

BRISTOL WATER plc

REPORT AND ACCOUNTS 2006

Registered number - 2662226

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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

Year ended 31 March	2006 £m	2005 Restated £m
Turnover	81.9	70.6
Operating profit		
- normal activities	24.9	18.4
- exceptional restructuring costs	-	(1.3)
	24.9	17.1
Profit before tax	18.4	10.7
Profit after tax	11.6	9.1
Regulatory Capital Value (RCV)	234.5	229.1
Net debt (excluding 8.75% irredeemable cumulative preference shares) as percentage of RCV	71%	61%
Earnings per ordinary share	193.0p	151.9p
Dividend per ordinary share in respect of the year	139.85p	135.15p

- Results are reported under UK GAAP.
- Results for the previous year have been restated to reflect full adoption of FRS17, FRS20, FRS 21, FRS25 and FRS26

CHAIRMAN'S STATEMENT

Introduction

On 22 April 2006 a recommended cash offer was made by Sociedad General de Aguas de Barcelona S.A. (Agbar) for Bristol Water Group plc (BWG), the then ultimate parent company. Agbar has now acquired more than 90% of the shares of BWG. BWG has subsequently been delisted.

Agbar is a substantial and well-respected company operating in a range of international markets providing water services to approximately 23 million people worldwide. No significant changes to the operational or financial structure of Bristol Water plc are anticipated as a result of the transaction and services to customers will be unaffected.

The company has concluded the first year of the new regulatory period covering the five years 2005-10 and is making good progress towards delivery of the required outputs and efficiency targets for the five-year period specified by the Water Services Regulatory Authority (Ofwat) in its determination of the new price limits.

Financial performance in 2004/05 was adversely affected by a combination of expenses being incurred that were not accommodated within allowed price limits, together with a provision for restructuring costs. The price limits for the new five-year period provide for most of those additional costs together with the financing of a substantial capital investment programme. The allowed price limit increase of 17.3% for the year, together with efficiency gains from the restructuring programme, has improved profitability.

During the year we have progressed initiatives to improve further the operating efficiency of the company. We have implemented a number of redundancies and outsourced our laboratory services. We are continuing to seek further potential savings where consistent with maintaining service standards and appropriate levels of risk.

A major focus during the period has been the planning and initiation of projects for the five-year period and the establishment of a framework partnership to deliver them. Good progress is being made with the major capital expenditure project to improve the security of supply for customers in the northern part of our area. Capital expenditure for the year was lower than Ofwat's assumptions due to the phasing of expenditure. We anticipate a significant increase in capital expenditure in the next two years and in real terms, over the five-year period, anticipate spending in line with Ofwat's assumptions.

Levels of service to customers remain extremely high, as reflected in the Ofwat's assessment of levels of service and customer surveys.

Over the last year at a national level, there has been considerable publicity about drought conditions, the potential restriction on water supplies and leakage levels. Approximately 40% of the company's water resources come from impounding reservoirs. These are now approximately 90% full and no restrictions on water use are expected in the coming year. We are continuing to encourage customers to use water wisely. The company has met its Ofwat-approved leakage target in each year since targets were introduced.

Accounting standards

As previously indicated the company does not currently intend to adopt International Financial Reporting Standards and therefore will continue to report under UKGAAP.

There have been a number of changes to UKGAAP in the period. The five significant changes for the company are the adoption of FRS17 (Retirement Benefit Obligations), FRS20 (Share based payment), FRS21 (Events after the balance sheet date), FRS25 (Financial Instruments: Disclosure and Presentation) and FRS26 (Financial Instruments: Recognition and Measurement). The new standards have been adopted for these results and comparative figures for the previous year have been restated accordingly.

Financial performance

The company has performed well with operating profit increasing by 46% to £24.9m. This includes the effect of the average 17.3% increase in main water supply tariffs, reflecting the 13.8% K factor for 2005/06 set by Ofwat in the price determination for the five years 2005-10.

Gross capital expenditure amounted to £22.6m.

Net debt, excluding the 8.75% irredeemable cumulative preference shares (which under FRS25 are now required to be classified as a long-term creditor), increased to £166.2m compared to £140.8m at 31 March 2005. The increase in net debt reflects the £21.5m advanced to BWG and the additional contribution to the pension scheme.

Additional long-term index linked debt of £57m was successfully raised through the Artesian programmes arranged by The Royal Bank of Scotland. £21.5m was used to provide an intercompany loan to BWG and £7m to make a special contribution to the defined benefit pension scheme. The remainder will be used to finance capital expenditure and debt maturities over the next two years. This 'pre-funding' is reflected in the relatively high cash at bank and on deposit of £40.5m at 31 March 2006.

BWG used the £21.5m loan plus other cash balances to finance a return of approximately £30m to shareholders, which was completed during July 2005.

At the year-end the net debt excluding the 8.75% irredeemable cumulative preference shares of £166.2m represented approximately 71% of Regulatory Capital Value (RCV). We anticipate that the company will be able to maintain this ratio in the range of 75% to 80% over the remainder of the five-year regulatory period to 2009/10.

Dividends

The company policy is to pay an annual level of ordinary dividends comprising:

- A base level of dividend reflecting the cost of capital allowed by Ofwat in the determination of price limits, adjusted to reflect actual gearing levels and where appropriate actual performance relative to Ofwat's assumptions.
- An amount equal to the post-tax interest receivable from Bristol Water Group plc in respect of intercompany loans.

Interim dividends totalling £8.4m have been declared in respect of the year. The Board does not propose a final dividend.

Pensions

The company has a defined contribution pension scheme which was closed to new entrants a number of years ago and all new employees are offered stakeholder pension arrangements.

At 31 March 2006 the gross surplus of the scheme, under FRS17, included within the company's balance sheet, was £4.4m. This represents a £16.3m improvement from the £11.9m deficit at 31 March 2005 reflecting the additional contribution of £7m made during the year and favourable net investment performance and actuarial movements.

Board changes

After 37 years service to the company, Roger Wyatt (Managing Director) retired at the end of March 2006. His contribution to the company has been enormous and we wish him a long and happy retirement. Peter Knowlson, HR Director, retired at 30 September 2005 and we also wish him well for the future.

I was appointed as a director and Chairman at the last Annual General Meeting. This has allowed separation of the roles of Chief Executive and Chairman in line with good Corporate Governance.

Following the Agbar acquisition, Juan Antonio Guijarro Ferrer, Manual Navarro Agulló and Manuel Cermerón were appointed to the board on 19 June 2006. Manual Navarro Agulló will take the role of Chief Executive, and Alan Parsons becomes Managing Director. We welcome the new members to the board.

Conclusions

The company is well placed for the future and it looks forward to being a member of the Agbar group.

Moger Woolley
Chairman
13 July 2006

DIRECTORS' REPORT AND BUSINESS REVIEW

For the year ended 31 March 2006

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

Following the removal of the requirement to produce a statutory Operating and Financial Review (OFR) we have expanded our business review in the directors' report to incorporate the additional content that would have been incorporated in the OFR.

BUSINESS STRATEGY AND OBJECTIVES

The company's vision is to be '**a local water company committed to delivering world class performance at best value, efficiently, innovatively and sustainably**'. To achieve this vision the company's key objectives are to:

- provide a safe and reliable supply of water
- deliver comprehensive high quality service
- create value by operating as efficiently as possible and outperforming regulatory targets
- act in a reasonable and sustainable manner
- make the company a great place to work

The company provides water supply and related services to a population of over one million people and businesses in an area of almost 2,400 square kilometres centred on Bristol.

The company is a regulated business and subject to economic regulation by the Water Services Regulation Authority (Ofwat) through a price cap mechanism, whereby the prices the company can charge for the majority of its services are limited to increases in inflation plus or minus a K factor (RPI+/-K). Price limits are currently reviewed every five years. The last review was announced in December 2004 and covers the five years 2005/06 to 2009/10.

The water industry is essentially a monopoly and the Government through Ofwat is progressively seeking to open up competition within the industry for large industrial and commercial customers and greenfield domestic developments. To date, competition has had no significant impact on either the company or the rest of the industry.

The water industry is subject to a range of UK and EU legislation, with operational and service standards being tightened on a regular basis. The company's performance is monitored by three main regulators - Ofwat for levels of service to customers, the Environment Agency (EA) for environmental protection and the Drinking Water Inspectorate (DWI) for drinking water quality.

RISK AND UNCERTAINTY

The key risks and uncertainties that the company faces are:

- contamination or interruption of water resources and/or supplies
- failure to meet existing regulatory requirements which could result in penalties or enforcement action by Ofwat, EA or DWI
- increased costs of meeting regulatory requirements
- impact of legislative changes particularly related to environmental or drinking water quality requirements
- climate/weather pattern change
- significant development of competition within the water sector
- loss of major customers as a result of closure
- impact of future periodic and/or interim determinations of price limits by Ofwat, the next periodic review will set prices for 2010/11 onward
- pensions – the company has a final salary defined benefit scheme. This was closed to new entrants some time ago but remains open to future benefit accrual for existing members. At March 2006 the scheme had a surplus of £4.4m on an FRS17 basis. The funding requirements of the scheme are subject to a range of factors including longevity assumptions, investment allocation and investment returns.

- worsening debt collection experience particularly household debt giving rise to bad debts.
- inflation – operating costs, the capital investment programme and the company's £95m of index-linked debt are subject to inflation; potential adverse impacts of high inflation are mitigated by the index-linking of the majority of revenues through the RPI +/- K price limits
- further increases in energy prices
- changes in the taxation regime applicable to the company
- failure to meet banking covenants, in particular the ratio of debt to Regulatory Capital Value (RCV).

The company has a range of risk management strategies to mitigate the impact of these risks and uncertainties. For certain events it would be able to seek from Ofwat an increase in price limits to meet additional costs that could not have been avoided by prudent management action.

DEVELOPMENT AND PERFORMANCE OF THE BUSINESS DURING THE YEAR

Key developments during the year were:

- completion of the first year of the new regulatory period covering the years 2005-10 with good progress made towards delivery of the required outputs and efficiency targets assumed by Ofwat in its determination of new price limits.
- raising £57m of new funds under the Artesian monoline wrapped bond programme arranged by the Royal Bank of Scotland
- advancing £21.5m to the former ultimate holding company Bristol Water Group plc (BWG) to partially finance the return of £30m to its shareholders
- injection of an additional contribution of £7m into the final salary pension scheme

FINANCIAL PERFORMANCE

The company continues to report under UK GAAP. As required it has adopted FRS17 (Retirement Benefit Obligations), FRS20 (Share based payment), FRS21 (Events after the balance sheet date), FRS25 (Financial Instruments: Disclosure and presentation) and FRS26 (Financial Instruments: Measurement) and results for the previous year have been restated accordingly.

Financial performance during the year was good with a significant increase in profit reflecting the impacts of the increase in price limits and non-recurrence of the restructuring costs incurred last year.

	2006	2005 Restated
	£m	£m
Turnover	81.9	70.6
Operating profit	24.9	17.1
Net finance costs (including effects of FRS17 and FRS25)	(6.5)	(6.4)
Profit before tax	18.4	10.7
Taxation	(6.8)	(1.6)
Profit after tax	11.6	9.1
Net capital investment	20.2	17.6
Net debt (excluding 8.75% irredeemable cumulative preference shares) at end of period	166.2	140.8
Ratio of net debt (excluding 8.75% irredeemable cumulative preference shares): Regulatory Capital Value (RCV)	71%	61%

The tax rate for the period at 37% is above the standard UK tax rate; this mainly reflects the impact of changes in the discount rates used to determine deferred tax liabilities. The rate is higher than the rate of 15% in the previous year which benefited from the recovery of Advance Corporation Tax.

Earnings per share for the year increased by 27% to 193.0p (2005: 151.9p).

TREASURY

Net cash inflow from operating activities was £35.1m (2005: £34.1m) and from financing activities £52.7m (2005: £7.5m outflow). Net cash used in investing activities was £40.9m (2005: £16.4m) including £21.5m (2005: Nil) advanced to BWG, and net cash used in investment returns and servicing finance was £6.5m (2005: £6.4m).

Net interest charges in the year totalled £6.5m (2005: £6.4m) and were covered 3.9 times (2005: 2.7 times). The increase in interest charges reflects the additional borrowings offset by interest on loans to Bristol Water Group plc and on cash balances and deposits. The interest charge has been restated:

- in accordance with FRS25 to include dividends of £1.1m per annum payable on the 8.75% irredeemable cumulative preference shares
- in accordance with FRS17 to include notional interest arising on retirement benefit obligations £0.9m (2005: £0.8m).

At 31 March 2006 gross debt excluding the 8.75% irredeemable cumulative preference shares was £206.7m. Approximately 46% of this debt is index-linked and 38% fixed rate, the index-linked element is effectively hedged against the company's index-linked revenue base.

The company's policy is to maintain a balanced debt portfolio with mainly long dated maturities reflecting the long-term nature of the company's asset base.

The company maintains cash balances and committed credit facilities to meet foreseeable requirements for the remainder of the regulatory period to 2009/10.

Net debt including the 8.75% irredeemable cumulative preference shares increased to £178.7m compared to £153.3m at 31 March 2005. The increase reflects the refinancing and loan to BWG together with the additional contribution to the pension scheme.

At the year-end the company net debt excluding the 8.75% irredeemable cumulative preference shares was £166.2m, representing approximately 71% of Regulatory Capital Value (RCV). We anticipate that the company will be able to maintain this ratio in the range of 75% to 80% over the remainder of the five-year regulatory period to 2009/10. This ratio is key and is effectively replicated within the banking covenants. The range that the company expects to operate within provides a limited amount of headroom to meet adverse impacts from risks and uncertainties.

PENSIONS

Pension arrangements for the majority of the employees are provided through membership of the Water Companies' Pension Scheme (WCPS) which provides defined benefits based on final pensionable pay. The company has a separate section within WCPS for the regulated water business. The pension section was closed to new entrants a number of years ago and all new employees are offered stakeholder pension arrangements.

At 31 March 2006 the gross surplus before tax under FRS17 and included within the company's balance sheet, in the company's section within WCPS was £4.4m. This represents a £16.3m improvement from the £11.9m deficit at 31 March 2005 and reflects the additional contribution of £7.0m made during the year and favourable actuarial movements. The company has also agreed to make further additional contributions of £1.0m in each of the four years beginning April 2006 and £0.9m in 2010/11.

DIVIDENDS

The company ordinary dividends policy is to pay an annual level of dividends comprising:

- A base level of dividend reflecting the cost of capital allowed by Ofwat in the determination of price limits, adjusted to reflect actual gearing levels and where appropriate actual performance relative to Ofwat's assumptions.
- An amount equal to the post-tax interest receivable from Bristol Water Group plc in respect of intercompany loans.

Interim dividends totalling £8.4m have been declared in respect of the year, and the Board does not propose a final dividend.

NON-FINANCIAL PERFORMANCE

The company uses a comprehensive system of Key Performance Indicators (KPI's) to monitor non-financial performance throughout the year. Key measures of performance include:

Years to 31 March	Units	Notes	2006	2005	2004
Ofwat performance measures					
Ofwat overall performance assessment (OPA):					
OPA score (out of 288)			*	281	279
Ranking (out of 22 companies)			*	10 th	10 th
Ofwat relative efficiency rankings (out of 22 companies)					
Operating costs			*	13 th	20 th
Capital maintenance			*	14 th	19 th
* will be published by Ofwat later this year					
The UK water companies operate to very high quality and service levels and relatively small differences in performance can have a significant impact on the Ofwat performance measures.					
Environment					
Excavated materials diverted from landfill	Tonnes		16358	3919	N/a
Average energy used to supply 1ML of water	KwH	1	820	817	827
Emission of greenhouse gases in total to supply 1 ML of water	Tonnes CO2	1	0.36	0.31	0.38
Compliance with EA abstraction licences			100%	100%	99.7%
Status of SSSIs – percentage favourable			100%	100%	100%
Social					
Security of supply index			100%	100%	100%
Water quality compliance		2, 3	99.97%	99.92%	99.93%
Employees					
Turnover rate			4.2%	5.7%	6.5%
Reported accidents	Per 1000 employees	2	13.2	6.5	10.6
Assets					
Percentage of properties with interruptions to supply greater than six hours			0.21%	0.04%	0.25%
Loss of water from supply network	MLD	4	53	53	53

- Notes:
- 1 ML = megalitres
 - 2 Based on 12 months to 31st December ending in the relevant accounting period
 - 3 Water quality is based on mean zonal compliance data
 - 4 MLD = megalitres per day

CORPORATE SOCIAL RESPONSIBILITY

The company is committed to acting in a responsible and sustainable manner.

Environment

The water industry is a high environmental impact sector. By reference to a range of sustainability measures developed by Water UK (the trade body for water companies in England and Wales), the company performs well compared to its peer group.

We:

- fulfil and in many areas exceed all the requirements of conservation and environmental duties set out in the Water Act and codes of practice on conservation, access and recreation
- have a well established environmental policy with a strong commitment to the sustainable management of water resources and our assets
- carefully assess the risks associated with the potential environmental impact of our work to ensure that risks are mitigated and managed effectively

Social and community

We:

- deliver high quality reliable supplies of water to over one million people
- provide the best possible access to our major reservoirs whilst seeking to maintain a balance between wildlife and recreational demands. Chew Valley Lake, our largest reservoir, has an international reputation for the quality of its fishing.
- undertake a programme of educational support including open days, access to visitor centres and school visits
- make charitable donations, sponsorships and grants to local organisations and individuals to promote good causes. These are made by BWG on the company's behalf.

Employees

Our employees are vital to the success of the company.

We:

- are committed to employee involvement, communication and training and sound relationships with trade unions
- are an equal opportunity employer providing employment and appropriate facilities for disabled people and for those who have become disabled while employed by the company
- have high standards for health and safety
- operate bonus schemes for all employees
- prior to the Agbar acquisition of BWG operated a savings related share option (SAYE) scheme and a share incentive plan (SIP) for all employees with qualifying service.

Key performance indicators:

The company uses a series of KPI's to monitor environmental performance; key measures are included in the Non-Financial performance section on page 8.

The company plans to set and publish its own targets in due course.

Further details of the company's environmental, conservation and recreation policies are available on our website www.bristolwater.co.uk.

OUTLOOK

The main drivers of future profitability will be:

- increases in charges to customers in line with the RPI+/-'K' price limits. The 'K' factors for the next 4 years are:

	K %
2006/07	+2.8%
2007/08	+1.5%
2008/09	+0.7%
2009/10	-2.3%

- changes in operating costs - further efficiencies obtained by the company offset by the cost of new obligations and inflation
- inflation – operating costs, the capital investment programme and the company's £95m of index-linked debt are subject to inflation; potential adverse impacts of high inflation are mitigated by the index-linking of the majority of revenues through the RPI +/- K price limits
- The company is a major energy user; its current energy contracts end in September 2006. A new one-year contract for the majority of the company's energy requirements has now been agreed. In line with general energy price movements this will increase the energy costs by approximately 66%.
- delivery of the capital investment programme required to meet the obligations set out in Ofwat's determination of price limits. We currently anticipate delivering the capital investment programme broadly in line with Ofwat's assumptions.
- changes in pension funding/deficits.

DIRECTORS AND THEIR INTERESTS

After the year-end, and following the Agbar acquisition of BWG, all the directors' interests in shares, shares in the Share Incentive Plan and the Group Savings Related Share Option Scheme have been sold, transferred, exercised or terminated. Some of the directors' interests have been rolled over into Agbar loan notes.

Ordinary shares

The directors during the year, and their beneficial interests in the ordinary shares of the previous ultimate parent company Bristol Water Group plc (BWG), were:

	1 April 2005	31 March 2006 (or at date ceasing to be a director)
J M Woolley, <i>Chairman</i>	5,768	5,768
Dr A J Bates	7,524	7,535
Professor D I Blockley, <i>Non Executive</i>	356	356
C J Curling, <i>Non Executive</i>	-	-
P D Knowlson (<i>retired, 30 September 2005</i>)	5,160	5,336
P McIlwraith, <i>Non Executive</i>	-	-
A S Nield, <i>Finance Director</i>	1,019	1,093
A Parsons, <i>Chief Executive (now Managing Director)</i>	29,953	30,027
T Smallwood, <i>Non Executive</i>	-	-
R W Wyatt, <i>Managing Director (retired, 31 March 2006)</i>	10,401	11,429

The numbers of shares at 1 April 2005 have been restated to reflect the 10 for 13 consolidation that took place in July 2005.

The following directors were appointed subsequent to 31 March 2006 and had no interest in the shares of the previous ultimate parent company Bristol Water Group plc (BWG):

Manuel Navarro Agulló
Manual Cermerón
Juan Antonio Guijarro Ferrer

B shares

The following directors had interests in the following numbers of BWG B shares, and received amounts following cancellation and redemption, as a result of the return of capital to shareholders during July 2005:

	Numbers of B shares issued	Amount repaid on redemption £
J M Woolley	7,499	11,099
Dr A J Bates	9,781	14,476
Professor D I Blockley	463	685
P D Knowlson	6519	9648
A S Nield	1325	1961
A Parsons	32,971	48,797
R W Wyatt	13,522	20,013

Share incentive plan (SIP)

The numbers of ordinary shares noted above include the following numbers of shares acquired in accordance with the terms of the Bristol Water Group plc SIP:

	1 April 2005	31 March 2006 (or at date ceasing to be a director)
A S Nield	-	74
A Parsons	-	74
R W Wyatt	-	74

The market price of the relevant shares at 31 March 2006 was £9.095 and ranged from £6.4196 to £9.225 during the year. In April 2006 Mr Parsons and Mr Nield continued to subscribe to the SIP under the conditions applicable to all employees. In May 2006 all SIP shares were sold or exchanged for Agbar loan notes

Savings related option scheme

The table below summarises options over ordinary shares of BWG granted to the directors under the terms of the Group Savings Related Share Option Scheme:

	Date of grant	Options		Exercise price £	Exercisable from	to
		unexercised at 31.3.05	unexercised at 31.3.06 (or at date ceasing to be a director)			
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 – <i>retired 30 September 2005</i>	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 – <i>retired 31 March 2006</i>	16.07.02	4,675	-	2.032	Sept 2005	March 2006

During the year Mr Wyatt exercised options granted under the savings related share option scheme. The total gain made on exercise was £22,000. No share options were exercised by the other directors in the year to 31 March 2006.

In June 2006, related to the Agbar offer, Mr Parsons, Dr Bates and Mr Nield exercised all their options accrued to that date. The remaining options have lapsed. The aggregate of the gains made on exercise was £190,000 (2005: Nil).

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 2006 was £9.095 and ranged from £6.4196 to £9.225 during the year.

Service contracts and fees

Mr A Parsons, Mr A S Nield and Dr A J Bates have service contracts with 12-month notice periods.

Prior to their retirements during the year, Mr R W Wyatt and Mr P D Knowlson had service contracts with the company with 12-month notice periods.

During the year Professor D I Blockley, Mr C Curling, Mr P McIlwraith, Mr T Smallwood and Mr J M Woolley were also non-executive directors of Bristol Water Group plc. Their fees for the year are disclosed in the Remuneration Committee report on page 18. Their fees are recharged to the company.

Other interests

Dr A Bates and Mr A S Nield, by rotation, will offer themselves for re-election at the Annual General Meeting. As newly appointed directors Juan Antonio Guijarro Ferrer, Manuel Navarro Agulló and Manuel Cermerón will offer themselves for election at the Annual General Meeting.

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. At the year-end no director held any shares in any group company except BWG.

ULTIMATE PARENT COMPANY

At 31 March 2006 Bristol Water Group plc (BWG) was the ultimate parent company of Bristol Water plc.

On 22 April 2006 a recommended cash offer was made by Sociedad General de Aguas de Barcelona S.A. (Agbar) for BWG, the then ultimate parent company. Agbar has now acquired more than 90% of the shares of BWG. BWG has subsequently been delisted.

All of the company's 8.75% irredeemable cumulative preference shares are owned outside the BWG group.

LAND AND BUILDINGS

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

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 26 days purchases (2005 - 23 days).

RESEARCH AND DEVELOPMENT

The company undertakes research and development projects in relation to its business. Expenditure during the year amounted to £0.1m (2005 - £0.1m).

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 (IFRS)

Following guidance issued by the Department of Trade and Industry (DTI), as the company does not prepare consolidated accounts it is not 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.

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (that is, information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware, and the directors have taken all steps that they ought to have taken in order to make themselves aware of any relevant information and to establish that the company's auditors are aware of that information.

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 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 of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently with the exception of the changes arising on the adoption of new accounting standards in the year as explained in the statement of accounting policies on page 22. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statement for the year ended 31 March 2006. 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board
S C Robson
Secretary
13 July 2006

DIRECTORS

John Moger Woolley DL Age 71

Non-executive Chairman

Mr. Woolley was appointed to the board in 2005. He has been a director of Bristol Water Group plc (BWG) from 1996, becoming Chairman in 1998. He is Chairman of The Council of the University of Bristol. He was the High Sheriff of Gloucestershire in 2002 and was formerly the Chief Executive of DRG plc.

Manuel Navarro Agulló Age 49

Chief Executive

Mr Agulló was appointed to the board in June 2006. He has held a range of senior positions with Agbar since 1983. He is also Chief Executive of BWG.

Dr Arnold Bates Age 61

Quality and Information Systems Director

Dr Bates was appointed to the board in 1991.

Professor David Ian Blockley Age 64

Non-executive, Member of Audit Committee and Member of Remuneration Committee

Professor Blockley was appointed to the board in 2003. He was a director of BWG from 1998 until his retirement from that board in June 2006. He is head of the Department of Civil Engineering and was Dean of the Faculty of Engineering at the University of Bristol. He was President of the Institution of Structural Engineers in 2002.

Manuel Cermerón Age 36

Executive Director

Mr Cermerón was appointed to the board in June 2006. He has held a range of senior positions with Agbar since 2000.

Chris Curling Age 56

Non-executive

Mr Curling was appointed to the board in 2004. He was a director of BWG from 2005 until his retirement from that board in June 2006. He has three non-executive directorships and is a member of the Council of Bristol University. Formerly he was Senior Partner with the legal firm Osborne Clarke.

Juan Antonio Guijarro Ferrer Age 42

Non-executive

Mr Guijarro Ferrer was appointed to the board in June 2006. He is General Manager of Agbar's water division, and has been with Agbar since 1989. He is also a director of BWG.

Peter McIlwraith Age 58

Non-executive, Chairman of Audit Committee and Member of Remuneration Committee

Mr McIlwraith was appointed to the board in 2003. He was a director of BWG from 2001 until his retirement from that board in June 2006. He is the Chairman of @Bristol Limited. He was a partner with PricewaterhouseCoopers (and prior to that Price Waterhouse) until 2001 and was Regional Chairman for the West and Wales and Senior Partner in Bristol.

Andrew Simon Nield Age 50

Group Finance Director

Mr Nield was appointed to the board in 2000. He is Group Finance Director of BWG. He previously held a range of senior roles with the Anglian Water (now AWG) group. He is also a director of The Water Companies (Pension Fund) Trustee Company.

Alan Parsons Age 57

Managing Director

Mr Parsons was appointed to the board in 1991 and appointed as Chief Executive in 2000. He became Managing Director in June 2006 following the appointment of Mr Agulló as Chief executive. He is also Managing Director of BWG and is a director of Water UK.

Trevor Smallwood DL OBE Age 58

Non-executive Director, Chairman of Remuneration Committee and Member of Audit Committee

Mr Smallwood was appointed to the board in 2003. He was a director of BWG from 1999 until his retirement from that board in June 2006. He is Chairman of Quartet Community Foundation (formerly the Greater Bristol Foundation). He was Chairman of FirstGroup plc until September 1999.

Note:

Under a Scheme of Arrangement Bristol Water Holdings plc replaced Bristol Waterworks Company as the ultimate parent of the Bristol Water group in 1991. In turn, under a further scheme of arrangement, Bristol Water Group plc replaced Bristol Water Holdings plc in 2003. References to Bristol Water Group plc (BWG) above include predecessor companies where appropriate.

CORPORATE GOVERNANCE REPORT

DIRECTORS' STATEMENT

The Board is committed to ensuring that high standards of corporate governance are maintained by the company. In doing so it endorses the main and supporting principles and provisions set out in the Combined Code on Corporate Governance of the Financial Reporting Council (the Code) published in July 2003. For the year ended 31 March 2006 up to the date of approving the accounts the Board has applied the principles and complied with the provisions of Section 1 of the Code, other than the separation of the roles of Chairman and Chief Executive prior to the appointment of Moger Woolley on 18 July 2005.

The directors report that, after making enquiries, they have a reasonable expectation that the company has adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Board and Board Committees

The Board of Bristol Water plc (the "Board") comprised during the year the Chairman, five executive directors (reduced to three by the end of the year) and four non-executive directors. All of the non-executive directors are, in the opinion of the Board, independent. This assessment has been made by the Board based on their views of their performance on the Board and taking into account their experience, character and period served.

The following table sets out the attendance of directors at Board and committee meetings during 2005/06:

		Number of meetings attended		
		Board meetings (maximum 14)	Audit Committee meetings (maximum 4)	Remuneration Committee meetings (maximum 5)
Chairman	J M Woolley, <i>appointed 18 July 2005</i>	7 (max 7)	-	-
Deputy Chairman, Senior Independent Director	T Smallwood	14	4	5
Independent non-executive director	Professor D I Blockley	12	4	5
Independent non-executive director	C Curling	14	-	3 (max 3)
Independent non-executive director	P McIlwraith	14	4	5
Chief Executive	A Parsons	14	-	-
Finance director	A S Nield	14	-	-
Quality Director	Dr A J Bates	14	-	-
Former Managing Director	R W Wyatt, <i>retired 31 March 2006</i>	14	-	-
Former HR Director	P D Knowlson, <i>retired 30 September 2005</i>	7	-	-

The Chairman has held talks with the non-executive directors without the executive directors being present. In addition, the non-executive directors, chaired by the Senior Independent Director, but without the Chairman, met to discuss the Chairman's performance. The Board has also carried out a formal written evaluation of the performance of the Board, its Committees and its individual directors. The results of the performance evaluation have been disseminated appropriately by the Chairman to the Board collectively and to the individual directors.

The Board executes overall control of the company's affairs by reference to the schedule of matters reserved for its decision. These include the approval of strategy, financial statements, major capital expenditure, authority levels for expenditure, treasury and risk management policies. In furtherance of its duties, there are agreed procedures for the directors to take independent professional advice, if necessary, at the company's expense. There is now clear segregation between the roles of chairman and chief executive to ensure appropriate Board balance. All directors have access to the advice and services of the Company Secretary. The Company Secretary supervises ongoing group specific training plans for the directors as required.

The Board delegates day-to-day and business management control to the executive directors.

Under its Licence of Appointment as a water undertaker, the company is subject to a number of ringfencing conditions to protect it from the risks arising from other activities which may be carried out by other companies within the group so that the company does not, whether through its involvement in those activities or by its financial policies, put at risk its ability either to carry out its functions as a water undertaker or to finance them.

Audit Committee

During the year the duties of an Audit Committee were performed by the Audit Committee of Bristol Water Group plc (BWG).

The Audit Committee's terms of reference include the points recommended by the Combined Code. Its duties include monitoring internal controls, approving the accounting policies and reviewing the interim and annual financial statements before submission to the Board. The Committee is chaired by Mr P McIlwraith and currently comprises two other non-executive directors Professor Blockley and Mr T Smallwood. The external auditors attended all meetings in the year.

The Committee is formally constituted with terms of reference. A copy of the terms of reference is available to shareholders by writing to the Company Secretary, Mr S C Robson.

BWG has an Auditor Independence policy which considers services that the external auditors may and may not provide such that their independence and objectivity is not impaired, as well as establishing a formal authorisation process, including the pre-approval by the Audit Committee for allowable non-audit work that they may perform.

The Audit Committee reviews remuneration received by PricewaterhouseCoopers LLP for audit services and non-audit services, with the aim of seeking to balance objectivity, value for money and compliance with the latest auditor independence guidance and regulations.

The Committee concluded that no conflict of interest exists between PricewaterhouseCoopers LLP audit and non-audit work for the company and the group and that this was the most cost effective way of conducting the company's business.

Remuneration Committee

During the year the duties of a Remuneration Committee were performed by the Remuneration Committee of BWG. The composition of the Remuneration Committee is set out on page 18.

Nominations Committee

During the year the duties of a Nominations Committee were performed by the Nominations Committee of BWG.

The Nominations Committee comprises the Chairman, Professor Blockley, Mr P McIlwraith, Mr T Smallwood and Mr A Parsons. It is responsible for selecting, appointing and re-appointing the company's executive and non-executive directors and considers such matters as required. All directors must retire by rotation every 3 years and any non-executive with more than 9 years' service will stand for re-election on an annual basis.

The Committee is formally constituted with terms of reference. A copy of the terms of reference is available to shareholders by writing to the Company Secretary, Mr S C Robson.

The Board considers the Chairman to be the principal point of reference to whom concerns of whatever nature may be conveyed. In the event that an individual does not wish to raise a concern with him, the Board has identified Mr Trevor Smallwood as the senior independent member of the Board to whom such concerns may be addressed.

Internal Controls - Risk Management

The company, as required by the Financial Services Authority, has complied and continues to comply with the Code provisions on internal control having established the procedures necessary to implement the guidance issued in September 1999 (the Turnbull Committee report) and by regular review and reporting in accordance with that guidance.

The Board has overall responsibility for the system of internal control, and for reviewing its effectiveness, whilst the role of management is to implement Board policies on risk and control. The system of internal control is designed to manage risks to appropriate minima rather than eliminate any

risk of failure in achieving business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board encourages a culture of risk identification and management across all aspects of the business, and uses the following main processes to review the effectiveness of the system of internal control:

The executive directors:

- have delegated authority to manage the business and to implement internal control and risk management processes
- have established a system of Key Performance Indicators and risk identification matrices.

The company operates through a formal board structure, which:

- considers material financing and investment decisions
- reviews the role of insurance in managing risks
- reviews and approves financial budgets and emerging financial results
- reviews on a regular basis detailed Key Performance Indicators reports which include the identification of material risks and the actions taken to manage such risks.

The Audit Committee:

- reviews internal and external audit work plans and commissions, where appropriate, reviews of specific issues
- considers reports from management, internal and external auditors on the system of internal control and any material control weaknesses identified
- discusses with management the actions taken on any problem areas identified by Board members and management or in the internal and external audit reports
- the Chairman of the Committee reports the outcome of the Audit Committee meetings to the Board and the Board receives the minutes of all Audit Committee meetings.

The Board:

- considers material financing and investment decisions including the giving of guarantees and indemnities, and monitors policy and control mechanisms for managing treasury risk
- reviews the role of insurance in managing risks
- reviews on a regular basis a summary Key Performance Indicators report which includes the identification of material risks and the actions taken to manage such risks
- reviews the effectiveness of the risk management process and significant risk issues
- reviews and approves financial budgets and emerging financial results
- annually considers the terms of reference of its committees and the scheme of delegation.

The Board undertook its latest a formal assessment of risk management and control arrangements on 16 May 2006 in order to form a view on the overall effectiveness of the system of internal control. This review included an assessment of the effectiveness of internal controls within its joint venture, Bristol Wessex Billing Services Limited.

The Board appointed Grant Thornton UK LLP as internal auditors to the company during the year.

The Board concluded that the overall internal control framework was working effectively.

Following the delisting of BWG and changes to its Board membership, corporate matters and compliance will in future be directly carried out by the directors of the company.

By order of the Board
S C Robson, Secretary
13 July 2006

REMUNERATION COMMITTEE REPORT

This Report sets out the remuneration policy operated by the company in respect of the executive directors, together with disclosures on directors' remuneration required by the Directors' Remuneration Report Regulations 2002, ('the Regulations'). The auditors are required to report on the 'auditable' part of this Report and to state whether, in their opinion, that part of the Report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The Report is therefore divided into separate sections for audited and unaudited information.

The Board have reviewed the company's compliance with the Combined Code ('the Code') on remuneration related matters. It is the opinion of the Board that the company complied with all remuneration related aspects of the Code during the year.

The Report will be put to shareholders for approval at the annual general meeting.

Role and Composition of the Remuneration Committee

The Remuneration Committee determines the remuneration and other employment conditions of the executive directors and senior executives of Bristol Water plc. It consists solely of independent non-executive directors. The membership of the Committee during the year comprised Mr T Smallwood (Chairman), Mr P McIlwraith and Professor D I Blockley. Attendances at committee meetings are set out on page 15.

The Committee is formally constituted with written terms of reference. A copy of the terms of reference is available to shareholders by writing to the Company Secretary, Mr S Robson.

In deciding appropriate levels of executive remuneration, the Committee relies on external research from independent remuneration consultants which gives up-to-date information on a comparator group of companies. During the year, the Committee received information and independent advice on matters relating to directors' and senior managers' remuneration from Halliwell Consulting and Hay Consulting. Halliwell Consulting provided no other services to the group during the year.

During the year Alan Parsons (Chief Executive), Andrew Nield (Finance Director), Stephen Robson (Company Secretary) and Peter Knowlson (former HR Director), also provided material advice and services to the Committee. No director played a part in any discussions about his own remuneration.

Remuneration Policy

The key principle underpinning remuneration policy is the need to offer remuneration packages which can attract, motivate and retain directors and senior managers of the calibre needed to execute the company's business strategy thereby enhancing shareholder value and improving the service to customers.

The current policy on executive remuneration is to fix salaries and other elements of the remuneration package primarily having regard to salary levels indicated by independent research and to reward directors both for enhancing value to shareholders and for delivering quality service to customers.

There are three main elements of the current remuneration package for executive directors:

Basic annual salary - factors taken into account when determining basic annual salary levels are objective research based on independent salary reviews; the individual executive director's performance during the year; and pay and conditions throughout the company. Basic annual salary is reviewed each year.

Annual bonus - based on the achievement of water quality, customer service, leakage and financial targets, together with an assessment of personal performance, and is restricted in 2005/06 to a maximum (save in exceptional circumstances) of 50% of basic salary (2004/05 – maximum of 30%).

Taxable benefits in kind - reflecting market practice and comprising the provision of a company car and private medical and life insurance.

Annual Bonus Scheme

Annual bonus awards for bonus year 2005/06 (accrued and approved, but not paid as at 31 March 2006) were based on substantial performance against a range of financial, service and personal performance targets. The awards are shown in the sections headed Details of Directors' Remuneration, Pension Benefits and Share Options.

Share Options and Long-Term Incentive Schemes

During the year the Bristol Water Group plc (BWG) Executive Share Option Scheme was in place but no awards were made during the year and no options were outstanding at 31 March 2006.

There is no Long-term Incentive Scheme in place.

During the year all employees of the group were able to take part in the Bristol Water Group Savings Related Share Option Scheme, subject to certain eligibility limits. Following the Agbar acquisition of BWG the scheme has been terminated.

Share Incentive Plan (SIP)

During the year an all-employee (SIP) was submitted for the approval of shareholders and accepted at the Annual General Meeting in July 2005. Executive directors are entitled to participate in this plan on the same basis as all other employees. The SIP is an Inland Revenue approved plan open to all Bristol Water Group plc employees. Eligible employees could contribute a maximum of £125 each month and the trustees of the plan use the money to buy shares on their behalf. Following the Agbar acquisition of BWG the shares in the scheme have been sold or exchanged for Agbar loan notes.

Service Contracts

Details of the employment contracts of the executive directors who served during the year are as follows:

	Contract date	Unexpired term	Notice period
A Parsons	13 July 2004	rolling 1 year	1 year
A S Nield	13 July 2004	rolling 1 year	1 year
R W Wyatt retired 31 March 2006	13 July 2004	N/a	N/a
Dr A J Bates	7 February 2001	rolling 1 year	1 year
P D Knowlson <i>retired 30 September 2005</i>	12 December 2000	N/a	N/a

Mr Parsons and Dr Bates have a provision in their service contracts for the enhancement of their Water Companies' Pension Scheme pensionable service by a maximum of 6½ years in the event of redundancy only. Executive directors appointed since 1995 do not have this benefit.

Under the normal rules of the Water Companies' Pension Scheme any employee or director is entitled to a non-actuarially reduced pension if they are 50 or more years old and their service contract were terminated in certain circumstances.

Directors' contracts do not provide for other compensation payable on early termination.

Directors' Pension Arrangements

Until 5 December 2001, newly appointed executive directors were eligible to become contributory members of the Water Companies' Pension Scheme, a defined benefits, final salary scheme. Under the terms of that scheme the only elements of remuneration other than basic salary which are pensionable relate to the taxable benefits associated with company car provision for directors who first became company car holders before 4 July 1994, so retaining on a personal basis the contractual entitlements of such individuals at the date this change in remuneration policy was introduced. Since April 2001 a notional figure, indexed annually, has been used for this purpose based on the value of the taxable benefit as at 6 April 2001.

Any newly-appointed executive directors recruited externally, and excluding Agbar appointees, will be offered membership of a company designated stakeholder pension scheme or the option of a company contribution to a personal pension plan.

Non-Executive Directors

The remuneration of the non-executive directors is determined by the Board and has been based upon independent surveys of fees paid to non-executive directors in companies of comparable size and on the basis of time commitments. Additional responsibilities are also taken into account. This policy is expected to continue in the future.

During the year the majority of non-executive directors fees were paid by BWG and recharged to the company. Non-executive directors do not have contracts of service, do not participate in company pension, share or bonus schemes and do not receive any taxable benefits in kind. The terms of appointment do not entitle non-executive directors to receive compensation in the event of early termination of their appointment.

Auditable element of the Remuneration Committee Report

Details of Directors' Remuneration, Pensions Benefits and Share Options

This report includes the statutory disclosures required by the Companies Act 1985, as amended by the Company Accounts (Disclosure of Directors' Emoluments) Regulations 1997 and the Directors' Remuneration Report Regulations 2002, which are subject to audit. Full details of all elements in the remuneration package of each director and share options are set out below. Details of directors' share interests are given in the Directors' Report.

(a) Directors' Remuneration			2006	2005
	Notes		Total £000	Total £000
		Salary/fees £000	Benefits £000	Bonus £000
J M Woolley	1,2	Non-executive	44	-
T Smallwood	2	Non-executive	32	-
Professor D I Blockley	2	Non-executive	27	-
C Curling	2	Non-executive	26	-
P McIlwraith	2	Non-executive	31	-
A S Nield	3	Executive	142	12
A Parsons		Executive	172	15
R W Wyatt	4	Executive	125	11
Dr A J Bates		Executive	85	11
P D Knowlson	5	Executive	38	3
Charge to Profit and Loss account			722	52
			252	1,026
			1,026	863

Notes

- 1 Appointed 18 July 2005
- 2 The majority of remuneration for the non-executive directors in 2005, and some in 2006, was borne by Bristol Water Group plc and recharged to the company, and reported as operating expenditure.
- 3 Bonus exceeded 50% of salary in recognition of exceptional workload during the year.
- 4 Retired 31 March 2006
- 5 Retired 30 September 2005

Benefits in kind include the provision of a company car, fuel and medical and life insurance.

Bonus represents amounts accrued and approved, but not paid, as at 31 March 2006.

No director waived emoluments in respect of the year ended 31 March 2006.

(b) **Accrued pension scheme benefits earned by directors**

	A S Nield £000	A Parsons £000	R W Wyatt £000	A J Bates £000
Listing Rules disclosure				
Increase in accrued pension during 2005/06 in excess of inflation	4	4	3	3
Increase in accrued lump sum during 2005/06 in excess of inflation	12	11	8	8
Accumulated pension per annum at 31 March 2006	46	42	66	40
Accumulated lump sum at 31 March 2006	138	127	198	120
Transfer value of increase	64	85	66	70
Transfer value of increase less director's contributions	54	73	58	64
Schedule 7A disclosure				
Increase in accrued pension during 2005/06	5	5	4	4
Increase in accrued lump sum during 2005/06	15	14	13	11
Accumulated pension per annum at 31 March 2006	46	42	66	40
Accumulated lump sum at 31 March 2006	138	127	198	120
Transfer value				
As at 31 March 2005	490	632	1,263	776
As at 31 March 2006	725	939	1,713	1051
Increase in transfer value	236	307	450	274
Increase in transfer value less director's contributions	226	296	441	268

As noted previously, Mr Wyatt retired from the company on 31 March 2006. Mr Knowlson retired from the company on 30 September 2005 and is therefore not included in the tables above.

Mr Parsons' and Mr Wyatt's benefits include Additional Voluntary Contributions (AVC's) to allow them to purchase added years, to which they have contributed up to 31 March 2006.

Only the five executive directors accrued retirement benefits under a defined benefits scheme during the year.

The transfer values disclosed above do not represent sums paid or payable to the individual directors; they represent a potential liability of the pension scheme.

During the year, following actuarial advice, the basis for the calculation of transfer values was updated by the Trustee of the Water Companies Pension Scheme. The updated basis only applies for the transfer values disclosed as at 31 March 2006. Had the updated basis applied for the transfer values as at 31 March 2005 the amounts would have been 25% greater than those disclosed.

(c) **Share options**

At 31 March unexercised options over ordinary shares in the company had been granted to directors under the terms of the Group Savings Related Share Option Scheme. The details are disclosed in the Directors' Report on page 11.

Options exercised by Mr Wyatt during the year are disclosed in the Directors Report. No other director exercised any options during the year.

Trevor Smallwood
Chairman of Remuneration Committee
13 July 2006

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.

During this year the company has adopted the following new Financial Reporting Standards (FRS) in its financial statements, insofar as they are applicable to the affairs of the company:

FRS17 - Retirement benefits
FRS20 - Share based payments
FRS21 - Events after the balance sheet date
FRS22 - Earnings per share
FRS25 - Financial Instruments: Disclosure and presentation
FRS26 - Financial Instruments: Measurement
FRS28 – Corresponding amounts

All comparative data have been restated accordingly. The main effects of these changes on the reported results of the company are as follows:

FRS17: Full recognition is made in these accounts for the surplus arising in the company's section of the Water Companies' Pension Scheme (WCPS), as further described in note 20. The effect of the change in accounting policy is:

- to increase profit after tax by £0.4m (year ended 31 March 2005: £1.0m)
- to increase total recognised gains and losses for the year by £5.9m (year ended 31 March 2005: £2.2m)
- to increase/(decrease) net assets as at 31 March 2006 by £4.3m (as at 31 March 2005: £(7.0)m)

FRS20: Provision is made for the notional expense arising on the grant of share options under the terms of the Bristol Water Group Savings Related Share Option Scheme. No restatement of the previous year is necessary as the effect on both the current and prior years is not material. The effect of the change in accounting policy is:

- to decrease profit after tax by £0.1m (year ended 31 March 2005: Nil)
- to decrease total recognised gains and losses for the year by £0.1m (year ended 31 March 2005: Nil)
- to increase net assets as at 31 March 2006 by £0.6m (as at 31 March 2005: Nil)

FRS21: Dividends and other distributions to shareholders are reflected in financial statements when approved by shareholders in a general meeting, except for interim dividends which are included in financial statements when paid by the company. Accordingly, proposed dividends are not included as a liability in the financial statements.

This reduces retained profit for the year ended 31 March 2006 by £1.8m (at 31 March 2005: increased by £0.8m). It increases net assets at 31 March 2006 by £3.5m (at 31 March 2005: by £5.3m).

FRS25: The company's 8.75% irredeemable cumulative preference shares have been reclassified from equity to long-term creditors. The associated dividends have been reclassified as interest expense. The effect of the change in accounting policy is:

- to decrease profit after tax by £1.1m (year ended 31 March 2005: £1.1m)
- to leave total recognised gains and losses for both years unchanged
- to decrease net assets as at 31 March 2006 by £12.5m (as at 31 March 2005: £12.5m)

FRS26: The company has an interest rate swap, which matures on 26 September 2006, which is now measured at fair value. The effect of the change in accounting policy is:

- to increase profit after tax by £0.3m (year ended 31 March 2005: £0.4m)
- to increase total recognised gains and losses for the year by £0.3m (year ended 31 March 2005: £0.4m)
- to decrease net assets as at 31 March 2006 by £0.2m (31 March 2005: £0.5m).

As outlined in the company's Annual Report and Accounts for the year ended 31 March 2005, the company has not adopted IFRS for its financial statements for the year ended 31 March 2006, and has no current plans to do so until UKGAAP and IFRS are fully harmonised.

As a result of changes made in The Water Act 2003, revenue deficit contributions received on or after 1 April 2005 are credited to deferred income and amortised over a three-year period.

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 actual 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 brought into use.

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	15 to 100 years
Treatment, pumping and general plant	20 to 24 years
Computer hardware, software, communications, meters and telemetry equipment	3 to 15 years
Vehicles and mobile plant	5 to 7 years

Assets under construction are not depreciated

Impairment

The values of fixed assets are reviewed regularly to ensure that their carrying amounts do not exceed their fair values in use. Where such an excess is believed to exist it will be treated as an impairment loss and charged in the Profit and Loss account.

d. Grants and contributions

Contributions received in respect of tangible assets other than those relating to revenue deficits calculated under S42 of The Water Act 1991 (as amended), and other than those received in respect of 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.

Revenue deficit grants are credited to deferred income and amortised over a three-year period.

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 company operates both defined benefit and defined contribution pension arrangements.

Defined benefit scheme liabilities are measured by an independent actuary using the projected unit method and discounted at the current rate of return on high quality corporate bonds of equivalent term and currency to the liability. The increase in the present value of the liabilities of the company's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities, arising from the passage of time, is included in other finance income or cost.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited direct to the statement of recognised gains and losses.

Costs of defined contribution pension schemes are charged to the Profit and Loss account in the period in which they fall due. Administration costs of defined contribution schemes are borne by the company.

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. Distributions to shareholders

Dividends and other distributions to shareholders are reflected in financial statements when approved by shareholders in a general meeting, except for interim dividends which are included in financial statements when paid by the company. Accordingly, proposed dividends are not included as a liability in the financial statements.

j. 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.

k. Financial instruments

The company has an interest rate swap which is measured at fair value.

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. Index-linked loans are considered to be effective economic hedges and are valued at cost plus accrued indexation.

l. Share Option schemes

The company operates a number of equity settled, share-based compensation plans for employees. The fair value of the employee services received in exchange for the grant is recognised as an expense over the vesting period of the grant.

The fair value of employee services is determined by reference to the fair value of the awards granted calculated using an appropriate pricing model, excluding the impact of any non-market vesting conditions.

PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2006

	Note	2006 £m	2005 Restated £m
Turnover	1	81.9	70.6
Operating costs		(57.0)	(52.2)
Exceptional operating costs		-	(1.3)
Total operating costs	2	(57.0)	(53.5)
Operating profit		24.9	17.1
Net interest payable and similar charges	3	(6.3)	(6.1)
Dividends on 8.75% irredeemable cumulative preference shares	3	(1.1)	(1.1)
Net finance income in respect of retirement benefit obligations	3	0.9	0.8
Profit on ordinary activities before taxation		18.4	10.7
Taxation on profit on ordinary activities	4	(6.8)	(1.6)
Profit on ordinary activities after taxation		11.6	9.1
Dividends on ordinary shares	5	(10.2)	(7.3)
Retained profit for the financial year		1.4	1.8
Earnings per ordinary share	6	193.0p	151.9p

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

There is no difference between the profit on ordinary activities before taxation and the retained 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.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 March 2006

		2006	2005
	Note	£m	Restated £m
Profit attributable to Bristol Water plc shareholders		11.6	9.1
Actuarial gains recognised in respect of retirement benefit obligations	21	7.8	1.7
Attributable deferred taxation	17	(2.1)	(0.5)
Charged against operating profit for equity-settled share-based payment	23	0.2	-
Attributable deferred taxation	17	0.6	-
Total recognised gains for the year		18.1	10.3

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

BALANCE SHEET

at 31 March 2006

	Note	2006 £m	2005 Restated £m
Fixed assets			
Tangible fixed assets	7	197.0	195.6
Investments - Loans to Bristol Water Group plc	8	68.5	47.0
Current assets			
Stocks	9	0.7	0.6
Debtors	10	19.1	18.5
Cash at bank and on deposit	13	40.5	12.0
		60.3	31.1
Creditors: amounts falling due within one year			
Short term borrowings and derivatives	11	(2.5)	(4.2)
Other creditors	12	(19.2)	(17.7)
		(21.7)	(21.9)
Net current assets		38.6	9.2
Total assets less current liabilities		304.1	251.8
Creditors: amounts falling due after more than one year			
8.75% irredeemable cumulative preference shares	13	(204.2)	(148.6)
Deferred income	14	(9.6)	(8.6)
Provisions for liabilities and charges	17	(18.8)	(19.3)
Retirement benefit obligations	21	3.1	(8.6)
Net assets		62.1	54.2
Capital and reserves			
Called up share capital	18	6.0	6.0
Share premium account	19	4.4	4.4
Share option reserve	19	0.8	-
Other reserves	19	5.8	5.8
Profit and loss account	19	45.1	38.0
Equity shareholders' funds	19	62.1	54.2

The accounts were approved by the Board on 13 July 2006 and signed on its behalf by -

A Parsons, Director

A Nield, Director

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

CASH FLOW STATEMENT

for the year ended 31 March 2006

	2006	2005
Note	£m	Restated £m
Net cash inflow from operating activities	35.1	34.1
Returns on investments and servicing of finance		
Interest received	5.3	3.6
Interest paid on term loans and debentures	(8.4)	(7.2)
Interest paid on finance leases	(1.2)	(1.1)
Dividends paid on 8.75% irredeemable cumulative preference shares	(1.1)	(1.7)
Net costs of issue of new loans	(1.1)	-
	<u>(6.5)</u>	<u>(6.4)</u>
Taxation		
Corporation tax paid	(1.7)	(1.9)
Capital expenditure and investing activities		
Purchase of tangible fixed assets	(22.5)	(20.1)
Contributions received	3.1	3.7
Loan advanced to Bristol Water Group plc	(21.5)	-
	<u>(40.9)</u>	<u>(16.4)</u>
Dividends paid on equity shares	5	(7.3)
Cash (outflow)/inflow before management of liquid resources and financing	(24.2)	2.1
Management of liquid resources being (increase)/decrease in short term deposits	(29.1)	5.4
Financing		
New term loans	57.0	-
Capital element of lease repayments	(1.9)	(1.6)
Loan repayments	(1.8)	(5.3)
Payments in respect of swap liability	(0.6)	(0.6)
	<u>52.7</u>	<u>(7.5)</u>
Decrease in cash	22(c)	-
Cash, beginning of year	1.6	1.6
Cash, end of year	1.0	1.6

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 Water Services Regulation Authority (Ofwat) 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	Operating costs before exceptional items	Exceptional operating costs*	Operating costs after exceptional items
	2006	2005 Restated	2005 Restated	2005 Restated
	£m	£m	£m	£m
Wages, salaries and severance costs	11.3	10.8	0.4	11.2
Social security costs	0.9	0.9	-	0.9
Pension costs (note 21(b))	1.9	2.0	0.7	2.7
Equity-settled share-based payments	0.2	-	-	-
Total payroll cost	14.3	13.7	1.1	14.8
less charged to fixed assets	(2.8)	(2.6)	-	(2.6)
Net payroll cost	11.5	11.1	1.1	12.2
Other operating costs				
Operating lease rentals on plant and machinery	0.2	0.2	-	0.2
Research and development expenditure	0.1	0.1	-	0.1
Auditors' remuneration **	0.1	0.1	-	0.1
Raw materials, consumables, bad debts and other charges less recoveries	27.2	26.1	0.2	26.3
Total other operating costs	27.6	26.5	0.2	26.7
Depreciation of tangible fixed assets (note 7)				
On owned assets	16.8	13.1	-	13.1
On leased assets	1.8	1.8	-	1.8
Amortisation of related deferred income (note 14)	(0.7)	(0.3)	-	(0.3)
Net depreciation	17.9	14.6	-	14.6
Total operating costs	57.0	52.2	1.3	53.5

*Exceptional operating costs - Restructuring

During the year ended 31 March 2005 the Board instigated a restructuring programme to improve the operating efficiency of the company. This involved a number of redundancies and related pension funding payments, asset write-downs and incidental expenses. Accordingly the restructuring costs were recognised in the profit and loss account for the year ended 31 March 2005. There were no exceptional operating costs in 2006.

**Auditors' remuneration includes £39,000 (2005 - £42,000) in respect of statutory audit fees. Other audit services including audit of regulatory returns totalled £20,000 (2005 - £45,000).

- (b) Employee details -
The average number of employees (full time equivalents) during the year was 399 (2005 – 403).

- (c) Directors' emoluments -

	2006 £m	2005 £m
Aggregate emoluments of directors, being remuneration, bonus and benefits in kind	1.0	0.7
Payments to approved pension schemes, all in respect of executive directors	<u>0.1</u>	<u>0.1</u>

Full details of directors' remuneration are disclosed in the report of the Remuneration Committee on pages 18 - 21.

- (d) Depreciation
The depreciation charge for the year is stated after charging £1.0m accelerated depreciation in respect of plant planned to be taken out of service before it is fully depreciated as part of a capital project to meet quality obligations and streamlining of treatment processes (2005 - £Nil).

3. NET INTEREST PAYABLE AND SIMILAR CHARGES

The net interest payable and similar charges for the year relate to -

	2006 £m	2005 Restated £m
Bank borrowings	1.7	1.5
Term loans and debentures - interest charges	6.8	5.7
- indexation	2.1	1.3
Finance leases	1.1	1.1
	<u>11.7</u>	<u>9.6</u>
Less: interest receivable from		
Loan to Bristol Water Group plc	(3.7)	(2.8)
Other external investments and deposits	<u>(1.9)</u>	<u>(0.7)</u>
	<u>(5.6)</u>	<u>(3.5)</u>
Fair value adjustment to swap liability	6.1	6.1
	<u>0.2</u>	<u>-</u>
	<u>6.3</u>	<u>6.1</u>
Dividends on 8.75% irredeemable cumulative preference shares	1.1	1.1
Net finance income in respect of FRS 17 retirement benefit obligation	(0.9)	(0.8)
	<u>6.5</u>	<u>6.4</u>

Dividends on the 8.75% irredeemable cumulative preference shares are payable at the fixed rate of 4.375% on 1st April and 1st October each year. Payment by the company to the share registrars is made two business days earlier. The payments are classified as interest in accordance with FRS25.

4. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2006	2005
	£m	Restated £m
(a) Analysis of charge for the year, all arising in the United Kingdom:		
Current tax:		
Corporation tax at 30% (2005 - 30%)	2.1	1.0
Advance Corporation Tax written back	-	(1.5)
Adjustment to prior periods	(0.1)	1.6
Receipts in respect of group relief	1.3	1.0
	<u>3.3</u>	<u>2.1</u>
Deferred tax:		
Current year movement	2.8	1.4
Adjustment to prior periods	0.1	(1.8)
Effect of discounting	0.6	(0.1)
	<u>3.5</u>	<u>(0.5)</u>
Tax on profit on ordinary activities	<u>6.8</u>	<u>1.6</u>

The adjustment to prior periods in 2005 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 £3.4m (2005 - £3.4m) of unrecognised ACT carried forward at 31 March 2006.

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

The current tax for the year is higher (2005 - lower) than the standard rate of Corporation Tax in the United Kingdom (30%). The differences are explained below:

	2006	2005
	£m	Restated £m
Profit on ordinary activities before tax	<u>18.4</u>	10.7
Profit on ordinary activities multiplied by standard rate of Corporation Tax in the United Kingdom at 30% (2005 - 30%)	5.5	3.2
Effects of:		
Expenses including 8.75% irredeemable cumulative preference share dividends not deductible for tax	0.4	0.5
Capital allowances in excess of depreciation	(0.9)	(1.6)
Additional retirement benefit contributions	(1.2)	-
Other net charges	<u>(0.4)</u>	<u>(0.1)</u>
	3.4	2.0
Adjustment to tax in respect of prior periods	(0.1)	1.6
Adjustment in respect of Advance Corporation Tax for prior years	-	(1.5)
Total current tax charge	<u>3.3</u>	<u>2.1</u>

5. DIVIDENDS

	2006	2005
	£m	Restated £m
Ordinary Shares		
• Dividend in respect of 2003/04: Final dividend of 74.27 pence per share, approved at the Annual General Meeting on 19 July 2004	-	4.5
• Dividend in respect of 2004/05: Interim dividend of 47.15 pence per share, approved by the Board on 7 December 2004	-	2.8
Final dividend of 88.00 pence per share, approved at the Annual General Meeting on 18 July 2005	5.3	-
• Dividend in respect of 2005/06: First interim dividend of 19.62 pence per share, approved by the Board on 29 September 2005	1.2	-
Second interim dividend of 38.68 pence per share, approved by the Board on 8 December 2005	2.3	-
Third interim dividend of 23.53 pence per share, approved by the Board on 28 March 2006	1.4	-
	<u>10.2</u>	<u>7.3</u>

On 16 May 2006 the Board declared a fourth interim dividend of 58.02 pence per share, totalling £3.5m, in respect of the year ended 31 March 2006. In accordance with FRS21 this dividend is not recognised in these accounts as a liability. The Board does not propose a final dividend.

6. EARNINGS PER ORDINARY SHARE

	2006	2005
	m	Restated 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	£11.6	£9.1
Weighted average number of ordinary shares	6.0	6.0

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 & operational structures £m	Plant and equipment £m	Infra- structure assets £m	Assets under construction £m	Total £m
Cost					
At 1 April 2005	157.7	25.9	167.0	2.1	352.7
Additions	-	-	-	22.6	22.6
Capitalisation of completed assets	4.1	3.6	12.2	(19.9)	-
Disposals	-	(0.9)	(1.9)	-	(2.8)
Grants and contributions	(0.3)	-	(2.1)	-	(2.4)
At 31 March 2006	161.5	28.6	175.2	4.8	370.1
Depreciation					
At 1 April 2005	58.2	16.6	82.3	-	157.1
Charge for year	6.2	2.9	9.5	-	18.6
Disposals	-	(0.7)	(1.9)	-	(2.6)
At 31 March 2006	64.4	18.8	89.9	-	173.1
Net book value at 31 March 2006	97.1	9.8	85.3	4.8	197.0
At 31 March 2005	99.5	9.3	84.7	2.1	195.6

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.

- (b) Included above at 31 March 2006 is freehold land, not subjected to depreciation in the year, of £1.3m (2005 - £1.3m).
- (c) Included above at 31 March 2006 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 2006				
Cost	38.0	7.7	1.2	46.9
Depreciation	(18.0)	(7.2)	-	(25.2)
Net book value	20.0	0.5	1.2	21.7
At 31 March 2005				
Cost	38.0	7.9	1.2	47.1
Depreciation	(16.4)	(7.1)	-	(23.5)
Net book value	21.6	0.8	1.2	23.6

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 £42.7m (2005 - £40.8m) as explained in Accounting Policy d.

8. INVESTMENT - LOANS TO BRISTOL WATER GROUP PLC

	2006	2005
	£m	£m
At 1 April 2005	47.0	47.0
Advanced during year	21.5	-
At 31 March 2006	68.5	47.0

The loans were advanced to Bristol Water Group plc and details are as follows:

Agreement date	Loan advance date	Fixed interest rate	Loan repayment date	Principal outstanding £m
4 December 2003	12 February 2004	6.042%	30 September 2033	47.0
10 June 2005	13 July 2005	5.550%	30 September 2032	21.5

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 -	2006	2005
	£m	£m
Trade debtors	8.2	9.3
Due from group and associated companies	2.0	1.8
Other debtors	1.2	0.7
Prepayments and accrued income	7.7	6.7
	19.1	18.5

The sum of £0.4m (2005 - £0.3m) is included within the heading "Due from group and associated companies" in respect of amounts advanced to Bristol Wessex Billing Services Limited, a joint venture company within the BWG group, to fund the purchase of fixed assets. This amount has no fixed repayment date.

11. CREDITORS – SHORT TERM BORROWINGS FALLING DUE WITHIN ONE YEAR

	2006	2005
	£m	£m
Debentures	-	1.8
Finance leases	2.2	1.9
Financial derivative - swap liability	0.3	0.5
	2.5	4.2

All borrowings due within one year are unsecured. Debentures amounting to £1.8m were repaid in full on 31 December 2005

12. OTHER CREDITORS DUE WITHIN ONE YEAR

Other creditors due within one year comprise -	2006	2005 Restated
	£m	£m
Receipts in advance	7.2	7.6
Trade creditors	3.5	2.9
Due to group and associated companies	1.7	1.2
Tax, social security and payroll deductions	0.6	0.6
Corporation tax payable	0.4	0.3
Accruals and deposits received	5.8	5.1
	19.2	17.7

13. CREDITORS – AMOUNTS FALLING DUE AFTER ONE YEAR

	2006	2005 Restated
	£m	£m
Bank and other term loans – all secured	177.5	125.2
Debentures	1.6	1.6
Finance leases	20.1	22.2
Financial derivative - swap liability	-	0.2
Net premiums (net expenses) arising on issue of term loans, not yet amortised	5.0	(0.6)
Total excluding 8.75% irredeemable cumulative preference shares	204.2	148.6
8.75% irredeemable cumulative preference shares	12.5	12.5
Total	216.7	161.1

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 ahead of ordinary shareholders and are entitled to receive £1 per share and any dividends accrued but unpaid in respect of their shares. In the event that dividends on the preference shares are in arrears for six months or more, holders of the preference shares become entitled to vote at general meetings of members. In accordance with FRS25 the shares are classified as long-term debt.

The authorised preference share capital consists of 14,000,000 8.75% irredeemable cumulative preference shares of £1 each. Of these, 12,500,000 have been issued and are fully paid (31 March 2005: 12,500,000).

New borrowings

During the year the company raised a nominal £51.0m of long-term index-linked debt through the Artesian programme arranged by The Royal Bank of Scotland. The new loan is index-linked to RPI, and bears fixed interest of 3.635% on the indexed principal. The repayment date is 30 September 2032. In order to reflect changes in market conditions since the Artesian programme was initiated, the actual cash received in respect of the new loan was £57.0m, the excess being treated as a premium and amortised on a straight-line basis over the life of the loan. The effective rate of interest on the loan is therefore approximately 3.25%.

The movements in unamortised debt issue costs were as follows:

	2006	2005
	£m	£m
Professional fees and expenses	(0.5)	-
Payment to bank under terms of gilt locks entered into prior to and in connection with loans raised	(0.6)	-
Net premiums on receipt of new loans	6.8	-
	<hr/>	
Net premiums/costs of issue arising in the year	5.7	-
Unamortised issue costs beginning of the year	(0.6)	(0.6)
Amortised during the year	(0.1)	-
	<hr/>	
Unamortised net premiums/costs of issue at end of the year	5.0	(0.6)

The net premiums/costs of issue of new loans are amortised over the terms of the respective loans at £213,000 credit (pre-existing loans - £22,000 charge) per annum. Amortisation credits (charges) due in future years are as follows:

	2006	2005
	£m	£m
Within one year	0.2	-
Between one and two years	0.2	-
Between two and five years	0.6	(0.1)
After five years	4.0	(0.5)
	<hr/>	
	5.0	(0.6)

Security for borrowings

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

In respect of the company

- by way of first fixed charges over any of its freehold or leasehold property belonging to it now or acquired in the future (other than protected land under the Water Industry Act), 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, the company is entitled to exercise all its rights, and perform its obligations in relation to the charged assets in accordance with the provisions set out in the 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 the company

- a fixed charge over its shares in the company together with a floating charge over the whole of its undertaking.

Net borrowings and maturities

At 31 March 2006 net borrowings comprise -

	Term loans less cash	Finance leases	Debentures and irredeemable preference shares	Swap Liability	Total 2006	Total 2005
	£m	£m	£m	£m	£m	Restated £m
Repayment due:						
Between one and two years	-	2.5	-	-	2.5	2.4
Between two and five years	25.0	6.6	-	-	31.6	31.6
After five years:						
Other than by instalment	152.5	-	-	-	152.5	100.2
By instalment	-	11.0	-	-	11.0	13.4
Net premia (costs) of issue of loans, not yet amortised	5.0	-	-	-	5.0	(0.6)
Irredeemable debentures	-	-	1.6	-	1.6	1.6
Total borrowings due after one year excluding 8.75% irredeemable cumulative preference shares	182.5	20.1	1.6	-	204.2	148.6
Current portion of debt	-	2.2	-	-	2.2	3.7
Current portion of swap liability	-	-	-	0.3	0.3	0.5
	182.5	22.3	1.6	0.3	206.7	152.8
Cash balances and short-term deposits	(40.5)	-	-	-	(40.5)	(12.0)
Net borrowings excluding 8.75% irredeemable cumulative preference shares	142.0	22.3	1.6	0.3	166.2	140.8
8.75% irredeemable cumulative preference shares	-	-	12.5	-	12.5	12.5
Net borrowings including 8.75% irredeemable cumulative preference shares	142.0	22.3	14.1	0.3	178.7	153.3

Details of borrowings repayable after five years (excluding 8.75% irredeemable cumulative preference shares) -

	2006	2005
	£m	£m
Debentures (listed on the London Stock Exchange) -		
4.00% Consolidated irredeemable	1.4	1.4
4.25%, 4.00% and 3.50% perpetual irredeemable debentures (in total, each under £0.1m individually)	0.2	0.2
	1.6	1.6
Finance leases	11.0	13.5
Other term loans -		
Secured, repayable 2032, principal index-linked to RPI, fixed interest at 3.635%* on the indexed principal	95.0	42.7
Secured, repayable 2033, fixed interest at 6.01%*	57.5	57.5
Total	165.1	115.3

*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 above.

Borrowing facilities

Unutilised borrowing facilities as at 31 March are as follows:

	2006	2005
	£m	£m
Expiring in more than two years	30.0	20.0

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

Minimum lease payments under finance leases

Amounts fall due as follows:

	2006	2005
	£m	£m
Within one year	2.2	1.9
Between one and two years	2.5	2.2
Between two and five years	6.6	6.6
After five years	11.0	13.5
	22.3	24.2

14. DEFERRED INCOME

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

	2006	2005
	£m	£m
Beginning of year	8.6	8.5
Contributions received	1.7	0.4
Less amortised	(0.7)	(0.3)
End of year	9.6	8.6

15 FINANCIAL RISK MANAGEMENT

Financial risk factors

The company's main financial instruments comprise:

- 8.75% irredeemable cumulative preference shares
- borrowings and cash
- various items, such as trade debtors and trade creditors, that arise directly from its operations
- two long-term loans made to Bristol Water Group plc.

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.

The company's significant debt financing exposes it to a variety of financial risks that include the effect of changes in debt market prices, credit risks, liquidity and interest rates. The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the group.

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

(a) Foreign exchange risk

The company trades almost exclusively within the United Kingdom and all material purchases of capital equipment are denominated in sterling. Accordingly the company has no material foreign exchange risk.

(b) Interest rate risk of financial assets

The financial assets include cash at bank and short-term deposits which are all denominated in sterling. Cash and short-term deposits have been placed with banks and building societies on a rolling basis of up to one year earning interest based on LIBID equivalents. There are also interest-bearing fixed rate loans totalling £68.5m (2005 - £47m) to Bristol Water Group plc.

(c) Interest rate risk of financial liabilities

The financial liabilities consist mainly of interest-bearing loans, debentures, finance leases and 8.75% irredeemable cumulative preference shares. At the year-end 94% (2005 – 77%) of interest bearing liabilities were at fixed rates or were indexed-linked. The company has used an interest-rate swap as a cash flow hedge of future interest payments, which has the effect of increasing the proportion of fixed interest debt.

The company borrows at fixed, index-linked and floating rates of interest and has also used an interest rate swap 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. At the year-end 51% (2005 – 65%) of the company's financial liabilities, including the 8.75% irredeemable cumulative preference shares, were at fixed rates after taking into account an interest rate swap.

The company's current intention is to maintain a future interest rate management profile consisting of financial liabilities at either fixed or index-linked rates amounting to 70% or more of such liabilities. This policy will be kept under review.

(d) Credit risk

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

(e) Liquidity risk

It is company policy to ensure continuity of funding. At the year-end at least 83% (2005 – 77%) of its financial liabilities, including 8.75% irredeemable cumulative preference shares, mature after five years or are irredeemable.

The company actively maintains a mixture of long-term and short-term committed facilities that are designed to ensure the company has sufficient funds for operations.

At 31 March 2005, the company had two 5-year term £10m committed undrawn borrowing facilities expiring in May 2008 and December 2008 respectively. In June 2005 the company cancelled these and replaced them with a new £30m facility with an expiry date of May 2010. The facility is floating rate and incurs non-utilisation fees at market rates.

Under the terms of the Artesian loan agreements the company is required to maintain a specified sum in nominated accounts to cover estimated debt service payments arising during the following year. These, currently amounting to approximately £5.5m, are therefore not available for other operational use or distribution to shareholders.

(f) Price risk

The company is exposed to risk in prices for materials and services used in its treatment processes, principally for chemicals and electricity. Risk is minimised through actively monitoring the market and by the use of fixed price supply contracts extending over more than one year.

(g) Covenant compliance risk

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

Derivative financial instruments and hedge accounting

The company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items.

In accordance with the provisions of FRS25, 'Financial Instruments: Disclosure and Presentation', and FRS26, 'Financial Instruments: Recognition and Measurement', the company has valued its interest-rate swap at fair value. All other financial instruments are stated at cost, indexed cost or amortised cost.

16. FINANCIAL INSTRUMENTS

Fair value estimation

The fair value of the company's interest-rate swap is based on the market price of comparable instruments at the balance sheet date where they are publicly traded.

The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values.

In the case of bank loans and other loans due in more than one year the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the company for similar financial instruments.

The fair value of the company's debentures has been calculated by discounting the expected cash flows at prevailing market rates including an estimated margin over gilts. Fixed rate 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 2028 plus an estimated margin. Index-linked loans from Artesian Finance plc have been discounted by reference to the UK Government index-linked gilt 2035 plus an estimated margin.

The company's preference shares (shown as debt within these financial statements) are listed on the London Stock Exchange and their fair value is assumed to be their quoted market price.

The long-term loans to Bristol Water Group plc have been discounted by reference to the UK Government fixed rate gilt 2028 plus an estimated margin.

Interest rate swap

At 31 March 2005, the company was party to one interest rate swap which expires on 25 September 2006. 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%. In accordance with FRS26, the liability arising under the swap agreement is recognised in these financial statements, as follows:

	2005 Restated	
	£m	£m
Due within one year	0.3	0.5
Due after one year	-	0.2
	<u>0.3</u>	<u>0.7</u>

Amounts recorded in the profit and loss account are as follows:

	2005 Restated	
	£m	£m
Fair value adjustment (note 3)	<u>0.2</u>	<u>-</u>

In accordance with FRS 26 "Financial Instruments: Recognition and Measurement" the company has reviewed all material contracts for embedded derivatives that are required to be separately accounted for if they do not meet the requirements set out in the standard. As a result of this review no embedded derivatives were identified.

There were no derivatives outstanding at the balance sheet date that were designated as cashflow or fair value hedges.

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. 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.

Fair values of non-current borrowings

	31 March 2006		31 March 2005	
	Book value	Fair value	Book value Restated	Fair value Restated
	£m	£m	£m	£m
Primary financial instruments issued to finance the company				
Long-term borrowings and interest rate swap due after one year	(204.2)	(233.5)	(148.6)	(155.7)
8.75% irredeemable cumulative preference shares	(12.5)	(19.2)	(12.5)	(17.3)
Primary financial instruments issued to finance Bristol Water Group plc				
Long-term loans	68.5	72.8	47.0	48.2
	(148.2)	(179.9)	(114.1)	(124.8)

The increase in the excess of the fair value of the long-term borrowings over book value is due to the fall in long-term gilt rates experienced during the year.

Fair values of other financial assets and liabilities

	31 March 2006		31 March 2005	
	Book value	Fair value	Book value Restated	Fair value Restated
	£m	£m	£m	£m
Primary financial instruments held or issued to finance the company's operations:				
Cash at bank and short term deposits	40.5	40.5	12.0	12.0
Short-term borrowings	(2.2)	(2.2)	(3.7)	(3.7)
Derivative financial instruments held to manage the interest rate profile:				
Interest rate swaps - within one year	(0.3)	(0.3)	(0.5)	(0.5)
	38.0	38.0	7.8	7.8

In accordance with the terms of the Artesian loan agreements, cash at bank and on deposit includes the sum of £5.5m (2005 - £5.2m) held within nominated accounts to cover estimated debt service payments arising during the following year. These funds are therefore not available for other operational use or distribution to shareholders.

17. PROVISIONS FOR LIABILITIES AND CHARGES

	2006	2005
	£m	Restated £m
Restructuring costs (see note 2)	-	0.9
Deferred tax (excluding deferred tax on retirement benefit obligations)	18.8	18.4
	<u>18.8</u>	<u>19.3</u>
Provision for deferred tax comprises -		
Accelerated capital allowances and capital element of finance leases	36.7	35.3
Deferred income	(2.5)	(2.6)
Short term timing differences	(1.7)	(0.5)
Arising on equity-settled share based payments	(0.6)	-
Retirement benefit obligations	1.3	(3.6)
	<u>33.2</u>	<u>28.6</u>
Effect of discounting:		
Retirement benefit obligations	-	0.3
Other	(13.1)	(13.8)
	<u>(13.1)</u>	<u>(13.5)</u>
Net provision, including deferred tax on retirement benefit obligations	20.1	15.1
Less, attributable to retirement benefit obligations	(1.3)	3.3
Net provision, excluding deferred tax on retirement benefit obligations	<u>18.8</u>	<u>18.4</u>

	2006	2005
	£m	Restated £m
Deferred tax movement:		
Beginning of year as previously reported	15.1	17.8
Effect of adoption of FRS17	-	(2.9)
Effect of adoption of FRS26	-	0.2
Beginning of year as now restated	<u>15.1</u>	<u>15.1</u>
Charge/(credit) to Profit and Loss Account (note 4)	3.5	(0.5)
Charge to Statement of Total Recognised Gains and Losses in respect of pension actuarial gains in the year	2.1	0.5
Credit to share options reserve	(0.6)	-
Provision carried forward at 31 March	<u>20.1</u>	<u>15.1</u>

18. CALLED UP ORDINARY SHARE CAPITAL

	Authorised		Issued and fully paid	
	2006	2005	2006	2005
	£m	£m	£m	£m
5,998,025 ordinary shares of £1 each	<u>6.0</u>	<u>6.0</u>	<u>6.0</u>	<u>6.0</u>

19. MOVEMENT IN SHAREHOLDERS' FUNDS

	Share capital	Share premium account	Share option reserve	Capital redemption reserve	Profit and loss	Total 2006	Total 2005 Restated
	£m	£m	£m	£m	£m	£m	£m
Beginning of year as previously reported	18.5	4.4	-	5.8	40.2	68.9	69.3
Effect of adoption of FRS17	-	-	-	-	(7.0)	(7.0)	(9.2)
Effect of adoption of FRS21	-	-	-	-	5.3	5.3	4.5
Effect of adoption of FRS25	(12.5)	-	-	-	-	(12.5)	(12.5)
Effect of adoption of FRS26	-	-	-	-	(0.5)	(0.5)	(0.9)
At beginning of year as restated	6.0	4.4	-	5.8	38.0	54.2	51.2
Profit for year	-	-	-	-	11.6	11.6	9.1
Actuarial gains recognised in respect of retirement benefit obligations	-	-	-	-	7.8	7.8	1.7
Attributable deferred taxation	-	-	-	-	(2.1)	(2.1)	(0.5)
Charged against operating profit for equity-settled share based payment	-	-	0.2	-	-	0.2	-
Attributable deferred taxation	-	-	0.6	-	-	0.6	-
Dividends	-	-	-	-	(10.2)	(10.2)	(7.3)
End of year	6.0	4.4	0.8	5.8	45.1	62.1	54.2

Details of the irredeemable cumulative preference shares are set out in note 13.

20. COMMITMENTS AND CONTINGENCIES

- (a) Capital commitments at 31 March 2006 contracted for but not provided were £7.7m (2005 - £0.9m). The increase is due to the large number of new capital projects commenced in the first year of the new regulatory period.
- (b) The company has the following non-cancellable operating lease commitments in respect of plant and machinery payable during the next financial year -

	2006 £m	2005 £m
Operating leases expiring -		
Within one to two years	0.1	0.1
Within two to five years	0.1	0.1
	0.2	0.2

- (c) Contingencies - The company is a member of a VAT group and is jointly liable for the VAT liabilities of Bristol Water Group plc 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.

21. RETIREMENT BENEFIT OBLIGATIONS

(a) Pension arrangements

Defined contribution schemes

The company operates defined contribution retirement benefit schemes for a small number of employees. The total cost charged to income of £0.1m (2005: £0.1m) represents contributions payable to the scheme. As at 31 March 2006 and at the prior balance sheet date, all contributions due in respect of the current and prior reporting periods have been paid over to the scheme.

Defined benefit schemes

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. The company's membership of WCPS is through a separate section of the scheme. The assets of the section are held separately from those of the company and are invested by discretionary fund managers appointed by the trustees of the Scheme. The 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 Ltd 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 (Lane, Clark & Peacock). The most recent actuarial valuation of the scheme was carried out at 1 April 2005 by Lane, Clark & Peacock.

In connection with the new financing and return to shareholders by the ultimate parent company, the company has made a one-off contribution to WCPS of £7m (2005 - £Nil). The company has also agreed 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.

(b) Accounting under FRS17 "Retirement Benefits"

Full implementation of FRS17 "Retirement Benefits" has been made in these financial statements. Amounts for 2005 have been restated accordingly.

Basis of valuation

The formal actuarial valuation of the Bristol Water plc section of the Water Companies' Pension Scheme as at 1 April 2005 was updated to 31 March 2006, by Lane, Clark & Peacock, using the following major assumptions in accordance with FRS17:

	2006	2005	2004
Assumptions:			
RPI Inflation	3.0%	2.9%	2.9%
Pension increases in payment (RPI)	3.0%	2.9%	2.9%
Pension increases in payment (LPI)	3.0%	2.7%	2.7%
Salary increases	5.0%	4.9%	4.9%
Discount rate	5.0%	5.4%	5.5%

Asset distribution and expected return

The following table sets out the key assumptions used for the valuation of the company's section of WCPS. 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 surplus / (deficit).

	Expected long term rate of return			Market values of section assets		
	2006	2005	2004	2006	2005 restated	2004
				£m	£m	£m
Equities	7.4%	7.7%	7.9%	78.8	63.2	71.5
Bonds	4.3%	4.7%	4.7%	47.0	35.0	18.4
Market value of section assets				125.8	98.2	89.9
Present value of liabilities				(121.4)	(110.1)	(103.4)
Surplus/(deficit) in the section				4.4	(11.9)	(13.5)
Deferred taxation				(1.3)	3.3	4.1
Net pension asset/(liability)				3.1	(8.6)	(9.4)

Contributions

Contributions paid in the year to the section including those from Bristol Wessex Billing Services Ltd were £9.8m (2005 - £1.4m). Contributions this year include £1.3m of regular employer contributions, £7.0m of special contribution as described previously, and £1.5m in connection with early retirements of staff as part of the restructuring programme. For normal employer contributions, during the year the company was required to contribute at the rates of 21% (2005 - 19.5%) of relevant payroll costs for the main sub section and 10% (2005 - 8.1%) for the alternative benefits sub section.

As described in note 21(a), the company has agreed to make further additional contributions to the scheme.

Analysis of charges to Profit and Loss Account:

	2006 £m	2005 £m
Analysis of the amount charged to operating profit		
Employer's part of current service cost	1.9	2.1
Past service cost	0.4	0.3
	2.3	2.4
Less, past service costs charged to restructuring provision	(0.4)	(0.3)
Total operating charge	1.9	2.1
	2006 £m	2005 £m
Analysis of the amount credited/(charged) to other finance income		
Expected return on pension section assets	6.8	6.4
Interest on post-retirement liabilities	(5.9)	(5.6)
Net return – credit to other finance income	0.9	0.8

	2006 £m	2005 £m
Analysis of amount recognised in the Statement of Total Recognised Gains and Losses (STRGL)		
Actual return less expected return on pension section assets	15.2	4.0
Experience gains arising on section liabilities	2.1	2.2
Changes in assumptions underlying the present value of section liabilities	(9.5)	(4.5)
Actuarial gain recognised in STRGL	7.8	1.7

	2006 £m	2005 £m
Movement in section pre tax financial position during the year		
Deficit in section at beginning of the year	(11.9)	(13.5)
Movement in year:		
Current service cost (employee and employer)	(2.3)	(2.4)
Aggregate regular contributions (employee and employer)	1.8	1.8
Additional one-off contribution	7.0	-
Additional contribution in relation to restructuring	1.5	-
Past service cost	(0.4)	(0.3)
Credit to other finance income	0.9	0.8
Actuarial gain recognised in STRGL	7.8	1.7
Surplus/(deficit) in section at end of the year	4.4	(11.9)

The history of experience gains and losses is:

Difference between expected and actual return on section assets:

Amount – surplus	15.2	4.0
Percentage of section assets	12%	4%

Experience gains and losses on section liabilities

Amount – gain	2.1	2.2
Percentage of the present value of the section liabilities	2%	2%

Changes in assumptions underlying the FRS17 value of the section liabilities

Amount – loss	(9.5)	(4.5)
Percentage of the present value of the section liabilities	(8)%	(4)%

Total amount recognised in STRGL

Amount – gain	7.8	1.7
Percentage of the present value of the section liabilities	6%	2%

22. ADDITIONAL INFORMATION TO THE CASH FLOW STATEMENT

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

	2006	2005
	£m	Restated £m
Operating profit	24.9	17.1
Depreciation, net	17.9	14.6
Difference between pension charges and normal contributions	0.6	0.6
Equity-settled share based payments	0.2	-
	<hr/>	<hr/>
Cash flow from operations	43.6	32.3
Working capital movements -		
Stocks	(0.1)	0.1
Debtors	(0.5)	1.2
Creditors and provisions	0.6	0.5
Additional contributions to pension scheme, including payments in respect of restructuring	(8.5)	-
	<hr/>	<hr/>
Net cash inflow from operating activities	35.1	34.1

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

	2006	2005
	£m	Restated £m
Decrease in net cash in year	(0.6)	-
Cash used to repay borrowings	4.3	7.5
Cash from new borrowings	(57.0)	-
Net costs of issue of loans	1.1	-
Cash from increase/(decrease) in short term deposits	29.1	(5.4)
	<hr/>	<hr/>
	(23.1)	2.1
New debt increase not affecting cash flow	(2.3)	(1.3)
Net borrowings at beginning of year including 8.75% irredeemable cumulative preference shares	(153.3)	(154.1)
	<hr/>	<hr/>
Net borrowings at end of year including 8.75% irredeemable cumulative preference shares	(178.7)	(153.3)

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

	Opening net borrowings £m	Cash flows in year £m	Maturity profile £m	New debt not affecting cash flow* £m	Closing net Borrowings £m
Cash at bank	1.6	(0.6)	-	-	1.0
Short term deposits	10.4	29.1	-	-	39.5
<hr/>					
Cash at bank including overnight deposits	12.0	28.5	-	-	40.5
Swap liability due within one year	(0.5)	0.6	(0.2)	(0.2)	(0.3)
Swap liability due after one year	(0.2)	-	0.2	-	-
Borrowings due within one year	(3.7)	3.7	(2.2)	-	(2.2)
Borrowings due after one year, including 8.75% irredeemable cumulative preference shares, net of issue costs of new loans	(160.9)	(55.9)	2.2	(2.1)	(216.7)
<hr/>					
Net borrowings including 8.75% irredeemable cumulative preference shares	(153.3)	(23.1)	-	(2.3)	(178.7)

* Represents indexation of term loans and fair value adjustments to swaps

23. SHARE-BASED PAYMENTS

Equity-settled share option plan

During the year the Bristol Water Group plc Savings Related Share Option Scheme was open to all employees who had attained one year's service with the group. The plan provided for a purchase price equal to the daily average market price of the group shares on the date of grant, less 20 per cent. Share options could be purchased during a 4-week period each year. The share options so purchased were placed in the employee share savings plan for a period of either 3 or 5 years. Options remaining unexercised after a period of 3 or 5 years from the date of grant expire. Furthermore, options are forfeited if the employee leaves the group before the options vest.

Potential issues of ordinary shares

The total number of shares subject to options in the Employee Share Options Scheme (including those granted prior to 7 November 2002) and the periods in which they may be exercised are as follows:

Exercise period	At £1.636	At £2.032	At £1.904	At £3.180	At £5.452
2006-07	52,355	-	192,310	-	-
2007-08	-	75,995	-	63,983	-
2008-09	-	-	71,005	-	45,543
2009-10	-	-	-	26,750	-
2010-11	-	-	-	-	22,500

The exercise price of shares has been restated to reflect the 10 for 13 share consolidation effected in July 2005.

In June 2006 all of the above options accrued to that date were exercised and the remainder lapsed.

In accordance with FRS 20 'Share-based Payment', the company has fair valued share options granted since 7 November 2002. Options granted since that date have been valued using the Black-Scholes option-pricing model. No restatement of the previous year is necessary as the effect on both the current and prior years is not material. The fair value per option granted and the assumptions used in the calculation are as follows:

	18 July 2005	16 July 2004	15 July 2003
Grant date			
Share price at grant date	£6.815	£3.975	£2.380
Exercise price	£5.452	£3.180	£1.904
Shares under option	69,880	100,081	353,775
Vesting period (years)	3 & 5	3 & 5	3 & 5
Expected volatility	21.07%	22.69%	20.58%
Option life (years)	3, 5	3, 5	3, 5
Expected life (years)	3, 5	3, 5	3, 5
Risk free rate	4.50%	4.50%	4.50%
Expected dividends expressed as a dividend yield	5.00%	5.00%	5.75%
Possibility of ceasing employment before vesting	5.00%	5.00%	5.00%
Weighted average fair value per option	126.40p	76.84p	43.63p

The expected volatility is based on historical volatility over a 5-year period. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. A reconciliation of option movements over the year to 31 March 2006 is shown below:

	Number	Weighted average exercise price (£)
Outstanding at 1 April	417,881	2.210
Granted	69,880	5.452
Forfeited	(38,997)	2.317
Exercised	(26,673)	1.992
Outstanding at 31 March	422,091	2.750
Exercisable at 31 March	422,091	2.750

The options outstanding at 31 March 2006 had a weighted average exercise price of £2.750 (2005: £2.210), and a weighted average remaining contractual life of 3.57 (2005: 3.57) years.

The plan has since been terminated following the acquisition of Bristol Water Group plc by Agbar.

24. POST BALANCE SHEET EVENTS

On 22 April 2006 a recommended cash offer was made by Sociedad General de Aguas de Barcelona S.A. (Agbar) for Bristol Water Group plc (BWG), the then ultimate parent company. Agbar has now acquired more than 90% of the shares of BWG and has taken steps to acquire the remaining shares. BWG has subsequently been delisted.

25. ULTIMATE PARENT COMPANY AND RELATED PARTY TRANSACTIONS

At 31 March 2006 the ultimate parent and controlling company was Bristol Water Group plc, which is the only entity to consolidate these accounts. The subsequent change in ownership of Bristol Water Group plc is disclosed in note 24. Copies of its consolidated accounts will be 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 TO THE SHAREHOLDERS OF BRISTOL WATER PLC

We have audited the financial statements of Bristol Water plc for the year ended 31 March 2006 which comprise the accounting policies, the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited, at the request of the directors, the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities. The directors are also responsible for preparing the Directors' Remuneration Report (because the Company applies the requirements of Schedule 7A to the Companies Act 1985 as if it were a quoted company).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We also, at the request of the directors, audit the part of the Directors' Remuneration Report to be audited (because the Company applies the requirements of Schedule 7A to the Companies Act 1985 as if it were a quoted company). 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 whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and Business Review, the Chairman's Statement, the Corporate Governance Report and the unaudited part of the Remuneration Committee Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

We also, at the request of the directors (because the company applies the Financial Services Authority listing rules as if it were a quoted company), review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2006 and of its profit and cash flows for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors, Bristol
13 July 2006

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

PROFIT AND LOSS ACCOUNTS	2006	2005	2004	2003	2002
Years ended 31 March	£m	Restated £m	Restated £m	Restated £m	Restated £m
Turnover	81.9	70.6	70.6	70.0	68.0
Operating profit	24.9	17.1	19.6	19.4	18.7
Interest and irredeemable preference share dividends	(7.4)	(7.2)	(6.2)	(7.0)	(5.3)
Net finance income (expense) on retirement benefit obligations	0.9	0.8	(0.2)	2.3	-
Profit before taxation	18.4	10.7	13.2	14.7	13.4
Taxation	(6.8)	(1.6)	(2.5)	(7.8)	(3.8)
Profit after taxation	11.6	9.1	10.7	6.9	9.6
Dividends	(10.2)	(7.3)	(15.9)	(5.6)	(5.1)
Profit/(Loss) retained	1.4	1.8	(5.2)	1.3	4.5
BALANCE SHEETS	2006	2005	2004	2003	2002
At 31 March	£m	£m	£m	£m	£m
Fixed assets	197.0	195.6	193.8	184.7	179.4
Loan to Bristol Water Group plc	68.5	47.0	47.0	-	-
Net current assets/(liabilities)	38.6	9.2	11.6	0.4	4.5
Total assets less current liabilities	304.1	251.8	252.4	185.1	183.9
Debt due after one year, excluding irredeemable preference shares	(204.2)	(148.6)	(151.5)	(79.3)	(84.0)
Irredeemable preference shares	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)
Other liabilities	(9.6)	(8.6)	(8.5)	(8.4)	(8.4)
Provisions	(18.8)	(19.3)	(18.7)	(18.8)	(14.7)
Retirement benefit obligations	3.1	(8.6)	(10.0)	(13.7)	10.6
Net operating assets	62.1	54.2	51.2	52.4	74.9
CASH FLOW	2006	2005	2004	2003	2002
Years ended 31 March	£m	£m	£m	£m	£m
Cash flow from operations	35.1	34.1	33.4	29.7	28.9
Interest and irredeemable preference share dividends paid	(6.5)	(6.4)	(7.8)	(6.7)	(5.7)
Tax paid	(1.7)	(1.9)	(3.0)	(3.0)	(2.0)
Capital expenditure net of contributions	(19.4)	(16.4)	(24.6)	(16.1)	(22.8)
Loan to Bristol Water Group plc	(21.5)	-	(47.0)	-	-
Dividends paid on equity shares	(10.2)	(7.3)	(15.9)	(5.6)	(5.2)
Cash flow before management of liquid resources and financing	(24.2)	2.1	(64.9)	(1.7)	(6.8)
Management of liquid resources	(29.1)	5.4	(9.4)	7.5	(5.2)
Net increase/(decrease) in financing	52.7	(7.5)	72.7	(3.3)	12.0
(Decrease)/increase in cash	(0.6)	-	(1.6)	2.5	-

Notes: All comparative data have been restated where necessary, and possible, to conform to current accounting practices. Profit and Loss account data for 2002 has not been restated for the effect of FRS17 (Retirement benefit obligations), as the relevant information is not available. All data includes exceptional items where relevant.

