

Factors that may affect future tax charges

ACT is recognised as an asset to the extent that it is foreseen to be recoverable in the next 12 months. There is a further £3.3m (2004 - £4.8m) of unrecognised ACT carried forward at 31 March 2005.

(b) Reconciliation of the current tax charge

The current tax for the year is lower (2004 - lower) than the standard rate of Corporation Tax in the United Kingdom (30%). The differences are explained below:

	2005 £m	2004 £m
Profit on ordinary activities before tax	<u>10.1</u>	<u>13.5</u>
Profit on ordinary activities multiplied by standard rate of Corporation Tax in the United Kingdom at 30% (2004 - 30%)	3.0	4.0
Effects of:		
Expenses not deductible for tax	0.2	(0.2)
Capital allowances in excess of depreciation	(1.6)	(1.2)
Other net charges	0.4	-
	<u>2.0</u>	<u>2.6</u>
Adjustment to tax in respect of prior periods	1.7	1.1
Adjustment in respect of Advance Corporation Tax for prior years	(1.5)	(0.7)
Total current tax charge	<u>2.2</u>	<u>3.0</u>

18 Notes to the accounts

5. DIVIDENDS

	2005 £m	2004 £m
On non-equity shares -		
Irredeemable 8.75% preference shares -		
First half year dividend	0.5	0.5
Second half year dividend*	0.6	0.6
	<u>1.1</u>	<u>1.1</u>
On ordinary shares (equity shares) -		
Interim dividend paid of 47.15p (2004 - 29.10p)	2.8	1.7
Proposed final dividend of 88.0p (2004 - 74.27p)	5.3	4.5
	<u>8.1</u>	<u>6.2</u>
Total dividends paid and proposed	<u>9.2</u>	<u>7.3</u>

*Following a change in the working practices of the company's Registrars, the second half year preference dividend for 2004/05 was paid immediately prior to the year end instead of immediately after the year end. Consequently the cash flow statement includes the payment of three semi annual preference dividends this year.

6. EARNINGS PER ORDINARY SHARE

	2005 £m	2004 £m
Earnings per ordinary share have been calculated as follows -		
On average number of ordinary shares in issue during the year -		
Earnings attributable to ordinary shares	£7.7	£10.0
Weighted average number of ordinary shares	<u>6.0</u>	<u>6.0</u>

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

7. TANGIBLE FIXED ASSETS

(a) The movements for the year comprise –

	Freehold land and operational structures £m	Plant and equipment £m	Infra- structure assets £m	Assets under construction £m	Total £m
Cost					
At 1 April 2004	140.1	25.1	159.9	13.7	338.8
Additions	-	-	-	20.3	20.3
Capitalisation of completed assets	17.6	1.7	12.6	(31.9)	-
Disposals	-	(0.9)	(1.8)	-	(2.7)
Grants and contributions	-	-	(3.7)	-	(3.7)
At 31 March 2005	<u>157.7</u>	<u>25.9</u>	<u>167.0</u>	<u>2.1</u>	<u>352.7</u>
Depreciation					
At 1 April 2004	53.3	14.8	76.9	-	145.0
Charge for year	4.9	2.7	7.3	-	14.9
Disposals	-	(0.9)	(1.9)	-	(2.8)
At 31 March 2005	<u>58.2</u>	<u>16.6</u>	<u>82.3</u>	<u>-</u>	<u>157.1</u>
Net book value					
At 31 March 2005	<u>99.5</u>	<u>9.3</u>	<u>84.7</u>	<u>2.1</u>	<u>195.6</u>
At 31 March 2004	86.8	10.3	83.0	13.7	193.8

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

At 31 March 2005, assets under construction included £0.1m (2004 - £13.2m) in respect of a major upgrade of the Barrow treatment plant.

(b) Included above at 31 March 2005 is freehold land, not subjected to depreciation in the year, of £1.3m (2004 - £1.3m).

(c) Included above at 31 March 2005 are fixed assets held under finance leases analysed by asset type as follows -

	Freehold land & operational structures £m	Plant and equipment £m	Infra- structure assets £m	Total £m
At 31 March 2005				
Cost	38.0	7.9	1.2	47.1
Depreciation	(16.4)	(7.1)	-	(23.5)
Net book value	<u>21.6</u>	<u>0.8</u>	<u>1.2</u>	<u>23.6</u>
At 31 March 2004				
Cost	38.0	8.1	1.2	47.3
Depreciation	(15.0)	(6.9)	-	(21.9)
Net book value	<u>23.0</u>	<u>1.2</u>	<u>1.2</u>	<u>25.4</u>

For the purpose of this table no apportionment has been made of the infrastructure renewals charge included within depreciation in note 7(a) above.

(d) The net book value of infrastructure assets is stated after the deduction of contributions of £40.8m (2004 - £37.1m) as explained in Accounting Policy d.

8. INVESTMENT - LOAN TO ULTIMATE HOLDING COMPANY

	£m
At 1 April 2004 and at 31 March 2005	<u>47.0</u>

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 new loans entered into during that year. 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 -	2005	2004
	£m	£m
Trade debtors	9.3	8.5
Due from group and associated companies	1.8	2.9
Other debtors	0.7	1.7
Prepayments and accrued income	6.7	6.5
	<u>18.5</u>	<u>19.6</u>

The sum of £0.3m (2004 - £0.2m) is included within the heading "Due from group and associated companies" in respect of amounts advanced to Bristol Wessex Billing Services Limited to fund the purchase of fixed assets. This amount has no fixed repayment date.

20 Notes to the accounts

11. NET BORROWINGS

(a) At 31 March 2005 net borrowings comprise -

	Term loans less cash £m	Finance leases £m	Debentures £m	Total 2005 £m	Total 2004 £m
Repayment due:					
Between one and two years	-	2.2	-	2.2	3.7
Between two and five years	25.0	6.6	-	31.6	31.6
After five years:					
Other than by instalment	100.2	-	-	100.2	98.9
By instalment	-	13.4	-	13.4	15.6
Net costs of issue of loans, not yet amortised (note 11(b))	(0.6)	-	-	(0.6)	(0.6)
Irredeemable debentures	-	-	1.6	1.6	1.6
Total borrowings due after one year					
	124.6	22.2	1.6	148.4	150.8
Current portion of debt	-	1.9	1.8	3.7	6.9
Less cash balances and short-term deposits	(12.0)	-	-	(12.0)	(17.4)
Net borrowings	112.6	24.1	3.4	140.1	140.3

Debentures amounting to £1.8m were repaid in full on 1 April 2004. Debentures amounting to £3.5m were repaid in full on 30 November 2004. Debentures amounting to £1.8m are due to be repaid in full on 31 December 2005 or later at the company's option, but not later than 31 December 2009. For the purpose of these accounts, it is assumed that repayment will be at the earliest opportunity.

Security for borrowings

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 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.

(b) The movements in unamortised debt issue costs were as follows:

	2005 £m	2004 £m
Professional fees and expenses	-	1.7
Payment to bank under terms of gilt locks entered into prior to and in connection with loans raised	-	1.2
Net premiums on receipt of new loans	-	(2.3)
Net costs of issue arising in the year	-	0.6
Unamortised issue costs beginning of the year	0.6	-
Amortised during the year	-	-
Unamortised issue costs end of the year	0.6	0.6

The net costs of issue of new loans are amortised over the terms of the respective loans at £22,000 per annum. Amortisation charges due in future years are as follows:

	2005 £m	2004 £m
Within one year	-	-
Between one and two years	-	-
Between two and five years	0.1	0.1
After five years	0.5	0.5
	0.6	0.6

(c) Details of borrowings repayable after five years -

	2005 £m	2004 £m
Debentures (listed on the London Stock Exchange) -		
4.00% Consolidated irredeemable	1.4	1.4
4.00% Perpetual irredeemable	0.1	0.1
3.50% Perpetual irredeemable	0.1	0.1
	1.6	1.6
Finance leases	13.4	15.6
Other term loans -		
Secured, repayable 2032, principal index-linked to RPI, fixed interest at 3.635%* on the indexed principal	42.7	41.4
Secured, repayable 2033, fixed interest at 6.01%*	57.5	57.5
	115.2	116.1

*Coupons as specified in loan documentation. At the time of pricing of these loans, premia/discounts were determined to reflect prevailing market conditions. The net premia/discounts are included in unamortised issue costs as set out in note 11(b).

12. OTHER CREDITORS DUE WITHIN ONE YEAR

Other creditors due within one year comprise -	2005 £m	2004 £m
Receipts in advance	7.6	6.0
Trade creditors	2.9	2.6
Due to Group and associated companies*	1.2	2.1
Dividends payable	5.3	5.1
Tax, social security and payroll deductions	0.6	0.6
Corporation tax payable	0.3	1.4
Accruals and deposits received	6.4	6.5
	24.3	24.3

*At 31 March 2004, the company owed £0.3m to Purton Carbons Limited and £0.7m to Walter Lawrence Civil & Mechanical Limited. During the year the Bristol Water Group plc group of companies disposed of its interests in these companies. At 31 March 2005 any amounts owing to these companies are classified as external trade creditors.

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.

	2005 £m	2004 £m
Beginning of year	8.5	8.4
Contributions received	0.4	0.4
Less amortised	(0.3)	(0.3)
End of year	8.6	8.5

22 Notes to the accounts

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, 65% (2004 – 66%) 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 77% (2004 – 76%) 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 2005, 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 –

	Index-linked and floating rate financial liabilities £m	Fixed rate financial liabilities £m	Total £m
Financial liabilities	56.9	93.6	150.5
Irredeemable debentures	-	1.6	1.6
Irredeemable preference shares	-	12.5	12.5
At 31 March 2005	56.9	107.7	164.6
Financial liabilities	57.3	98.8	156.1
Irredeemable debentures	-	1.6	1.6
Irredeemable preference shares	-	12.5	12.5
At 31 March 2004	57.3	112.9	170.2

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 2005, the company was party to one interest rate swap. The swap is designated against a £10m variable rate bank loan and £10m of variable rate leases. The swap exchanges LIBOR rates on a 3 monthly basis for a fixed rate of 7.72% until expiry on 25 September 2006.

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. This policy will be reviewed following completion of the proposed return to shareholders.

Analysis of fixed rate financial liabilities

	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Financial liabilities*	6.6	18.2
Irredeemable debentures	4.0	-
Irredeemable preference shares	8.8	-
As at 31 March 2005	<u>6.8</u>	
Financial liabilities*	7.0	18.0
Irredeemable debentures	4.0	-
Irredeemable preference shares	8.8	-
As at 31 March 2004	<u>7.2</u>	

*including £10.0m variable rate bank loan and £10.0m variable rate finance leases, hedged by the swap, for its remaining term as at 31 March 2005.

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 which are all denominated in sterling. 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 £47.0m 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 2005, the company had two 5-year term £10.0m committed undrawn borrowing facilities expiring in May 2008 and December 2008 respectively. 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.

24 Notes to the accounts

	31 March 2005		31 March 2004	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the company's operations:				
Cash at bank and short-term deposits	12.0	12.0	17.4	17.4
Short-term borrowings	(3.7)	(3.7)	(6.9)	(6.9)
Long-term borrowings	(148.4)	(155.7)	(150.8)	(156.6)
Irredeemable preference shares	(12.5)	(17.3)	(12.5)	(16.3)
Primary financial instruments issued to finance the ultimate holding company:				
Long-term loan	47.0	48.2	47.0	48.1
Derivative financial instruments held to manage the interest rate profile:				
Interest rate swaps	-	(0.5)	-	(1.1)
	(105.6)	(117.0)	(105.8)	(115.4)

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 where considered appropriate. 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 interest rate hedges will increase future interest costs as follows -

	2005
	£m
Unrecognised positions on hedges at 31 March 2004	1.1
Arising in previous years included in 2005 net interest charge	(0.6)
Positions not included in 2005 net interest charge	
Arising before 1 April 2004	0.5
Arising in 2005	-
Positions on hedges at 31 March 2005	
which is expected to be included in 2006 net interest charge	0.5

15. PROVISIONS FOR LIABILITIES AND CHARGES

	2005 £m	2004 £m
Restructuring costs (see note 2)	2.0	-
Deferred tax	17.8	18.7
	19.8	18.7

Provision for deferred tax comprises -

	2005 £m	2004 £m
Accelerated capital allowances and capital element of finance leases	35.3	35.4
Deferred income	(2.6)	(2.5)
Short-term timing differences	(1.0)	(0.6)
	31.7	32.3
Effect of discounting	(13.9)	(13.6)
Net provision	17.8	18.7

Deferred tax movement:

	2005 £m	2004 £m
Provision brought forward at 1 April	18.7	19.3
Credit to Profit and Loss Account	(0.9)	(0.6)
Provision carried forward at 31 March	17.8	18.7

16. CALLED UP SHARE CAPITAL

The authorised and issued share capital of the company is -

	Authorised		Issued and fully paid	
	2005 £m	2004 £m	2005 £m	2004 £m
Authorised				
5,998,025 (2004 – 5,998,025) ordinary shares of £1 each	6.0	6.0		
14,000,000 (2004 – 14,000,000) 8.75% irredeemable cumulative preference shares of £1 each	14.0	14.0		
Issued and fully paid				
5,998,025 (2004 – 5,998,025) ordinary shares of £1 each			6.0	6.0
12,500,000 (2004 – 12,500,000) 8.75% irredeemable cumulative preference shares of £1 each			12.5	12.5
	20.0	20.0	18.5	18.5

The 8.75% irredeemable cumulative preference shares, which do not 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 above 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.

26 Notes to the accounts

17. MOVEMENT IN SHAREHOLDERS' FUNDS

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss £m	Total 2005 £m	Total 2004 £m
Beginning of year	18.5	4.4	5.8	40.6	69.3	65.5
Profit for year	-	-	-	8.8	8.8	11.1
Dividends	-	-	-	(9.2)	(9.2)	(7.3)
End of year	18.5	4.4	5.8	40.2	68.9	69.3

18. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments at 31 March 2005 contracted for but not provided were £0.9m (2004 - £3.4m).

(b) The company has the following non-cancellable operating lease commitments in respect of plant and machinery payable during the next financial year -

	2005 £m	2004 £m
Operating leases expiring -		
Within one to two years	0.1	-
Within two to five years	0.1	0.1
	0.2	0.1

(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 of the scheme. The assets of the section are held separately from those of the company and are invested by discretionary fund managers appointed by the trustees of the Scheme. The 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.

Since the actuarial valuation increases in the level of cash contributions to the WCPS section effective from 1 April 2003 and 1 April 2004 have been agreed with the trustee. The estimated cash contributions for 2005/06 are approximately £1.6m (2004/05 - £1.4m).

The next triennial actuarial valuation is due as at 1 April 2005. The valuation is currently in progress and results will be available during late summer/early autumn 2005. It is anticipated that following the valuation new increased cash contribution rates will be agreed with the trustee effective from 1 April 2006.

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. In accordance with this strategy £15m of investments were switched from equities to bonds during February 2005.

In connection with the proposed new financing and proposed return to shareholders by the ultimate parent company, the company intends to make a one-off contribution to WCPS of £7m. It also intends to make additional contributions of £1m in each of the four years beginning 1 April 2006 and a further £0.9m in 2010/11. The amounts are in addition to the normal pension contributions required by the WCPS trustee. The additional contributions are conditional on the proposed return to shareholders by the ultimate parent company being made.

(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.

The total pension charge for the year was £1.7m (2004 - £1.6m) before exceptional operating costs. This includes £40,000 (2004 - £38,000) in respect of contributions to defined contribution schemes and £0.3m (2004 - £0.4m) accrued in accordance with SSAP24 bringing the total accrued at 31 March 2005 to £1.5m (2004 - £1.2m). 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.

(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 statutory accounts for the company for the year ended 31 March 2004 included an FRS17 disclosure of a pensions deficit net of tax at that date of £12.4m. In the light of updated information the scheme actuary reassessed the deficit, as at 31 March 2004, at a lower value net of tax of £9.4m. The comparative figures herein are as restated.

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 2005, by an independent qualified actuary, using the following major assumptions in accordance with the transitional arrangements of FRS17:

	2005	2004	2003
Assumptions:			
RPI Inflation	2.9%	2.9%	2.5%
Pension increases in payment (RPI)	2.9%	2.9%	2.5%
Pension increases in payment (LPI)	2.7%	2.7%	2.4%
Salary increases	4.9%	4.9%	4.5%
Discount rate	5.4%	5.5%	5.6%

28 Notes to the accounts

Asset distribution and expected return

The following table sets out the key FRS17 assumptions used for the section valuation. 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		
	2005	2004	2003	2005	2004 restated	2003
	£m	£m	£m	£m	£m	£m
Equities	7.7%	7.9%	7.5%	63.2	71.5	53.9
Bonds	4.7%	4.7%	4.5%	35.0	18.4	5.4
Corporate bonds	-	-	5.6%	-	-	7.0
Property	-	-	6.0%	-	-	1.6
Cash	4.7%	4.6%	3.8%	-	-	5.7
Market value of section assets				98.2	89.9	73.6
Present value of the company WCPS pension section's liabilities				(110.1)	(103.4)	(92.1)
Deficit in the section				(11.9)	(13.5)	(18.5)
Deferred taxation				3.6	4.1	5.5
Net pension liability				(8.3)	(9.4)	(13.0)

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 2005 would have been:

	2005 £m	2004 £m
Net assets excluding pension liability	68.9	69.3
Adjustment in respect of:		
SSAP24 accrual	1.5	1.2
Restructuring costs included in FRS17 liability	0.8	-
Deferred tax relating to adjustments	(0.7)	(0.4)
Net pension liability under FRS17	(8.3)	(9.4)
Net assets including pension liability	62.2	60.7
Profit and Loss Account reserve excluding pension liability	40.2	40.6
Adjustment in respect of:		
SSAP24 accrual	1.5	1.2
Restructuring costs included in FRS17 liability	0.8	-
Deferred tax relating to adjustments	(0.7)	(0.4)
Net pension liability under FRS17	(8.3)	(9.4)
Profit and Loss Account reserve including pension liability	33.5	32.0

Contributions

Contributions paid in the year to the section including those from other companies in the section were £1.4m (2004 - £1.3m). In accordance with the terms of the scheme, during the year Bristol Water plc was required to contribute at the rates of 19.5% (2004 - 18.1%) for the main sub section and 8.1% (2004 - 8.1%) for the alternative sub section.

As described in note 19(a) in connection with, and subject to, the proposed return to shareholders by the ultimate parent company, the company has agreed to make additional contributions to the scheme.

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

	2005 £m	2004 £m
Analysis of the amount charged to operating profit		
Employer's part of current service cost	2.1	1.8
Past service cost	0.3	-
Total operating charge	<u>2.4</u>	<u>1.8</u>
Analysis of the amount credited/(charged) to other finance income		
Expected return on pension section assets	6.4	4.9
Interest on post-retirement liabilities	(5.6)	(5.1)
Net return – credit/(charge) to other finance income	<u>0.8</u>	<u>(0.2)</u>
Analysis of amount recognised in the Statement of Recognised Gains and Losses (STRGL)		
Actual return less expected return on pension section assets	4.0	13.5
Experience gains/(losses) arising on section liabilities	2.2	(0.2)
Changes in assumptions underlying the present value of section liabilities	(4.5)	(7.6)
Actuarial gain recognised in STRGL	<u>1.7</u>	<u>5.7</u>
Movement in section pre tax deficit during the year		
Deficit in section at beginning of the year	(13.5)	(18.5)
Movement in year:		
Current service cost (employee and employer)	(2.4)	(2.2)
Aggregate contributions (employee and employer)	1.8	1.7
Past service cost – curtailment loss	(0.3)	-
Credit/(charge) to other finance income	0.8	(0.2)
Actuarial gain recognised in STRGL	1.7	5.7
Deficit in section at end of the year	<u>(11.9)</u>	<u>(13.5)</u>
The history of experience gains and losses is:		
Difference between expected and actual return on section assets:		
Amount – surplus	4.0	13.5
Percentage of section assets	4%	15%
Experience gains and losses on section liabilities		
Amount – gain/(loss)	2.2	(0.2)
Percentage of the present value of the section liabilities	2%	-
Total amount recognised in STRGL		
Amount – gain	1.7	5.7
Percentage of the present value of the section liabilities	<u>2%</u>	<u>6%</u>

30 Notes to the accounts

20. ADDITIONAL INFORMATION TO THE CASH FLOW STATEMENT

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

	2005 £m	2004 £m
Operating profit	16.7	19.7
Depreciation, net	14.6	14.9
Cash flow from operations	<u>31.3</u>	34.6
Working capital movements -		
Stocks	0.1	-
Debtors	1.2	(2.4)
Creditors	1.5	1.2
Net cash inflow from operating activities	<u>34.1</u>	33.4

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

	2005 £m	2004 £m
Increase/(decrease) in net cash in year	-	(1.6)
Cash used to repay borrowings	6.9	25.8
Cash from new borrowings	-	(98.5)
Net costs of issue of loans	-	0.7
Cash from (decrease)/increase in short-term deposits	(5.4)	9.4
	<u>1.5</u>	(64.2)
New debt not affecting cash flow	(1.3)	(1.3)
Net borrowings at beginning of year	<u>(140.3)</u>	(74.8)
Net borrowings at end of year	<u>(140.1)</u>	(140.3)

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

	Opening net borrowings £m	Cash flows in year £m	Debt maturities £m	New debt not affecting cash flow £m	Closing net borrowings £m
Cash at bank	1.6	-	-	-	1.6
Short-term deposits	15.8	(5.4)	-	-	10.4
Cash at bank including overnight deposits	<u>17.4</u>	(5.4)	-	-	12.0
Borrowings due within one year	(6.9)	6.9	(3.7)	-	(3.7)
Borrowings due after one year	(150.8)	-	3.7	*(1.3)	(148.4)
Net borrowings	<u>(140.3)</u>	1.5	-	(1.3)	<u>(140.1)</u>

*Represents indexation of term loans.

21. POST BALANCE SHEET EVENTS

In May 2005 the company announced that it planned to raise further funds under the Artesian monoline wrapped bond programmes arranged by The Royal Bank of Scotland amounting to £57m of index-linked debt. No provision has been made in these accounts for the cost of raising the funds, estimated at £0.4m.

The company has agreed to advance approximately £22m 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 company plans to use this to finance a £30m return to shareholders.

The remaining approximately £35m of new funds will be used by the company to finance future capital expenditure, debt maturities and working capital requirements and a payment of £7m to reduce the deficit in the final salary pension scheme.

At 31 March 2005 the company had two 5 year term £10.0m committed undrawn borrowing facilities with The Royal Bank of Scotland. The facilities expire in May 2008 and December 2008. After the year end the company has agreed with The Royal Bank of Scotland to cancel these and replace them with a new £30m facility with an expiry date of May 2010.

In connection with the proposed new financing and return to shareholders by the ultimate parent company, the company intends to make a one-off contribution to WCPS of £7m. It also intends to make additional contributions of £1m in each of the four years beginning 1 April 2006 and a further £0.9m in 2010/11. The amounts are in addition to the normal pension contributions required by the WCPS trustee. The additional contribution is conditional upon the proposed £30m return to shareholders by the ultimate parent company being made.

22. ULTIMATE PARENT COMPANY AND RELATED PARTY TRANSACTIONS

The ultimate parent and controlling company is Bristol Water Group plc, which is the only entity within the Group to consolidate these accounts. 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.

32 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 2005 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

26 May 2005

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.

PROFIT AND LOSS ACCOUNTS

Years ended 31 March

	2005 £m	2004 £m	2003 £m	2002 £m	2001 £m
Turnover	70.6	70.6	70.0	68.0	64.9
Operating profit	16.7	19.7	19.8	18.5	17.9
Interest	(6.6)	(6.2)	(5.2)	(4.6)	(4.5)
Profit before taxation	10.1	13.5	14.6	13.9	13.4
Taxation	(1.3)	(2.4)	(6.1)	(3.6)	(3.4)
Profit after taxation	8.8	11.1	8.5	10.3	10.0
Dividends paid and proposed	(9.2)	(7.3)	(16.9)	(6.6)	(6.1)
(Loss)/profit retained	(0.4)	3.8	(8.4)	3.7	3.9

BALANCE SHEETS

At 31 March

	2005 £m	2004 £m	2003 £m	2002 £m	2001 £m
Fixed assets	195.6	193.8	184.7	179.4	170.0
Loan to ultimate holding company	47.0	47.0	-	-	-
Net current assets/(liabilities)	3.1	6.5	(13.8)	1.0	(6.9)
Total assets less current liabilities	245.7	247.3	170.9	180.4	163.1
Debt due after one year	(148.4)	(150.8)	(77.7)	(82.8)	(71.1)
Other liabilities	(8.6)	(8.5)	(8.5)	(8.5)	(8.7)
Provisions	(19.8)	(18.7)	(19.2)	(15.2)	(13.0)
Net operating assets	68.9	69.3	65.5	73.9	70.3

CASH FLOW

Years ended 31 March

	2005 £m	2004 £m	2003 £m	2002 £m	2001 £m
Cash flow from operations	34.1	33.4	29.7	28.9	32.3
Interest and non-equity dividends paid	(7.0)	(7.8)	(6.7)	(5.7)	(5.3)
Tax paid	(1.9)	(3.0)	(3.0)	(2.0)	(2.8)
Capital expenditure	(16.4)	(24.6)	(16.1)	(22.8)	(15.1)
Loan to ultimate holding company	-	(47.0)	-	-	-
Dividends paid on equity shares	(7.3)	(15.9)	(5.6)	(5.2)	(4.6)
Cash flow before management of liquid resources and financing	1.5	(64.9)	(1.7)	(6.8)	4.5
Management of liquid resources	5.4	(9.4)	7.5	(5.2)	(8.8)
Net (decrease)/increase in financing	(6.9)	72.7	(3.3)	12.0	3.4
Increase/(decrease) in cash	-	(1.6)	2.5	-	(0.9)

RATIOS AND STATISTICS

	2005	2004	2003	2002	2001
Operating profit margin	24%	28%	28%	27%	27%
Earnings per ordinary share	128.1p	166.0p	123.0p	153.2p	147.7p

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

Ratios and statistics have been calculated based on actual rather than rounded values.

