



BRISTOL WATER

Bristol Water plc
Interim Report 2006

Highlights - reported under UK GAAP

Six months ended 30 September	2006 (unaudited) £m	2005 (unaudited) (restated) £m
Turnover	43.3	41.1
Operating profit	14.0	13.2
Profit before taxation	12.1	10.4
Profit after taxation	9.7	6.9
Regulatory Capital Value (RCV) – forecast / actual year end	256	235
Net debt (excluding 8.75% irredeemable cumulative preference shares) as percentage of RCV	67%	71%

- Profit before taxation £12.1m - 16% increase reflecting K factor of 2.8%; second half results will be lower due to increased energy and interest costs
- Net capital investment of £19.6m in period
- Net debt, excluding £12.5m of 8.75% irredeemable cumulative preference shares, of £172m – approximately 67% of projected RCV at 31 March 2007
- Results for the previous period are restated to reflect full adoption of FRS17, FRS20, FRS25 and FRS26

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

Chairman's statement

Introduction

In June the acquisition of Bristol Water Group by Sociedad General de Aguas de Barcelona S.A. (Agbar) was completed. Three parent company nominees have joined the Board, two in executive positions. In connection with the acquisition we have agreed with Ofwat a minor change to our licence of appointment as a water undertaker.

Agbar provides water services to approximately 23 million people worldwide and their expertise and understanding of the water industry will reinforce Bristol Water's commitment to providing high standards of service to its customers.

Operational performance

The company continues to make good progress in the delivery of the outputs required by Ofwat's determination of price limits for the 2005-2010 period. In particular we have two major capital schemes in progress:

- A £25m project to improve the security of supply for a population of almost 200,000 in the northern and eastern parts of Bristol and surrounding areas.
- A £9m project to upgrade our Banwell treatment works to improve its effectiveness in dealing with a range of different raw water qualities.

In total we invested £21m in capital projects during the six months to September. We currently anticipate a total investment programme for the 5-year regulatory period of almost £170m (in 2006/07 prices, gross of grants and contributions). This is broadly in line with Ofwat's assumptions.

Bristol Water has a mix of water sources with approximately 40% from impounding reservoirs, 40% to 50% from river sources and the balance from groundwater sources. This mix provides considerable flexibility. We have not had any water usage restrictions for over 15 years and do not anticipate any need for them in the foreseeable future. However we are not complacent and are continually reinforcing the message to customers of the need to use water wisely. During 2005/06 we continued to meet our leakage target as agreed with Ofwat, and are making good progress to do so again in the current year.

Billing and operational service levels have remained high. Our surveys show continuing high levels of customer satisfaction.

Financial performance

Operating profit increased by £0.8m to £14.0m. This reflects the average 5.2% increase in charges to customers under the approved price limits, together with the impact of our continuing efficiency initiatives offset by additional depreciation charges related to the capital investment programme.

An important element of our operating cost base is energy and the remainder of the year will be adversely affected by the impact of a price increase of approximately 65% effective from October 2006.

Net interest charges, excluding those related to retirement benefits and the preference share dividend, reduced by £0.4m to £2.3m. This reflects the indexation charge for our index-linked debt being just 0.6% in the first six months. The indexation charge for the second half-year will be much higher reflecting an RPI increase of 2.6% to be charged in that period.

The tax charge of £2.4m represents an effective tax rate of 20% (30 September 2005: 33%). The principal reason for the change is a significant increase in the discounting of deferred taxation during the period, mainly reflecting the significant increase in the level of capital expenditure.

Net debt, excluding the irredeemable preference shares, increased from £166.2m at 31 March to £172.0m, and at 30 September represented approximately 67% of projected Regulatory Capital Value at 31 March 2007. We currently anticipate that this ratio will increase to approximately 73% by March 2007.

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

- A base level reflecting the cost of capital allowed by Ofwat in the 5-year 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 Ltd (the ultimate UK parent company) in respect of intercompany loans.

In the six months to September ordinary dividend payments were:

- Base level - fourth interim and final dividend in respect of the 2005/06 trading year of £3.5m.
- First interim for 2005/06 in respect of the intercompany loan interest element for the first half of the year of £1.4m.

No further dividends have been proposed at the date of this report.

Moger Woolley
Chairman
30 November 2006

Profit and loss account

For the six months ended 30 September 2006

		Six months to 30 September 2006 (unaudited)	Six months to 30 September 2005 (unaudited) (restated)	Year to 31 March 2006
	Note	£m	£m	£m
Turnover	2	43.3	41.1	81.9
Operating costs	3	(29.3)	(27.9)	(57.0)
Operating profit		14.0	13.2	24.9
Dividends on 8.75% irredeemable cumulative preference shares		(0.5)	(0.5)	(1.1)
Interest in respect of retirement benefit surplus/(deficit)		0.9	0.4	0.9
Other net interest payable and similar charges	4	(2.3)	(2.7)	(6.3)
		(1.9)	(2.8)	(6.5)
Profit on ordinary activities before taxation		12.1	10.4	18.4
Taxation on profit on ordinary activities	5	(2.4)	(3.5)	(6.8)
Profit on ordinary activities after taxation		9.7	6.9	11.6
Earnings per ordinary share – basic and diluted	6	160.5p	113.8p	193.0p
Dividend per ordinary share	12			
- declared or proposed in respect of the period		23.6p	19.6p	81.8p
- paid during the period		81.9p	107.6p	169.8p

All activities above relate to the continuing operations of the company.

The accompanying notes to the accounts form an integral part of these statements.

Statement of total recognised gains and losses

For the six months ended 30 September 2006

		Six months to 30 September 2006 (unaudited)	Six months to 30 September 2005 (unaudited) (restated)	Year to 31 March 2006
	Note	£m	£m	£m
Profit attributable to Bristol Water plc ordinary shareholders		9.7	6.9	11.6
Actuarial gains recognised in respect of retirement benefit surplus/(deficit)	10,11	1.1	2.7	7.8
Attributable deferred taxation	10,11	(0.3)	(0.7)	(2.1)
Total recognised gains for the period		10.5	8.9	17.3

The accompanying notes to the accounts form an integral part of these statements.

Balance sheet

30 September 2006

		At 30 September 2006 (unaudited)	At 30 September 2005 (unaudited) (restated)	At 31 March 2006
	Note	£m	£m	£m
Fixed assets	7	207.2	194.5	197.0
Investment – Loans to ultimate UK holding company		68.5	68.5	68.5
Current assets				
Stocks		0.7	0.7	0.7
Debtors		23.0	21.4	19.1
Cash at bank	8	1.6	1.1	1.0
Other investments	8	31.9	38.3	39.5
		<u>57.2</u>	<u>61.5</u>	<u>60.3</u>
Creditors: amounts falling due within one year				
Short term borrowings	8	(2.4)	(4.6)	(2.5)
Other creditors		(21.9)	(19.0)	(19.2)
		<u>(24.3)</u>	<u>(23.6)</u>	<u>(21.7)</u>
Net current assets		<u>32.9</u>	<u>37.9</u>	<u>38.6</u>
Total assets less current liabilities		<u>308.6</u>	<u>300.9</u>	<u>304.1</u>
Creditors: amounts falling due after more than one year	8	(203.1)	(202.7)	(204.2)
8.75% irredeemable cumulative preference shares	8	(12.5)	(12.5)	(12.5)
Deferred income		(10.0)	(9.5)	(9.6)
Provisions for liabilities	9	(19.8)	(18.2)	(18.8)
Retirement benefit surplus/(deficit), net of attributable deferred taxation	10	4.5	(1.0)	3.1
Net assets		<u>67.7</u>	<u>57.0</u>	<u>62.1</u>
Capital and reserves				
Called up share capital		6.0	6.0	6.0
Share premium		4.4	4.4	4.4
Share option reserve		-	0.4	0.8
Other reserves		5.8	5.8	5.8
Profit and loss account		51.5	40.4	45.1
Total shareholders' funds	11	<u>67.7</u>	<u>57.0</u>	<u>62.1</u>

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

Cash flow statement

For the six months ended 30 September 2006

		Six months to 30 September 2006 (unaudited)	Six months to 30 September 2005 (unaudited) (restated)	Year to 31 March 2006
	Note	£m	£m	£m
Net cash inflow from operating activities	13	18.0	11.4	35.1
Returns on investments and servicing of finance				
Interest received		3.1	2.4	5.3
Interest paid on term loans and debentures		(3.7)	(4.1)	(8.4)
Interest paid on finance leases		(1.2)	(1.2)	(1.2)
Dividends paid on 8.75% irredeemable cumulative preference shares		(0.6)	(0.6)	(1.1)
Net costs of issue of new loans		-	(1.1)	(1.1)
		(2.4)	(4.6)	(6.5)
Corporation tax paid		(0.3)	(0.4)	(1.7)
Capital expenditure and investing activities				
Purchase of fixed assets		(17.3)	(8.9)	(22.5)
Contributions received		1.6	1.8	3.1
Loan advanced to ultimate UK holding company		-	(21.5)	(21.5)
		(15.7)	(28.6)	(40.9)
Equity dividends paid		(4.9)	(5.3)	(10.2)
Cash outflow before management of liquid resources and financing		(5.3)	(27.5)	(24.2)
Management of liquid resources				
Being decrease / (increase) in other investments		7.6	(27.8)	(29.1)
Financing				
New term loans		-	57.0	57.0
Capital element of lease repayments		(1.4)	(1.8)	(1.9)
Loan repayments		-	-	(1.8)
Payments in respect of swap liability		(0.3)	(0.3)	(0.6)
		(1.7)	54.9	52.7
Increase / (decrease) in cash	13	0.6	(0.4)	(0.6)
Cash, beginning of period		1.0	1.6	1.6
Cash, end of period		1.6	1.2	1.0

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

Notes to the interim results

For the six months ended 30 September 2006

Note 1: Accounting policies

The financial information contained in this interim announcement does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The interim results, which have not been audited but have been reviewed by the company's auditors, have been prepared on the basis of the accounting policies adopted by Bristol Water plc for the year ended 31 March 2006 as set out in the Annual Report and Accounts. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified and did not contain statements under S.237(2) or (3) of the Companies Act 1985.

During the year ended 31 March 2006 the company adopted the following 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
- FRS23 – Effects of changes in foreign exchange rates
- FRS24 – Financial reporting in hyperinflationary economies
- FRS25 – Financial Instruments: Disclosure and presentation
- FRS26 – Financial Instruments: Measurement
- FRS28 – Corresponding Amounts

Certain changes arising from the adoption had not been identified at the time of preparing the interim results for the six months ended 30 September 2005. The results for the comparative interim period have therefore been restated as follows:

FRS 17: Initial assumptions regarding full recognition of the surplus/(deficit) arising in the company's section of the Water Companies' Pension Scheme (WCPS) were revised for the 31 March 2006 statutory accounts. The effect of the change in assumptions on the results of the comparative interim period is:

- to leave profit after tax unchanged
- to leave total recognised gains and losses unchanged
- to increase net asset value by £0.5m

FRS 20: Provision is made for the notional expense arising on the grant of share options under the terms of the former Bristol Water Group Savings Related Share Option Scheme. The effect of the change in accounting policy on the results of the comparative interim period is:

- to reduce profit after tax by £0.1m
- to reduce total recognised gains and losses by £0.1m
- to increase net asset value by £0.3m

FRS 25: 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 on the results of the comparative interim period is:

- to reduce profit after tax by £0.5m
- to leave total recognised gains and losses unchanged
- to reduce net asset value by £12.5m

Notes to the interim results

For the six months ended 30 September 2006

Note 1: Accounting policies continued

FRS 26: The company had an interest rate swap, which matured on 26 September 2006, which is now measured at fair value. The effect of the change in accounting policy on the results of the comparative interim period is:

- to increase profit after tax by £0.1m
- to increase total recognised gains and losses by £0.1m
- to reduce net asset value by £0.4m

Amounts charged against operating profits in respect of equity-settled share based payments are no longer passed through the Statement of Total Recognised Gains and Losses (STRGL) but appear only on the schedule of total shareholders funds.

As outlined in the company's Annual Report and Accounts for the year ended 31 March 2006, the company does not currently intend to adopt IFRS until UK GAAP and IFRS are fully harmonised.

Note 2: 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.

Note 3: Operating costs

	Six months to 30 September 2006 (unaudited) £m	Six months to 30 September 2005 (unaudited) (restated) £m	Year to 31 March 2006 £m
Operating costs comprise -			
Payroll cost, net of recharges to fixed assets, and including retirement benefit costs and equity-settled share based payments	5.7	6.3	11.5
Other operating costs	14.6	13.1	27.6
Depreciation, net of amortisation of deferred income	9.0	8.5	17.9
	<u>29.3</u>	<u>27.9</u>	<u>57.0</u>

Notes to the interim results

For the six months ended 30 September 2006

Note 4: Other net interest payable

	Six months to 30 September 2006 (unaudited)	Six months to 30 September 2005 (unaudited) (restated)	Year to 31 March 2006
	£m	£m	£m
Other net interest payable and similar charges relate to -			
Bank borrowings	0.8	0.8	1.7
Term loans and debentures - interest charges	3.5	3.2	6.8
- indexation of principal	0.5	0.6	2.1
Finance leases	0.5	0.6	1.1
	<u>5.3</u>	<u>5.2</u>	<u>11.7</u>
Less:			
Interest receivable from loan to Bristol Water Group Ltd	(2.0)	(1.7)	(3.7)
Other external investments and deposits	(1.0)	(0.9)	(1.9)
	<u>(3.0)</u>	<u>(2.6)</u>	<u>(5.6)</u>
	2.3	2.6	6.1
Fair value adjustment to swap liability	-	0.1	0.2
Total other net interest	<u>2.3</u>	<u>2.7</u>	<u>6.3</u>

Note 5: Taxation on profit on ordinary activities

	Six months to 30 September 2006 (unaudited)	Six months to 30 September 2005 (unaudited) (restated)	Year to 31 March 2006
	£m	£m	£m
The charge for taxation comprises -			
Current tax:			
Corporation Tax at 30%	1.9	2.0	2.1
Adjustment to prior periods	(0.2)	-	(0.1)
Receipts in respect of group relief	-	-	1.3
Total current tax	<u>1.7</u>	<u>2.0</u>	<u>3.3</u>
Deferred tax:			
Current period movement	1.8	1.7	2.8
Adjustment to prior periods	-	-	0.1
Effect of discounting	(1.1)	(0.2)	0.6
Total deferred tax	<u>0.7</u>	<u>1.5</u>	<u>3.5</u>
Total taxation on profit on ordinary activities	<u>2.4</u>	<u>3.5</u>	<u>6.8</u>

The overall tax charge represents 20% (six months to 30 September 2005: 33%; year ended 31 March 2006: 37%) of the profit before taxation. The principal reason for the change is the variation in the discounting effect applied to the undiscounted deferred tax liabilities, in accordance with prevailing market conditions.

Notes to the interim results

For the six months ended 30 September 2006

Note 6: Earnings per ordinary share – basic and diluted

	Six months to 30 September 2006 (unaudited)	Six months to 30 September 2005 (unaudited) (restated)	Year to 31 March 2006
	m	m	m
Earnings per share have been calculated as follows -			
Earnings	£9.7	£6.9	£11.6
Weighted average number of ordinary shares in issue	6.0	6.0	6.0

Note 7: Fixed assets

	Six months to 30 September 2006 (unaudited)	Six months to 30 September 2005 (unaudited)	Year to 31 March 2006
	£m	£m	£m
The movement in fixed assets comprises -			
Net book value, beginning of period	197.0	195.6	195.6
Additions	20.8	9.1	22.6
Disposals	-	-	(0.2)
Grants and contributions	(1.2)	(1.4)	(2.4)
Depreciation	(9.4)	(8.8)	(18.6)
Net book value, end of period	207.2	194.5	197.0

Note 8: Net borrowings

	Six months to 30 September 2006 (unaudited)	Six months to 30 September 2005 (unaudited) (restated)	Year to 31 March 2006
	£m	£m	£m
Net borrowings comprise -			
Debt due after one year, excluding 8.75% irredeemable cumulative preference shares	203.1	202.7	204.2
Current portion of debt	2.4	4.0	2.2
Current portion of swap liability	-	0.6	0.3
	205.5	207.3	206.7
Cash at bank and other investments	(33.5)	(39.4)	(40.5)
Net borrowings excluding 8.75% irredeemable cumulative preference shares	172.0	167.9	166.2
8.75% irredeemable cumulative preference shares	12.5	12.5	12.5
Net borrowings	184.5	180.4	178.7

Notes to the interim results

For the six months ended 30 September 2006

Note 9: Provisions for liabilities

	Six months to 30 September 2006 (unaudited)	Six months to 30 September 2005 (unaudited) (restated)	Year to 31 March 2006
	£m	£m	£m
Restructuring costs	-	0.9	-
Deferred tax (see below)	19.8	17.3	18.8
	19.8	18.2	18.8
Deferred taxation provision			
Deferred tax liability	36.0	30.6	33.2
Effect of discounting	(14.3)	(13.8)	(13.1)
Net provision, including deferred tax on retirement benefit surplus/(deficit)	21.7	16.8	20.1
Less, attributable to retirement benefit surplus/(deficit)	(1.9)	0.5	(1.3)
Net provision, excluding deferred tax on retirement benefit surplus/(deficit)	19.8	17.3	18.8

Note 10: Retirement benefits

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

In addition to providing benefits to employees and ex-employees of Bristol Water plc, the section provides benefits to employees and ex-employees of Bristol Water Holdings Limited 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 company made a contribution of £7.0m to WCPS in July 2005. It has also agreed to make additional contributions of £1.0m 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 trustees.

In accordance with FRS17 actuarial gains and losses are recognised immediately in the Statement of Total Recognised Gains and Losses.

Notes to the interim results

For the six months ended 30 September 2006

Note 10: Retirement benefits continued

In summary assets and liabilities under FRS17 were:

	Six months to 30 September 2006 (unaudited)	Six months to 30 September 2005 (unaudited) (restated)	Year to 31 March 2006
	£m	£m	£m
Market value of section assets	126.3	116.0	125.8
Present value of liabilities	(119.9)	(117.5)	(121.4)
Surplus/(deficit) in the section	6.4	(1.5)	4.4
Deferred taxation	(1.9)	0.5	(1.3)
Net retirement benefit surplus/ (deficit)	4.5	(1.0)	3.1

Note 11: Total shareholders' funds

	Six months to 30 September 2006 (unaudited)	Six months to 30 September 2005 (unaudited) (restated)	Year to 31 March 2006
	£m	£m	£m
Movement in shareholders' funds -			
At beginning of period as previously reported:	62.1	66.7	54.2
Adjustment to initial adoption of FRS17	-	0.5	-
Effect of adoption of FRS25	-	(12.5)	-
Effect of adoption of FRS26	-	(0.5)	-
At beginning of period as now restated	62.1	54.2	54.2
Profit for the period	9.7	6.9	11.6
Ordinary dividends (note 12)	(4.9)	(6.5)	(10.2)
Actuarial gains recognised in respect of retirement benefit surplus/(deficit)	1.1	2.7	7.8
Attributable deferred taxation	(0.3)	(0.7)	(2.1)
Charged against operating profit for equity-settled share based payments	-	0.1	0.2
Attributable taxation	-	0.3	0.6
End of period	67.7	57.0	62.1

Notes to the interim results

For the six months ended 30 September 2006

Note 12: Ordinary dividends

	Six months to 30 September 2006 (unaudited)	Six months to 30 September 2005 (unaudited) (restated)	Year to 31 March 2006
	£m	£m	£m
Dividend in respect of 2004/05:			
Final dividend of 88.0 pence per share, approved at the Annual General Meeting on 18 July 2005	-	5.3	5.3
Dividends in respect of 2005/06:			
First interim dividend of 19.6 pence per share, approved by the Board on 29 September 2005	-	1.2	1.2
Second interim dividend of 38.7 pence per share, approved by the Board on 8 December 2005	-	-	2.3
Third interim dividend of 23.5 pence per share, approved by the Board on 28 March 2006	-	-	1.4
Fourth interim and final dividend of 58.3 pence per share, approved by the Board on 13 July 2006	3.5	-	-
Dividend in respect of 2006/07			
First interim dividend of 23.6 pence per share, approved by the Board on 28 September 2006	1.4	-	-
	4.9	6.5	10.2

No further dividends have been proposed at the date of this report.

Notes to the interim results

For the six months ended 30 September 2006

Note 13: Supplementary cash flow information

	Six months to 30 September 2006 (unaudited)	Six months to 30 September 2005 (unaudited) (restated)	Year to 31 March 2006
	£m	£m	£m
a) Reconciliation of operating profit to net cash inflow from operating activities -			
Operating profit	14.0	13.2	24.9
Depreciation net of amortisation of deferred income	9.0	8.5	17.9
Difference between pension charges and normal contributions	0.4	0.4	0.6
Equity-settled share based payments non-cash charge	-	0.1	0.2
	<hr/>	<hr/>	<hr/>
Cash flow from operations	23.4	22.2	43.6
Working capital movements:			
Stocks	-	(0.1)	(0.1)
Debtors	(4.0)	(2.7)	(0.5)
Creditors and provisions	(1.0)	(1.0)	0.6
Additional contributions to pension scheme, including payments in respect of staff retiring early due to restructuring programme	(0.4)	(7.0)	(8.5)
Net cash inflow from operating activities	<hr/> 18.0	<hr/> 11.4	<hr/> 35.1
b) Reconciliation of net cash flow to movement in net borrowings -			
Increase / (decrease) in cash in the period	0.6	(0.4)	(0.6)
Cash used to repay borrowings	1.7	2.1	4.3
Cash from new borrowings	-	(57.0)	(57.0)
Costs of issue of new loans	-	1.1	1.1
(Decrease) / increase in other investments	(7.6)	27.8	29.1
	<hr/>	<hr/>	<hr/>
Increase in net borrowings	(5.3)	(26.4)	(23.1)
Movement in net debt not affecting cash flow – indexation of existing debt and fair value adjustment to swaps	(0.5)	(0.7)	(2.3)
Net borrowings, beginning of period, including 8.75% irredeemable cumulative preference shares	(178.7)	(153.3)	(153.3)
	<hr/>	<hr/>	<hr/>
Net borrowings, end of period, including 8.75% irredeemable cumulative preference shares	<hr/> (184.5)	<hr/> (180.4)	<hr/> (178.7)

Notes to the interim results

For the six months ended 30 September 2006

Note 14: Auditors

Following the acquisition of Bristol Water Group by Agbar during the period PricewaterhouseCoopers LLP resigned as auditors and Deloitte & Touche LLP were appointed in their place.

Note 15: Circulation

This interim announcement is being sent to all shareholders and debenture holders. Copies are available to the public from the company's registered office at PO Box 218, Bridgwater Road, Bristol, BS99 7AU and on the Bristol Water web site: <http://www.bristolwater.co.uk>.



Independent review report to Bristol Water plc

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 September 2006 which comprises the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement and the related notes 1 to 15. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2006.

Deloitte & Touche LLP

Chartered Accountants
Bristol, United Kingdom
30 November 2006

Notes:

- (a) A review does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

BRISTOL WATER'S AREA OF SUPPLY



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WATER

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