

**BRISTOL WATER plc**

**REGULATORY ACCOUNTING STATEMENTS**

**YEAR ENDED 31 MARCH 2003**

## **REGULATORY ACCOUNTING STATEMENTS**

### **for the year ended 31 March 2003**

The Company was appointed by the Secretary of State for the Environment as a Water Undertaker under the Water Act 1989 and is required to comply with Conditions set out in its Instrument of Appointment ("the Licence").

The regulatory information that follows has been prepared in accordance with Condition F of the Licence and Regulatory Accounting Guidelines issued by the Director General of Water Services (DGWS). These financial statements have been prepared for use by the DGWS. They may not be appropriate for any other purpose. In particular, as required by the DGWS, they do not correspond with the statutory accounts in respect of infrastructure renewals accounting.

The accompanying Historic Cost Accounts and Current Cost Accounting Statements were approved by the Board of Directors on 20 June 2003.

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## BRISTOL WATER plc

### HISTORICAL COST 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.

#### b. Turnover

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

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

#### c. Tangible fixed assets and depreciation

Tangible fixed assets comprise infrastructure assets and other assets.

##### i. Infrastructure assets

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

##### ii. Other assets

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

##### iii. Depreciation

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

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

Other assets are depreciated after commissioning over the following estimated economic lives -

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

#### d. Grants and contributions

Contributions received in respect of tangible assets other than infrastructure assets are treated as deferred income and amortised to 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 SSAP4 but is a departure from the Companies Act 1985 which requires such contributions to be shown as deferred income. It is the directors' opinion that this treatment is

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

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

**e. Leased assets**

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

Operating lease rental payments are charged to the profit and loss account on a straight-line basis over the term of the lease.

**f. Pension costs**

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

The appropriate transitional disclosures under FRS17, "Retirement Benefits", the new accounting standard on pensions, are included in note 18 to the accounts.

**g. Research and development**

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

**h. Taxation**

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

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

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

**i. Stocks**

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

**j. Financial instruments**

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

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

HISTORICAL COST PROFIT AND LOSS ACCOUNT  
for the year ended 31 March 2003

	Notes	Appointed business 2003 £000	Non- appointed 2003 £000	<b>Total 2003 £000</b>	Appointed business 2002 £000	Non- appointed 2002 £000	Total 2002 £000
<b>Turnover</b>	1	67,853	2,121	<b>69,974</b>	66,005	2,008	68,013
Operating costs	2	(49,101)	(1,743)	<b>(50,844)</b>	(48,843)	(1,631)	(50,474)
Operating income, being profit on disposal of tangible fixed assets		374	12	<b>386</b>	713	47	760
<b>Operating profit</b>		19,126	390	<b>19,516</b>	17,875	424	18,299
Other income, being rents		231	-	<b>231</b>	202	-	202
Net interest payable and similar charges	3	(5,176)	(8)	<b>(5,184)</b>	(4,578)	(20)	(4,598)
<b>Profit on ordinary activities before taxation</b>		14,181	382	<b>14,563</b>	13,499	404	13,903
Taxation on profit on ordinary activities	4	(5,978)	(115)	<b>(6,093)</b>	(3,501)	(121)	(3,622)
<b>Profit on ordinary activities after taxation</b>		8,203	267	<b>8,470</b>	9,998	283	10,281
<b>Dividends -</b>	5						
On irredeemable preference shares		(1,094)	-	<b>(1,094)</b>	(1,094)	-	(1,094)
On ordinary shares		(15,788)	-	<b>(15,788)</b>	(5,512)	-	(5,512)
Total dividends		(16,882)	-	<b>(16,882)</b>	(6,606)	-	(6,606)
<b>(Loss)/profit retained for the year</b>		(8,679)	267	<b>(8,412)</b>	3,392	283	3,675
Balance on profit and loss account, beginning of year		44,927	336	<b>45,263</b>	41,535	53	41,588
<b>Balance on profit and loss account, end of year</b>		<u>36,248</u>	<u>603</u>	<b><u>36,851</u></b>	<u>44,927</u>	<u>336</u>	<u>45,263</u>
<b>Earnings per share -</b>	6			<u>123.0p</u>			<u>153.2p</u>

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

*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 2003**

	<b>2003</b>	2002
	<b>£000</b>	£000
Profit attributable to Bristol Water plc shareholders	<b>8,470</b>	10,281
Prior year adjustments net of attributable taxation	-	(11,202)
Total gain/(loss) recognised since last annual report	<u><b>8,470</b></u>	<u>(921)</u>

The prior year adjustments related to:

- (a) the recognition of income from metered supplies on the basis of volumes of water delivered, rather than volumes invoiced - £1,768,000;
- (b) the application of FRS19 Accounting for deferred tax - £(12,970,000).

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

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

HISTORICAL COST BALANCE SHEET  
at 31 March 2003

	Notes	Appointed business 2003 £000	Non- appointed 2003 £000	Total 2003 £000	Appointed business 2002 £000	Non- appointed 2002 £000	Total 2002 £000
<b>Tangible fixed assets</b>	7	184,195	1,315	<b>185,510</b>	178,151	1,439	179,590
<b>Current assets</b>							
Stocks	8	577	57	<b>634</b>	364	73	437
Debtors	9	16,659	106	<b>16,765</b>	12,168	143	12,311
Cash at bank and on deposit	10	9,661	-	<b>9,661</b>	14,676	-	14,676
		<u>26,897</u>	<u>163</u>	<u><b>27,060</b></u>	<u>27,208</u>	<u>216</u>	<u>27,424</u>
<b>Creditors: amounts falling due within one year</b>							
Short-term borrowings	10	6,742	18	<b>6,760</b>	3,217	138	3,355
Other creditors	11	33,199	857	<b>34,056</b>	21,969	1,123	23,092
		<u>39,941</u>	<u>875</u>	<u><b>40,816</b></u>	<u>25,186</u>	<u>1,261</u>	<u>26,447</u>
<b>Net current (liabilities)/assets</b>		<b>(13,044)</b>	<b>(712)</b>	<b>(13,756)</b>	<b>2,022</b>	<b>(1,045)</b>	<b>977</b>
<b>Total assets less current liabilities</b>		<b>171,151</b>	<b>603</b>	<b>171,754</b>	<b>180,173</b>	<b>394</b>	<b>180,567</b>
<b>Creditors: amounts falling due after one year</b>	10						
Long-term borrowings		76,154	-	<b>76,154</b>	81,197	58	81,255
Irredeemable debenture stocks		1,570	-	<b>1,570</b>	1,570	-	1,570
		<u>77,724</u>	<u>-</u>	<u><b>77,724</b></u>	<u>82,767</u>	<u>58</u>	<u>82,825</u>
<b>Deferred income</b>	12	8,429	-	<b>8,429</b>	8,396	-	8,396
<b>Provisions for liabilities and charges</b>	14	20,067	-	<b>20,067</b>	15,400	-	15,400
<b>Net assets</b>		<u><b>64,931</b></u>	<u><b>603</b></u>	<u><b>65,534</b></u>	<u><b>73,610</b></u>	<u><b>336</b></u>	<u><b>73,946</b></u>
<b>Capital and reserves</b>							
Called up share capital	15	18,498	-	<b>18,498</b>	18,498	-	18,498
Share premium account	16	4,415	-	<b>4,415</b>	4,415	-	4,415
Other non-distributable reserves	16	5,770	-	<b>5,770</b>	5,770	-	5,770
Profit and loss account	16	36,248	603	<b>36,851</b>	44,927	336	45,263
<b>Total shareholders' funds</b>	16	<u><b>64,931</b></u>	<u><b>603</b></u>	<u><b>65,534</b></u>	<u><b>73,610</b></u>	<u><b>336</b></u>	<u><b>73,946</b></u>
<i>Analysed as -</i>							
<i>Equity shareholders' funds</i>		<u>52,431</u>	<u>603</u>	<u><b>53,034</b></u>	<u>61,110</u>	<u>336</u>	<u>61,446</u>
<i>Non-equity shareholders' funds</i>		<u>12,500</u>	<u>-</u>	<u><b>12,500</b></u>	<u>12,500</u>	<u>-</u>	<u>12,500</u>

The accounts were approved by the Board on 20 June 2003 and signed on its behalf by -

**A Parsons**, Chairman

**A Nield**, Finance Director

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

**BRISTOL WATER plc**

**REGULATORY ACCOUNTING STATEMENTS**

**HISTORICAL COST CASH FLOW STATEMENT  
for the year ended 31 March 2003**

	Notes	Appointed business 2003 £000	Non- appointed 2003 £000	<b>Total 2003 £000</b>	Appointed business 2002 £000	Non- appointed 2002 £000	Total 2002 £000
<b>Net cash inflow from operating activities</b>	19	29,223	289	<b>29,512</b>	28,266	401	28,667
<b>Returns on investments and servicing of finance -</b>							
Other income received		231	-	<b>231</b>	202	-	202
Interest received		517	-	<b>517</b>	815	-	815
Interest paid		(4,761)	-	<b>(4,761)</b>	(4,150)	-	(4,150)
Interest paid on finance leases		(1,346)	(8)	<b>(1,354)</b>	(1,260)	(20)	(1,280)
Dividends paid on non-equity shares		(1,094)	-	<b>(1,094)</b>	(1,094)	-	(1,094)
		<u>(6,453)</u>	<u>(8)</u>	<u><b>(6,461)</b></u>	<u>(5,487)</u>	<u>(20)</u>	<u>(5,507)</u>
<b>Taxation -</b>							
Corporation tax paid		(2,889)	(121)	<b>(3,010)</b>	(1,894)	(101)	(1,995)
<b>Investing activities -</b>							
Purchase of tangible fixed assets less contributions received		(14,094)	(15)	<b>(14,109)</b>	(21,557)	(139)	(21,696)
Infrastructure renewals expenditure		3,409	-	<b>3,409</b>	2,588	-	2,588
Proceeds on disposal of tangible fixed assets		(6,286)	-	<b>(6,286)</b>	(4,541)	-	(4,541)
		854	33	<b>887</b>	793	95	888
		<u>(16,117)</u>	<u>18</u>	<u><b>(16,099)</b></u>	<u>(22,717)</u>	<u>(44)</u>	<u>(22,761)</u>
<b>Dividends paid on equity shares</b>		<u>(5,592)</u>	<u>-</u>	<u><b>(5,592)</b></u>	<u>(5,151)</u>	<u>-</u>	<u>(5,151)</u>
<b>Net cash (outflow)/inflow before management of liquid resources and financing</b>		(1,828)	178	<b>(1,650)</b>	(6,983)	236	(6,747)
<b>Management of liquid resources being decrease/(increase) in short-term deposits</b>		7,500	-	<b>7,500</b>	(5,200)	-	(5,200)
<b>Financing -</b>							
Cash inflow from refinancing assets under new finance leases		-	-	-	8,159	-	8,159
New bank loan and overdrafts		-	-	-	5,222	-	5,222
Capital element of lease repayments		(1,402)	(178)	<b>(1,580)</b>	(1,191)	(236)	(1,427)
Loan and bank overdraft repayments		(1,785)	-	<b>(1,785)</b>	-	-	-
<b>Net cash (outflow)/inflow from financing</b>		<u>(3,187)</u>	<u>(178)</u>	<u><b>(3,365)</b></u>	<u>12,190</u>	<u>(236)</u>	<u>11,954</u>
<b>Increase in cash</b>	19	2,485	-	<b>2,485</b>	7	-	7
Cash, beginning of year		676	-	<b>676</b>	669	-	669
<b>Cash, end of year</b>		<u>3,161</u>	<u>-</u>	<u><b>3,161</b></u>	<u>676</u>	<u>-</u>	<u>676</u>

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

## BRISTOL WATER plc

### REGULATORY ACCOUNTING STATEMENTS

#### NOTES TO THE HISTORICAL COST ACCOUNTS

##### 1. TURNOVER

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

##### 2. OPERATING COSTS

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

a) Operating costs comprise -

	<b>2003</b>	2002
	<b>£000</b>	£000
Wages and salaries	<b>10,053</b>	11,187
Social security costs	<b>721</b>	802
Pension costs	<b>1,258</b>	810
Total payroll cost	<b>12,032</b>	12,799
less charged to fixed assets	<b>(3,003)</b>	(2,721)
Net payroll cost	<b>9,029</b>	10,078
<b>Other operating costs</b>		
Operating lease rentals on plant and machinery	<b>115</b>	49
Research and development expenditure	<b>59</b>	72
Auditors' remuneration -		
Statutory audit	<b>47</b>	49
Other audit services including audit of regulatory returns	<b>28</b>	28
Other non-audit services mainly tax advice and compliance work	<b>12</b>	20
Raw materials, consumables, bad debts and other charges less recoveries	<b>27,586</b>	26,448
<b>Total other operating costs</b>	<b>27,847</b>	26,666
Depreciation of tangible fixed assets -		
On owned assets	<b>4,746</b>	4,454
On leased assets	<b>2,567</b>	2,763
Amortisation of related deferred income	<b>(292)</b>	(283)
Net depreciation	<b>7,021</b>	6,934
<b>Infrastructure Renewals charge</b>	<b>6,947</b>	6,796
<b>Total operating costs</b>	<b>50,844</b>	50,474

b) Employee details -

The average number of employees (full time equivalents) during the year was 422 (2002 – 430). The figure for 2002 excluded approximately 50 full time equivalent former employees of Bristol Water plc, transferred during 2002 to Bristol Wessex Billing Services Limited, whose costs were recorded within the payroll costs noted above during transitional financial arrangements and are now included in other operating costs for 2003.

c) Directors' emoluments -

	<b>2003</b>	2002
	<b>£000</b>	£000
Aggregate emoluments of all directors, being remuneration, bonus and benefits in kind	<b>685</b>	719

The emoluments above include charges towards the remuneration of three directors – Mr A Parsons, Mr A Nield and Mr R Wyatt - who are employed and paid by the ultimate parent company, and for whom a charge is made to this company. Bonus represents amounts accrued and approved but not paid as at 31 March 2003.

In addition, during the year a director exercised options to purchase shares in the ultimate parent company with a net gain on exercise of £4,000, of which £Nil relates to the highest paid director.

In total, at 31 March 2003 five directors were accruing retirement benefits under a defined benefit scheme (2002 - five).

The remuneration of each director is established by the Remuneration Committee of the ultimate parent company on the basis of duties and responsibilities held using market data for comparable positions in other companies. Bonuses relate to the achievement of corporate objectives and are subject for the year to 31 March 2003 to a maximum of 30% of base salary. Details of options previously granted to directors are shown in the Statutory Accounts for the company.

The aggregate emoluments of the highest paid director in the year, paid under his service contract with the ultimate parent company, were £193,000 (2002 - £193,000). At the end of the year, the highest paid director in the year had an accrued pension entitlement available on his normal retirement date of £32,000 and an accrued lump sum entitlement of three times that amount.

### 3. NET INTEREST PAYABLE AND SIMILAR CHARGES

The net interest payable and similar charges for the year comprise -

	<b>2003</b>	2002
	<b>£000</b>	£000
On bank borrowings	<b>3,131</b>	3,010
On other borrowings	<b>1,166</b>	1,096
Finance leases	<b>1,375</b>	1,335
Less interest income	<b>(488)</b>	(843)
Net interest expense	<b>5,184</b>	4,598

#### 4. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

The charge for taxation for the year comprises -

a) **Analysis of charge for the year all arising in the United Kingdom:**

	<b>2003</b>	2002
	<b>£000</b>	£000
<b>Current tax</b>		
Corporation tax at 30% (2002 - 30%)	<b>2,535</b>	4,202
Advance Corporation Tax written off/(back)	<b>1,379</b>	(473)
Adjustment to prior periods	<b>(1,643)</b>	(1,389)
	<hr/> <b>2,271</b>	<hr/> 2,340
<b>Deferred tax</b>		
Current year movement	<b>1,413</b>	(176)
Adjustment to prior periods	<b>1,204</b>	2,851
Effect of discounting	<b>1,205</b>	(1,393)
	<hr/> <b>3,822</b>	<hr/> 1,282
<b>Tax on profit on ordinary activities</b>	<hr/> <b>6,093</b>	<hr/> 3,622

The adjustment to prior periods mainly relates to the effects of an agreement with the Inland Revenue to accelerate certain capital allowances. This has reduced the mainstream Corporation Tax charge, but reduced the recovery of Advance Corporation Tax.

#### **Factors that may affect future tax charges**

Based on current capital investment plans, the company expects to continue to be able to claim capital allowances in excess of depreciation in future years.

Advance Corporation Tax (ACT) has only been recognised as an asset, to the extent that it is foreseen to be recoverable in the next 12 months. There is a further £5.4m not recognised, including ACT previously assumed to be recoverable in prior years, now not recovered following increased capital allowances claimed for the relevant years.

Changes in the discount rate year on year may cause large fluctuations in the effective tax rate.

b) **Factors affecting the tax charge**

The current tax for the period is lower (2002 - lower) than the standard rate of corporation tax in the United Kingdom (30%). The differences are explained below:

	<b>2003</b>	2002
	<b>£000</b>	£000
Profit on ordinary activities before tax	<b>14,563</b>	13,903
Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom at 30% (2002 - 30%)	<b>4,369</b>	4,171
Effects of:		
ACT set off for the current year	<b>(266)</b>	(473)
Expenses not deductible for tax	<b>(87)</b>	83
Capital allowances in excess of depreciation	<b>(1,994)</b>	(78)
Other net charges	<b>247</b>	26
	<b>2,269</b>	3,729
Adjustment to tax in respect of prior periods	<b>(1,643)</b>	(1,389)
Adjustment in respect of ACT for prior years	<b>1,645</b>	-
	<b>2,271</b>	2,340

**5. DIVIDENDS**

	<b>2003</b>	2002
	<b>£000</b>	£000
<b>On non-equity shares -</b>		
Irredeemable 8.75% preference shares -		
Paid	<b>547</b>	547
Payable 1 April	<b>547</b>	547
	<b>1,094</b>	1,094
<b>On ordinary shares (equity shares) -</b>		
Interim dividend paid of 27.72p (2002 - 26.4p)	<b>1,663</b>	1,583
Second interim dividend 166.72p (2002 - Nil) paid post 31 March 2003	<b>10,000</b>	-
Proposed final dividend of 68.77p (2002 - 65.5p)	<b>4,125</b>	3,929
	<b>15,788</b>	5,512
Total dividends paid and proposed	<b>16,882</b>	6,606

**6. EARNINGS PER SHARE**

	<b>2003</b>	2002
	<b>000</b>	000
Earnings per share have been calculated as follows -		
On average number of ordinary shares in issue during the year -		
Earnings attributable to ordinary shares	<b>£7,376</b>	£9,187
Weighted average number of ordinary shares	<b>5,998</b>	5,998

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 £000	Plant and equipment £000	Infra- structure assets £000	Total £000
<b>Cost</b>				
At 1 April 2002	132,877	24,658	81,277	238,812
Additions	7,551	3,508	6,084	17,143
Disposals	(722)	(1,602)	-	(2,324)
Grants and contributions	(168)	-	(3,241)	(3,409)
<b>At 31 March 2003</b>	<b>139,538</b>	<b>26,564</b>	<b>84,120</b>	<b>250,222</b>
<b>Depreciation</b>				
At 1 April 2002	44,614	14,608	-	59,222
Charge for year	4,633	2,680	-	7,313
Disposals	(259)	(1,564)	-	(1,823)
<b>At 31 March 2003</b>	<b>48,988</b>	<b>15,724</b>	<b>-</b>	<b>64,712</b>
<b>Net book value</b>				
<b>At 31 March 2003</b>	<b>90,550</b>	<b>10,840</b>	<b>84,120</b>	<b>185,510</b>
At 31 March 2002	88,263	10,050	81,277	179,590

b) Included above at 31 March 2003 is freehold land, not subjected to depreciation in the year, of £1,316,000 (2002 - £1,317,000).

c) Included above at 31 March 2003 are fixed assets held under finance leases with a cost of £49,414,000 (2002 - £50,788,000) and cumulative depreciation of £21,771,000 (2002 - £19,800,000). Comparative figures have been re-analysed following a review with the relevant leasing company of the allocation of expenditure on partly completed assets. The previously published values were cost £48,001,000 and cumulative depreciation of £16,874,000. There is no Profit and Loss account impact of the re-analysis.

This is analysed by asset type as follows -

	Freehold land & operational structures £000	Plant and equipment £000	Infra- structure assets £000	Total £000
<b>At 31 March 2003</b>				
Cost	38,568	9,694	1,152	49,414
Depreciation	(13,421)	(8,350)	-	(21,771)
Net book value	25,147	1,344	1,152	27,643
<b>At 31 March 2002</b>				
Cost	38,569	11,067	1,152	50,788
Depreciation	(11,439)	(8,361)	-	(19,800)
Net book value	27,130	2,706	1,152	30,988

d) The net book value of infrastructure assets is stated after the deduction of contributions of £33,887,000 (2002 - £30,646,000) as explained in Accounting Policy (d).

e) The charge for depreciation includes £Nil (2002 - £422,000) accelerated depreciation in respect of certain assets that are to be replaced significantly earlier than previously planned.

- f) Included in the preparation of its statutory accounts, the company has followed common industry practice and adopted the infrastructure renewals accounting basis as set out in FRS15: Tangible Fixed Assets. However for the purposes of the Regulatory Accounts, Ofwat has requested that FRS15 is not applied for infrastructure renewals accounting, thereby providing a basis consistent with prior years. A reconciliation to the balance sheet shown in the statutory accounts is set out below:

	<b>Infrastructure Assets</b>
	<b>£000</b>
<b>Cost</b>	
Cost at 31 March 2003 per Regulatory Accounts	84,120
Adjustment to opening balance	66,051
Infrastructure renewals expenditure capitalised in the year	6,286
Disposals	(1,695)
<b>Cost at 31 March 2003 per Statutory Accounts</b>	<b><u>154,762</u></b>
<b>Depreciation</b>	
At 31 March 2003 per Regulatory Accounts	-
Adjustment to opening balance	66,215
Depreciation charge for Infrastructure Renewals Expenditure	6,947
Disposals	(1,695)
<b>At 31 March 2003 per Statutory Accounts</b>	<b><u>71,467</u></b>
<b>Net book value</b>	
At 31 March 2003 per Regulatory Accounts	84,120
Adjustment for infrastructure renewals accounting	(825)
<b>At 31 March 2003 per Statutory Accounts</b>	<b><u>83,295</u></b>

#### 8. STOCKS

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

#### 9. DEBTORS

Debtors comprise -

	<b>2003</b>	<b>2002</b>
	<b>£000</b>	<b>£000</b>
Trade debtors	<b>6,693</b>	8,210
Due from group companies	<b>2,502</b>	139
Other debtors	<b>1,127</b>	1,058
Prepayments and accrued income	<b>6,443</b>	2,904
	<b><u>16,765</u></b>	<u>12,311</u>

## 10. NET BORROWINGS

a) At 31 March 2003 net borrowings comprise -

	Term loans less cash £000	Finance leases £000	Debentures £000	Total 2003 £000	Total 2002 £000
Repayment due:					
Between one and two years	-	1,682	3,455	<b>5,137</b>	1,544
Between two and five years	18,000	6,704	-	<b>24,704</b>	22,854
After five years:					
Other than by instalment	15,000	-	1,776	<b>16,776</b>	16,776
By instalment	12,000	17,537	-	<b>29,537</b>	40,081
Irredeemable debentures	-	-	1,570	<b>1,570</b>	1,570
Total borrowings due after one year	45,000	25,923	6,801	<b>77,724</b>	82,825
Current portion of debt	3,400	1,532	1,828	<b>6,760</b>	3,355
Less cash balances and short-term deposits	(9,661)	-	-	<b>(9,661)</b>	(14,676)
Net borrowings	<b>38,739</b>	<b>27,455</b>	<b>8,629</b>	<b>74,823</b>	<b>71,504</b>

b) Details of borrowings not wholly repayable within five years -

	2003 £000	2002 £000
Debentures (listed on the London Stock Exchange) -		
11.20% Redeemable 2005 to 2009 at the company's option	<b>1,776</b>	1,776
4.00% Consolidated irredeemable	<b>1,405</b>	1,405
4.00% Perpetual irredeemable	<b>55</b>	55
4.25% Perpetual irredeemable	<b>37</b>	37
3.50% Perpetual irredeemable	<b>73</b>	73
	<b>3,346</b>	3,346
Bank loans -		
Unsecured, repayable in instalments between 2006 and 2010, fixed interest at 7.75% pa to 2003 then LIBOR related	<b>20,000</b>	20,000
Unsecured, repayable 2008, fixed interest at 6.1% pa	<b>5,000</b>	5,000
Unsecured, repayable 2008, fixed interest at 6.5% pa	<b>10,000</b>	10,000
Finance leases	<b>17,537</b>	20,081
	<b>55,883</b>	58,427

The unsecured £20m bank loan, of which £12m was repayable after 5 years as at 31 March 2003, was repaid in May 2003 as part of the refinancing arrangements.

## 11. OTHER CREDITORS DUE WITHIN ONE YEAR

Other creditors due within one year comprise -

	2003 £000	2002 £000
Receipts in advance	<b>4,546</b>	2,655
Trade creditors	<b>3,546</b>	3,877
Due to group companies	<b>1,269</b>	985
Due to associated undertakings	<b>1,417</b>	409
Dividends payable	<b>14,672</b>	4,476
Tax, social security and payroll deductions	<b>559</b>	496
Corporation tax payable	<b>1,041</b>	1,532
Accruals and deposits received	<b>7,006</b>	8,662
	<b>34,056</b>	23,092

## 12. DEFERRED INCOME

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

	<b>2003</b>	2002
	<b>£000</b>	£000
Beginning of year	<b>8,396</b>	8,467
Contributions received	<b>325</b>	212
Less amortised	<b>(292)</b>	(283)
End of year	<b>8,429</b>	8,396

## 13. FINANCIAL INSTRUMENTS

The company's financial instruments, other than derivatives, comprise preference shares, borrowings, cash and various items, such as trade debtors and trade creditors, that arise directly from its operations. The sole purpose of these financial instruments is to finance the company's operations. The company also enters into interest rate swaps to manage the interest rate risk arising from its operations and sources of finance. It is the company's policy not to trade in financial instruments.

### **Interest rate risk management**

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

### **Liquidity risk management**

It is company policy to ensure continuity of funding. At the year end at least 62% (2002 – 72%) of its financial instruments, including irredeemable preference shares, mature after five years. This percentage will increase following the refinancing completed in May 2003. Short-term flexibility is achieved using committed bank facilities and short-term deposits.

### Interest rate risk profile of financial liabilities

The interest rate risk profile of the company's financial liabilities at 31 March 2003, after taking account of the interest rate swaps used to manage the interest profile, was –

	Floating rate financial liabilities £000	Fixed rate financial liabilities £000	Total £000
Financial liabilities	37,358	45,556	82,914
Irredeemable debentures	-	1,570	1,570
Irredeemable preference shares	-	12,500	12,500
<b>At 31 March 2003*</b>	<b>37,358</b>	<b>59,626</b>	<b>96,984</b>
Financial liabilities	38,793	45,817	84,610
Irredeemable debentures	-	1,570	1,570
Irredeemable preference shares	-	12,500	12,500
At 31 March 2002*	38,793	59,887	98,680

\* Short-term debtors, creditors, cash and deposits have been excluded from the above disclosures. All the company's creditors falling due within one year (other than lease borrowings) are excluded from the above table either due to the exclusion of short-term balances or because they do not meet the definition of a financial liability within FRS 13, such as tax balances.

At 31 March 2003, the company was party to one interest rate swap. This swap commenced in September 2002 and originally hedged for a five year period £20 million of borrowings that became floating rate at that time. In preparation for the refinancing completed in May 2003, during the year the Board redesignated the swap against a £10m variable rate bank loan and £10m of variable rate leases. At 31 March 2003, the variable rate bank loan had a maturity date approximately seven months less than the swap. As part of the refinancing the bank loan was replaced in May 2003 by a similar loan with a 5 year maturity with a 0.075% increase in margin. The swap exchanges LIBOR rates on a 3 monthly basis for a fixed rate of 7.72%. The Board's current intention is to maintain a future interest rate management profile consisting of financial liabilities at either fixed or index-linked rates amounting to 70% or more of such liabilities.

	Weighted average Interest rate %	Weighted average period for which rate is fixed Years
Financial liabilities *	7.6	3.8
Irredeemable debentures	4.0	-
Irredeemable preference shares	8.8	-
<b>As at 31 March 2003</b>	<b>7.7</b>	
Financial liabilities	8.0	4.6
Irredeemable debentures	4.0	-
Irredeemable preference shares	8.8	-
As at 31 March 2002	8.0	

\* including £10m variable rate bank loan, hedged by the swap, for its remaining term as at 31 March 2003.

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

### Interest rate risk of financial assets

The financial assets comprise only of cash at bank and short-term deposits. Cash and short-term deposits are placed with banks and building societies on a rolling basis of up to one year earning interest based on LIBID equivalents.

### Borrowing facilities

At 31 March 2003, the company had a £5 million (2002 - £5 million) undrawn, committed 364 day borrowing facility available in respect of which all conditions precedent have been met.

During May 2003, the company agreed a 5-year term £10m committed borrowing facility in respect of which all conditions precedent have been met. The facility is floating rate and incurs non-utilisation fees at market rates. At the same time, the company cancelled the £5m 364 day facility referred to above.

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

	31 March 2003		31 March 2002	
	Book value £000	Fair value £000	Book value £000	Fair value £000
<b>Primary financial instruments held or issued to finance the company's operations:</b>				
Cash at bank and short-term deposits	9,661	9,661	14,676	14,676
Short-term borrowings	(6,760)	(6,760)	(3,355)	(3,355)
Long-term borrowings	(77,724)	(79,354)	(82,825)	(84,130)
Irredeemable Preference shares	(12,500)	(16,625)	(12,500)	(17,188)
<b>Derivative financial instruments held to manage the interest rate profile:</b>				
Interest rate swaps	-	(2,145)	-	(2,579)
	<b>(87,323)</b>	<b>(95,223)</b>	<b>(84,004)</b>	<b>(92,576)</b>

### Summary of methods and assumptions used -

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

### Interest rate hedges

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

	<b>£000</b>
Unrecognised positions on hedges at 31 March 2002	<b>2,579</b>
Arising in previous years included in 2003 income	<b>(645)</b>
<b>Positions not included in 2003 income</b>	
Arising before 1 April 2002	<b>1,934</b>
Arising in 2003	<b>211</b>
	<b>2,145</b>
<b>Positions on hedges at 31 March 2003</b>	
of which:	
Expected to be included in 2004 income	<b>804</b>
Expected to be included in 2005 income or later	<b>1,341</b>

### 14. PROVISIONS FOR LIABILITIES AND CHARGES

	<b>2003</b>	2002
	<b>£000</b>	£000
Deferred taxation - note a)	<b>19,242</b>	15,236
Infrastructure accrual - note b)	<b>825</b>	164
	<b>20,067</b>	15,400
	<b>2003</b>	2002
	<b>£000</b>	£000
a) <b>Deferred taxation</b>		
<b>Analysis of deferred taxation liability:</b>		
Accelerated capital allowances and capital element of finance leases	<b>35,163</b>	32,840
Deferred income	<b>(2,529)</b>	(2,519)
Short-term timing differences	<b>(393)</b>	(698)
Unrelieved Advance Corporation Tax	<b>-</b>	(184)
	<b>32,241</b>	29,439
Effect of discounting	<b>(12,999)</b>	(14,203)
<b>Net provision</b>	<b>19,242</b>	15,236
<b>Deferred tax movement:</b>		
	<b>2003</b>	2002
	<b>£000</b>	£000
Provision brought forward at 1 April	<b>15,236</b>	12,970
Charged to Profit and Loss Account	<b>3,822</b>	1,282
Advance Corporation Tax utilised	<b>184</b>	984
<b>Provision carried forward at 31 March</b>	<b>19,242</b>	15,236

b) **Infrastructure accrual**

The movement on the infrastructure renewals account is as follows -

	<b>2003</b>	2002
	<b>£000</b>	£000
Opening (accrual)/prepayment	<b>(164)</b>	2,091
Charge for the year	<b>(6,947)</b>	(6,796)
Expenditure	<b>6,286</b>	4,541
Closing accrual	<b>(825)</b>	(164)

In the statutory accounts, as required by FRS 15, the accrual is deducted from fixed assets.

**15. CALLED UP SHARE CAPITAL**

The authorised and issued share capital of the company is -

	Authorised		Issued and fully paid	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>£000</b>	£000	<b>£000</b>	£000
Ordinary shares	<b>5,857</b>	5,857	<b>5,857</b>	5,857
Non-voting ordinary shares	<b>141</b>	141	<b>141</b>	141
6.75% redeemable preference shares	<b>5,770</b>	5,770	-	-
8.75% irredeemable cumulative preference shares	<b>14,000</b>	14,000	<b>12,500</b>	12,500
	<b>25,768</b>	25,768	<b>18,498</b>	18,498

All shares have a nominal value of £1 each. The ordinary and non-voting ordinary shares rank pari passu in all respects except voting rights.

**16. MOVEMENT IN SHAREHOLDERS' FUNDS**

	Share capital	Share premium account	Capital redemption reserve	Profit and loss	<b>Total 2003</b>	Total 2002
	£000	£000	£000	£000	<b>£000</b>	£000
Beginning of year	18,498	4,415	5,770	45,263	<b>73,946</b>	70,271
Profit for year	-	-	-	8,470	<b>8,470</b>	10,281
Dividends	-	-	-	(16,882)	<b>(16,882)</b>	(6,606)
End of year	18,498	4,415	5,770	36,851	<b>65,534</b>	73,946

**17. COMMITMENTS AND CONTINGENCIES**

a) Capital commitments at 31 March 2003 contracted for but not provided were £10,890,000 (2002 - £7,493,000).

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

	<b>2003</b>	2002
	<b>£000</b>	£000
Operating leases expiring -		
Within one year, in respect of buildings	-	-
Within one year, in respect of other plant and machinery	-	-
Within two to five years, in respect of buildings	-	-
Within two to five years, in respect of other plant and machinery	<b>74</b>	38
After five years, in respect of buildings	<b>9</b>	8
	<hr/> <b>83</b>	<hr/> 46

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

## 18. PENSIONS

### a) Pension arrangements

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

The financial position of the section is determined by an independent actuary based on triennial valuations using the projected unit method. The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return on section investments and the rate of increase in salaries, wages, pensions and dividends. The most recent triennial actuarial valuation at 1 April 2002 assumed that investment returns would be 7.2% per annum pre-retirement and 5.2% post-retirement, salaries and wages would increase on average by 4.8%, and pensions by 2.8%.

The actuarial valuation at 1 April 2002 showed the market value of section assets relating to the company as £97.0m and that the actuarial value of these assets represented 107% of accrued benefits allowing for future earnings increases.

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

A significant increase in cash contributions, to approximately £1.3m pa, to the WCPS sections effective from 1 April 2003 has been agreed with the Trustees.

### b) Accounting under SSAP24

Pension costs charged to the profit and loss account are computed in accordance with SSAP24 to spread the cost of pensions over the employees' expected working lives with the company.

For the purpose of the SSAP24 charge, the same assumptions have been made as for the triennial actuarial review with the exception of a more prudent assumption for future salaries and wages increases of 5.3% per annum.

The SSAP24 charge is broadly in line with anticipated contribution rates effective from 1 April 2003.

The total pension charge for the year was £1,258,000 (2002 - £810,000) including £661,000 (2002 - £200,000) accrued in accordance with SSAP24, bringing the total accrued at 31 March 2003 to £861,000 (2002 - £200,000). Past service surpluses are amortised over the expected remaining service lives of members. There were no outstanding or prepaid contributions at the balance sheet date.

c) **Accounting under FRS17 "Retirement Benefits"**

Full implementation of FRS17 "Retirement Benefits" in the primary financial statements will not be mandatory for the company until the year ending 31 March 2007. The following transitional disclosures are required:

**Basis of valuation**

The actuarial valuation of the Bristol Water plc sub fund of the Water Companies' Pension Scheme was updated to 31 March 2003, by an independent qualified actuary, using the following major assumptions in accordance with the transitional arrangements of FRS17.

**Contributions**

Contributions paid in the year ended 31 March 2003 were £598,000 (2002 - £610,000). In accordance with the terms of the scheme, during the year Bristol Water plc was required to contribute at the rates of 9.8% for the main sub section and Nil% for the alternative sub section. Following the 1 April 2002 actuarial valuation with effect from 1 April 2003, the contribution rates have increased to 18.1% and 8.1% respectively.

	2003	2002
<b>Valuation basis</b>		
RPI Inflation	2.5%	2.8%
Pension increases in payment (RPI)	2.5%	2.8%
Pension increases in payment (LPI)	2.4%	2.8%
Salary increases	4.5%	4.8%
Discount rate	5.6%	6.1%

**Analysis of company WCPS pension section assets and liabilities**

	Expected long-term rate of return		Market values of section assets	
	2003	2002	2003 £000	2002 £000
Equities	7.5%	8.3%	53,900	77,092
Bonds	4.5%	5.2%	5,400	11,198
Corporate bonds	5.6%	6.1%	7,000	4,445
Property	6.0%	6.7%	1,600	2,900
Cash	3.8%	5.2%	5,700	1,597
			<b>73,600</b>	97,232
Present value of the company WCPS pension section's liabilities			<b>(92,100)</b>	(82,882)
(Deficit)/surplus in the section			<b>(18,500)</b>	14,350
Deferred taxation			<b>5,500</b>	(4,305)
<b>Net pension (liability)/asset</b>			<b>(13,000)</b>	10,045

If the above amounts had been recognised in the financial statements, the company's net assets and reserves at 31 March 2003 would have been:

	<b>2003</b>	2002
	<b>£000</b>	£000
Net assets:		
Net assets excluding pension asset	<b>65,534</b>	73,946
Adjustment in respect of SSAP24 accrual	<b>861</b>	200
Deferred tax related to SSAP24 accrual	<b>(258)</b>	(60)
Pension (liability)/asset	<b>(13,000)</b>	10,045
	<hr/> <b>53,137</b>	<hr/> 84,131
Reserves:		
Profit and Loss Account excluding pension asset	<b>36,851</b>	45,263
Adjustment in respect of SSAP24 accrual	<b>861</b>	200
Deferred tax related to SSAP24 accrual	<b>(258)</b>	(60)
Pension (liability)/asset	<b>(13,000)</b>	10,045
	<hr/> <b>24,454</b>	<hr/> 55,448
Profit and Loss Account including pension asset		

**Analysis of charges to Profit and Loss Account had FRS17 been fully implemented:**2003  
£000**Analysis of the amount charged to operating profit**

Employer's part of current service cost 1,700

Total operating charge 1,700**Analysis of the amount credited/(charged) to other finance income**

Expected return on pension section assets 7,400

Interest on pension section liabilities (5,100)

Net return – credit 2,300**Analysis of amount recognised in the Statement of Recognised Gains and Losses (STRGL)**

Actual return less expected return on pension section assets (28,450)

Experience gains arising on the section liabilities 2,100

Changes in assumptions underlying the present value of section liabilities (7,800)

Actuarial (loss) recognised in STRGL (34,150)**Movement in section surplus during the year**

Surplus in section at beginning of the year 14,350

Movement in year:

Current service cost (total) (2,100)

Aggregate contributions 1,100

Other finance income 2,300

Actuarial (loss) recognised in STRGL (34,150)

(Deficit) in section at end of the year (18,500)**History of experience gain and losses****Difference between expected and actual return on section assets:**

Amount – (loss) (28,450)

Percentage of section assets 39%

**Experience gains and losses on section liabilities**

Amount – gain 2,100

Percentage of the present value of the section liabilities 2%

**Total amount recognised in STRGL**

Amount – (loss) (34,150)

Percentage of the present value of the section liabilities 37%

## 19. ADDITIONAL INFORMATION TO THE CASH FLOW STATEMENT

a) Reconciliation of operating profit to net cash inflow from operating activities -					
		<b>2003</b>		2002	
		<b>£000</b>		£000	
Operating profit		<b>19,516</b>		18,299	
Depreciation, net		<b>7,021</b>		6,934	
Profit on sale of fixed assets		<b>(386)</b>		(760)	
Infrastructure Renewals charge		<b>6,947</b>		6,796	
		<hr/> <b>33,098</b>		31,269	
Cash flow from operations					
Working capital movements -					
Stocks		<b>(197)</b>		106	
Debtors		<b>(4,051)</b>		(1,667)	
Creditors		<b>662</b>		(728)	
Provisions		<b>-</b>		(313)	
		<hr/> <b>29,512</b>		28,667	
Net cash inflow from operating activities					
b) Reconciliation of net cash flow to movement in net borrowings -					
		<b>2003</b>		2002	
		<b>£000</b>		£000	
Increase in net cash in year		<b>2,485</b>		7	
Cash used to repay borrowings		<b>3,365</b>		1,427	
Cash from new borrowings		<b>-</b>		(13,381)	
Cash from (decrease)/increase in liquid resources		<b>(7,500)</b>		5,200	
		<hr/> <b>(1,650)</b>		(6,747)	
Increase in net borrowings					
New debt not affecting cash flow		<b>(1,669)</b>		(1,731)	
Net borrowings at beginning of year		<b>(71,504)</b>		(63,026)	
		<hr/> <b>(74,823)</b>		(71,504)	
Net borrowings at end of year					
c) Analysis of changes in net borrowings during the year -					
	<b>Opening</b>	<b>Cash</b>		<b>New debt*</b>	<b>Closing net</b>
	<b>net</b>	<b>flows</b>	<b>Debt</b>	<b>not affecting</b>	<b>borrowings</b>
	<b>borrowings</b>	<b>in year</b>	<b>maturities</b>	<b>cashflow</b>	<b>borrowings</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cash at bank	676	2,485	-	-	<b>3,161</b>
Short-term deposits	14,000	(7,500)	-	-	<b>6,500</b>
	<hr/> 14,676	(5,015)	-	-	<b>9,661</b>
Borrowings due within one year	(3,355)	3,365	(5,101)	(1,669)	<b>(6,760)</b>
Borrowings due after one year	(82,825)	-	5,101	-	<b>(77,724)</b>
Net borrowings	<hr/> (71,504)	(1,650)	-	(1,669)	<b>(74,823)</b>

Cash at bank includes overnight deposits

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

## **20. POST BALANCE SHEET EVENTS**

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

During May 2003, the company entered into a new financing structure. Details are set out below.

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

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

The intercreditor structure is governed by two key financial ratio covenants: debt to regulated asset value and a cash interest cover ratio. The structure would enable a substantial increase in gearing of the ringfenced business should it be concluded that this is appropriate, in which case it is expected that Ofwat would seek changes, in line with those recently adopted by more highly geared water companies, to the company's licence of appointment as a water undertaker.

The company uses interest rate derivatives to manage exposures to fluctuations in interest rates. Positions on hedges are deferred and matched to appropriate underlying transactions. As part of the refinancing arrangement for Bristol Water plc the group has redesignated a £20m interest rate swap which swaps variable rate LIBOR to fixed rate. This was previously matched to the £20m bank loan repaid in May 2003. The redesignation matches it to a £10m variable rate bank loan and to £10m of variable rate leases.

## **21. ULTIMATE PARENT COMPANY AND RELATED PARTY TRANSACTIONS**

As at 31 March 2003, the immediate and ultimate parent and controlling company was Bristol Water Holdings plc. Copies of its consolidated accounts are available from PO Box 218, Bridgwater Road, Bristol BS99 7AU. As described in note 20, the ownership of the ordinary shares was transferred during April 2003 to a new company, Bristol Water Core Holdings Limited. The company has taken advantage of the exemptions within Financial Reporting Standard 8 (Related Party Disclosures) and not disclosed transactions with other Bristol Water Holdings plc group undertakings and associated undertakings.

**BRISTOL WATER plc**

**DIRECTORS' RESPONSIBILITIES FOR THE PREPARATION OF FINANCIAL STATEMENTS**

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

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

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

**By order of the Board**

**S C Robson  
Secretary  
20 June 2003**

**BRISTOL WATER plc**  
**APPOINTED BUSINESS**

**REGULATORY ACCOUNTING STATEMENTS**

**CURRENT COST ACCOUNTING STATEMENTS**  
**for the year ended 31 March 2003**

**BRISTOL WATER plc****REGULATORY ACCOUNTING STATEMENTS****CURRENT COST PROFIT AND LOSS ACCOUNT FOR THE APPOINTED BUSINESS  
for the year ended 31 March 2003**

	Notes	2003 £000	2002 £000
<b>Turnover</b>	C3	<b>67,853</b>	66,005
Current cost operating costs	C4	<b>(54,321)</b>	(53,767)
Operating income, being profit on sale of fixed assets		<b>222</b>	437
		<b>13,754</b>	12,675
Working capital adjustment		<b>100</b>	54
<b>Current cost operating profit</b>		<b>13,854</b>	12,729
Other income		<b>231</b>	202
Net interest payable		<b>(5,176)</b>	(4,578)
Financing adjustment		<b>2,269</b>	860
<b>Current cost profit before taxation</b>		<b>11,178</b>	9,213
Taxation			
Current tax		<b>(2,156)</b>	(2,219)
Deferred tax		<b>(3,822)</b>	(1,282)
<b>Current cost profit on ordinary activities</b>		<b>5,200</b>	5,712
Dividends		<b>(16,882)</b>	(6,606)
<b>Current cost loss retained</b>		<b>(11,682)</b>	(894)

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

**BRISTOL WATER plc****REGULATORY ACCOUNTING STATEMENTS****CURRENT COST BALANCE SHEET  
FOR THE APPOINTED BUSINESS  
at 31 March 2003**

	Notes	2003 £000	2002 £000
<b>Fixed assets</b>			
Tangible fixed assets	C5	1,494,872	1,445,998
Third party contributions since 1 April 1990		(50,057)	(45,213)
Working capital	C6	(1,220)	(3,226)
<b>Net operating assets</b>		<b>1,443,595</b>	1,397,559
Cash		9,661	14,676
Non-trade debtors		1,127	1,058
Non-trade creditors due within one year		(8,765)	(6,174)
Creditors due after one year		(77,724)	(82,767)
Provision for liabilities and charges			
Deferred tax		(19,242)	(15,236)
Dividends payable		(14,672)	(4,476)
<b>Net assets employed</b>		<b>1,333,980</b>	1,304,640
<b>Capital and reserves</b>			
Called up share capital		18,498	18,498
Share premium account		4,415	4,415
Other reserves		5,770	5,770
Profit and loss account		5,181	16,863
Current cost reserve	C7	1,300,116	1,259,094
		<b>1,333,980</b>	1,304,640

The accounts were approved by the Board on 20 June 2003 and signed on its behalf by -

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

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

**BRISTOL WATER plc****REGULATORY ACCOUNTING STATEMENTS****CURRENT COST CASH FLOW STATEMENT  
FOR THE APPOINTED BUSINESS  
for the year ended 31 March 2003**

	Notes	2003 £000	2002 £000
<b>Net cash inflow from operating activities</b>	C8	<b>29,223</b>	28,266
<b>Returns on investments and servicing of finance -</b>			
Other income received		231	202
Interest received		517	815
Interest paid		(4,761)	(4,150)
Interest paid on finance leases		(1,346)	(1,260)
Dividends paid		(1,094)	(1,094)
		<b>(6,453)</b>	(5,487)
<b>Taxation -</b>			
Corporation tax paid		(2,889)	(1,894)
<b>Investing activities -</b>			
Purchase of fixed assets		(14,094)	(21,557)
less contributions received		3,409	2,588
Infrastructure renewals expenditure		(6,286)	(4,541)
Proceeds on disposal of fixed assets		854	793
		<b>(16,117)</b>	(22,717)
<b>Dividends paid on equity shares</b>		<b>(5,592)</b>	(5,151)
<b>Net cash outflow before management of liquid resources and financing</b>		<b>(1,828)</b>	(6,983)
<b>Management of liquid resources</b> being decrease/(increase) in short-term deposits		<b>7,500</b>	(5,200)
<b>Financing -</b>			
Cash inflow from refinancing assets under new finance leases		-	8,159
New bank loan and overdrafts		-	5,222
Capital element of lease repayments		(1,402)	(1,191)
Loan and bank overdraft repayments		(1,785)	-
Net cash (outflow)/inflow from financing		<b>(3,187)</b>	12,190
<b>Increase in cash</b>	C9	<b>2,485</b>	7
Cash, beginning of year		<b>676</b>	669
<b>Cash, end of year</b>		<b>3,161</b>	676

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

## **BRISTOL WATER plc**

### **REGULATORY ACCOUNTING STATEMENTS**

#### **NOTES TO THE CURRENT COST ACCOUNTS FOR THE APPOINTED BUSINESS**

##### **C1. Current cost accounting policies**

These accounts have been prepared for the Appointed Business of Bristol Water plc in accordance with guidance issued by the Director General of Water Services for modified real terms financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance in the context of assets which are valued at their current cost value to the business with the exception of assets acquired prior to 31 March 1990.

The accounting policies used are the same as those adopted in the statutory historical cost accounts except as set out below.

##### **a) Tangible fixed assets**

Assets acquired prior to 31 March 1990 and in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. Also, no provision is made for the possible funding of future replacements of pre-31 March 1990 assets by contributions from third parties and to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amounts.

##### **Land and buildings**

Non-specialised operational properties were valued on the basis of open market value for existing use at 31 March 1993 and have been expressed in real terms by indexing using the Retail Price Index ("RPI") since that date.

Specialised operational properties at 31 March 1993 were valued at the lower of depreciated replacement cost and recoverable amount and have been restated by adjusting for inflation as measured by changes in the RPI. The unamortised portion of third party contributions received since 31 March 1990 is deducted in arriving at net operating assets (as described below).

The valuation of land and buildings for both specialised and non-specialised properties is undertaken by a Chartered Surveyor employed by the company.

##### **Infrastructure assets**

Mains, impounding and pumped raw water storage reservoirs and dams are valued at replacement cost determined principally on the basis of data provided by the Asset Management Plan ("AMP"). A process of continuing refinement of asset records is expected to produce adjustments to existing values when periodic reviews of the AMP takes place. In the intervening years, values are restated to take account of changes in the general level of inflation as measured by changes in the RPI over the year.

##### **Other fixed assets**

All other fixed assets except vehicles and mobile plant are valued periodically at depreciated replacement cost. Between Surface Investment Requirement reviews, values are restated for inflation as measured by changes in the RPI. Vehicles and mobile plant are stated at depreciated historical cost as differences between historical cost and current cost values are not considered material.

## **Surplus land**

Surplus land is valued at recoverable amounts taking into account that part of any proceeds to be passed onto customers under Condition B of the Licence.

### **b) Grants and other third party contributions**

Grants, infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance brought forward is restated for the change in RPI for the year prior to inclusion in the carried forward balance.

### **c) Real financial capital maintenance adjustments**

These adjustments are made to the historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms.

#### **Working capital adjustment**

This is calculated by applying the change in RPI over the year to the opening total of trade debtors and stock less trade creditors.

#### **Financing adjustment**

This is calculated by applying the change in RPI over the year to the opening balance of net finance which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital.

### **d) Basis of allocation and apportionment of costs and assets**

- between Bristol Water plc and its associated companies is at arm's length and no cross subsidy is occurring.
- between appointed and non-appointed businesses costs are attributed to the appropriate cost centres in the company's accounting system, which are identified as appointed or non-appointed. The majority of non-appointed costs are incurred directly with the remainder allocated on a time apportionment basis.
- operational costs of day to day collection, storage, treatment and supply of water are allocated as operating costs along with the costs of technical and administrative support.
- capital costs are defined as those costs which are incurred in providing an additional or a replacement non-infrastructure asset. In addition, costs in respect of the provision of additional infrastructure capacity or enhancement of the network are also capitalised. These costs are incorporated in the Balance Sheet as additions to fixed assets. Where non-infrastructure assets have been replaced, their cost is removed from the Balance Sheet. There is no rule which requires capitalisation of any costs in excess of a specific value. However, it is unlikely that items with a value less than £1,000 in total would be capitalised.
- costs in respect of the maintenance of the network of pipes and pumped raw water storage reservoirs are treated as infrastructure maintenance and are charged as infrastructure renewals expenditure.
- costs are directly attributed to appropriate cost centres in the accounting system which are allocated as above. Manpower costs include an appropriate proportion of overheads in their allocation.

## C2. Appointed Business

Appointed business for the purpose of these accounts is defined as the activities necessary for the company to fulfil its duties and functions as a Water Undertaker under its licence issued by the Department of Environment, Transport and the Regions. All other activities are classified as non-appointed business.

## C3. Analysis of turnover for the Appointed Business

	<b>2003</b>	2002
	<b>£000</b>	£000
Measured	<b>21,233</b>	19,679
Unmeasured	<b>40,377</b>	40,765
Large user revenues	<b>4,166</b>	4,186
Other sources	<b>1,400</b>	1,153
Third party services	<b>677</b>	222
Total turnover	<b>67,853</b>	66,005

The increase in turnover is mainly due to the RPI plus K increase.

## C4. Commentary on 2002/03 operating costs

Operating expenditure reduced marginally in the year, after allowing for the impact of inflation this represents a substantial reduction in real terms. Key factors in the net movement are:

	£000
Operating expenditure 2001/02	35,262
Inflation	741
Insurance cost increase due to market forces	163
SSAP24 Pensions charge increase	461
Third party rechargeable work increase	540
Bad debts – reduced charge	(202)
BWB Gloucester to Sharpness agreement – reduced charge	(200)
Portway repair costs – reduced impact	(300)
Rates reduction	(154)
Other net changes and efficiency gains	(1,074)
Operating expenditure 2002/03	<u>35,237</u>

**C4. (Continued) Analysis of operating costs of the Appointed Business for 2002/03**

£000	Service analysis -			Business analysis -		
	Resources & treatment	Distri- bution	Sub-total	Customer services	Scientific services	Cost of regulation
<b>Direct costs -</b>						
Employment costs	1,259	2,500	3,759			
Power	1,404	1,348	2,752			
Hired and contracted	2,546	1,441	3,987			
Associated companies	282	1,548	1,830			
Materials and consumables	1,324	266	1,590			
Service charges	1,870	-	1,870			
Bulk supply imports	69	-	69			
Other direct costs	499	384	883			
<b>Total direct costs</b>	<b>9,253</b>	<b>7,487</b>	<b>16,740</b>	<b>2,389</b>	<b>1,231</b>	<b>452</b>
General & support costs	3,426	3,434	6,860	453	767	79
<b>Functional expenditure *</b>	<b>12,679</b>	<b>10,921</b>	<b>23,600</b>	<b>2,842</b>	<b>1,998</b>	<b>531</b>
<b>Total functional and business activity expenditure</b>						<b>28,971</b>
Rates						3,417
Doubtful debts						1,431
Total operating expenditure before third party costs						33,819
Third party operating expenditure						1,418
<b>Total operating expenditure</b>						<b>35,237</b>
<b>Capital costs -</b>						
Infrastructure renewals -						
Expenditure	1,106	5,180	6,286			
Movement in infrastructure renewal	(390)	1,051	661			
Current cost depreciation	8,116	4,313	12,429			
Amortisation of deferred credits			(292)			
<b>Total capital maintenance</b>			<b>19,084</b>			<b>19,084</b>
<b>Total operating costs</b>						<b>54,321</b>
<b>Current cost MEA values</b>						
-						
Service activities and water supply total	541,222	939,893	1,481,115			
Services for third parties	1,849	11,908	13,757			
<b>Total</b>	<b>543,071</b>	<b>951,801</b>	<b>1,494,872</b>			

\* included within these costs is £2,380,000 in respect of reactive maintenance to infrastructure assets. Planned maintenance is included within the infrastructure renewals expenditure. £2,023,000 is included in respect of planned and reactive maintenance to non-infrastructure assets.

**C4. (Continued) Analysis of operating costs of the Appointed Business for 2001/02**

£000	Service analysis -			Business analysis -		
	Resources & treatment	Distri- bution	Sub-total	Customer services	Scientific services	Cost of regulation
<b>Direct costs -</b>						
Employment costs	1,842	2,141	3,983			
Power	1,437	1,314	2,751			
Hired and contracted	2,762	1,266	4,028			
Associated companies	4	1,795	1,799			
Materials and consumables	1,470	574	2,044			
Service charges	1,855	-	1,855			
Bulk supply imports	78	-	78			
Other direct costs	418	302	720			
<b>Total direct costs</b>	<b>9,866</b>	<b>7,392</b>	<b>17,258</b>	<b>2,049</b>	<b>1,262</b>	<b>372</b>
General & support costs	2,898	3,038	5,936	1,445	775	83
<b>Functional expenditure *</b>	<b>12,764</b>	<b>10,430</b>	<b>23,194</b>	<b>3,494</b>	<b>2,037</b>	<b>455</b>
<b>Total functional and business activity expenditure</b>						<b>29,180</b>
Rates						3,571
Doubtful debts						1,633
Total operating expenditure before third party costs						<u>34,384</u>
Third party operating expenditure						878
<b>Total operating expenditure</b>						<u><b>35,262</b></u>
<b>Capital costs -</b>						
Infrastructure renewals -						
Expenditure	710	3,831	4,541			
Movement in infrastructure renewal	(30)	2,285	2,255			
Current cost depreciation	7,427	4,565	11,992			
Amortisation of deferred credits			(283)			
<b>Total capital maintenance</b>			<u>18,505</u>			18,505
<b>Total operating costs</b>						<u><b>53,767</b></u>
<b>Current cost MEA values -</b>						
Service activities and water supply total						
	526,696	905,876	1,432,572			
Services for third parties	1,864	11,562	13,426			
<b>Total</b>	<u>528,560</u>	<u>917,438</u>	<u>1,445,998</u>			

\* included within these costs is £2,603,000 in respect of reactive maintenance to infrastructure assets. Planned maintenance is included within the infrastructure renewals expenditure. £2,030,000 is included in respect of planned and reactive maintenance to non-infrastructure assets.

## C5. Analysis of current cost fixed assets for the Appointed Business

All the fixed assets of the Appointed Business are used in the water supply service.

	Specialised Operational Assets £000	Non- Specialised Operational Assets £000	Infra- structure Assets £000	Other Tangible Assets £000	Total £000
Gross replacement cost -					
Balance 1 April 2002	457,284	15,613	1,242,579	5,117	1,720,593
RPI Adjustment	14,176	484	38,520	-	53,180
Disposals	(1,068)	(525)	-	(947)	(2,540)
Additions	10,526	269	6,084	264	17,143
<b>Balance 31 March 2003</b>	<b>480,918</b>	<b>15,841</b>	<b>1,287,183</b>	<b>4,434</b>	<b>1,788,376</b>
Depreciation -					
Balance 1 April 2002	269,983	584	-	4,028	274,595
RPI Adjustment	8,370	18	-	-	8,388
Disposals	(950)	(17)	-	(941)	(1,908)
Provision for year	11,820	159	-	450	12,429
<b>Balance 31 March 2003</b>	<b>289,223</b>	<b>744</b>	<b>-</b>	<b>3,537</b>	<b>293,504</b>
<b>Net Book Value at 31 March 2003</b>	<b>191,695</b>	<b>15,097</b>	<b>1,287,183</b>	<b>897</b>	<b>1,494,872</b>
Net Book Value at 1 April 2002	187,301	15,029	1,242,579	1,089	1,445,998

## C6. Working capital

	2003 £000	2002 £000
Stocks	577	364
Trade debtors	6,587	8,210
Trade creditors	(560)	(1,133)
Short-term capital creditors	(2,986)	(1,621)
Infrastructure renewals accrual	(825)	(164)
Other trade accruals	(5,167)	(7,237)
Payments in advance	(4,546)	(2,655)
Tax and social security	(559)	(496)
Group trade creditors	(184)	(1,398)
Prepayments and accrued income	6,443	2,904
	<b>(1,220)</b>	<b>(3,226)</b>

## C7. Movement on current cost reserve

	2003 £000	2002 £000
Balance at 1 April	1,259,094	1,242,132
RPI adjustments -		
Fixed assets	44,792	18,424
Working capital	(100)	(54)
Financing	(2,269)	(860)
Grants and contributions	(1,401)	(548)
Balance at 31 March	<b>1,300,116</b>	<b>1,259,094</b>

**C8. Reconciliation of current cost operating profit to net cashflow from operating activities**

	<b>2003</b>	2002
	<b>£000</b>	£000
Operating profit	<b>13,854</b>	12,729
Depreciation charges, net	<b>12,137</b>	11,709
Profit on disposal of fixed assets	<b>(222)</b>	(437)
Infrastructure renewals charge	<b>6,947</b>	6,796
Cashflow from operations	<b>32,716</b>	30,797
Working capital requirements -		
Stocks	<b>(213)</b>	122
Debtors	<b>(4,491)</b>	(1,956)
Creditors	<b>1,311</b>	(330)
Provisions	<b>-</b>	(313)
Working capital adjustment	<b>(100)</b>	(54)
Net cash inflow from operating activities	<b>29,223</b>	28,266

**C9. Analysis of changes in financing during the year for the Appointed Business**

## a) Reconciliation of net cashflow to movement in net borrowings

	<b>2003</b>	2002
	<b>£000</b>	£000
Decrease in net cash in year	<b>2,485</b>	7
Cash used to repay borrowings	<b>3,187</b>	1,191
Cash from new borrowings	<b>-</b>	(13,381)
Cash used to increase liquid resources	<b>(7,500)</b>	5,200
Increase in net debt	<b>(1,828)</b>	(6,983)
Net debt not affecting cash flow	<b>(1,669)</b>	(1,731)
Net borrowings at beginning of year	<b>(71,308)</b>	(62,594)
Net borrowings at end of year	<b>(74,805)</b>	(71,308)

## b) Analysis of changes in net borrowings during the year

	Opening net borrowings	Cash flows in year	Debt maturities	New debt not affecting cashflow	Closing net borrowings
	£000	£000	£000	£000	£000
Cash at bank	676	2,485	-	-	<b>3,161</b>
Short-term deposits	14,000	(7,500)	-	-	<b>6,500</b>
	<b>14,676</b>	<b>(5,015)</b>	<b>-</b>	<b>-</b>	<b>9,661</b>
Borrowings due within one year	(3,217)	3,187	(5,043)	(1,669)	<b>(6,742)</b>
Borrowings due after one year	(82,767)	-	5,043	-	<b>(77,724)</b>
Net borrowings	<b>(71,308)</b>	<b>(1,828)</b>	<b>-</b>	<b>(1,669)</b>	<b>(74,805)</b>

## C10. Regulatory Capital Value at 2002-03 Prices

	Notes	£000
Opening RCV for the year	(a)	173,659
Capital expenditure	(a)	21,368
Infrastructure renewals expenditure		5,839
Grants and contributions		(2,997)
Depreciation		(7,520)
Infrastructure renewals charge		(6,851)
Outperformance of Regulatory Assumptions (5 years in arrears)		(368)
Closing RCV carried forward	(a)	<u>183,130</u>
Average regulatory capital value		176,016

- (a) The RCV shown is the value used by Ofwat in setting the price limits for the period 2000-01 to 2004-05. The differences from the actual capital expenditure and depreciation etc will not affect price limits in the current period. Capital efficiencies will be taken into account in the calculation for the next periodic review.

**C11. Summary of current cost profit and loss accounts for the Appointed Business**

Years ended 31 March -	<b>2003</b> <b>£000</b>	2002 £000	2001 £000	2000 £000	1999 £000
Turnover	<b>67,853</b>	67,391	65,595	72,250	70,495
Current cost operating costs	<b>(54,321)</b>	(54,896)	(52,466)	(56,720)	(54,123)
Operating income/(expense)	<b>222</b>	446	102	502	(579)
Working capital adjustment	<b>100</b>	55	31	160	309
Current cost operating profit	<b>13,854</b>	12,996	13,262	16,192	16,102
Other income	<b>231</b>	206	192	123	121
Net interest	<b>(5,176)</b>	(4,674)	(4,649)	(5,230)	(4,931)
Financing adjustment	<b>2,269</b>	878	1,660	1,904	1,158
Current cost profit before taxation	<b>11,178</b>	9,406	10,465	12,989	12,450
Taxation	<b>(5,978)</b>	(3,575)	(3,418)	(4,869)	(3,950)
Current cost profit on ordinary activities	<b>5,200</b>	5,831	7,047	8,120	8,500
Dividends	<b>(16,882)</b>	(6,745)	(6,324)	(5,816)	(5,579)
Current cost profit/(loss) retained	<b>(11,682)</b>	(914)	723	2,304	2,921

The figures for 1999 to 2002 have been restated into 2002/03 values by applying RPI indexation using the change in average inflation rates over the financial years.

Turnover fell in 2001 as a result of the 10% Po real terms price reduction resulting from the 1999 Final Determination.

Operating costs excluding depreciation have been reduced in real terms over the five years through achieving efficiencies in excess of "new" costs.

## C12. Summary of current cost balance sheets for the Appointed Business

Years ended 31 March -	2003 £000	2002 £000	2001 £000	2000 £000	1999 £000
Tangible fixed assets	<b>1,494,872</b>	1,490,824	1,481,461	1,477,412	1,539,302
Third party contributions since 1 April 1990	<b>(50,057)</b>	(46,615)	(44,019)	(41,537)	(38,738)
Working capital	<b>(1,220)</b>	(3,326)	(5,520)	991	(4,977)
Net operating assets	<b>1,443,595</b>	1,440,883	1,431,922	1,436,866	1,495,587
Cash	<b>9,661</b>	15,131	9,889	1,658	2,686
Non-trade debtors	<b>1,127</b>	1,091	1,156	659	505
Non-trade creditors due within one year	<b>(8,765)</b>	(6,365)	(4,964)	(4,644)	(3,736)
Dividends payable	<b>(14,672)</b>	(4,615)	(4,298)	(3,992)	(3,583)
Creditors due after one year	<b>(77,724)</b>	(85,333)	(74,044)	(71,635)	(74,359)
Provisions for liabilities & charges	-	-	(327)	(971)	-
Provision for deferred taxation	<b>(19,242)</b>	(15,708)	(13,546)	(13,184)	(11,510)
Net assets employed	<b>1,333,980</b>	1,345,084	1,345,788	1,344,757	1,405,590
Called up share capital	<b>18,498</b>	19,071	19,319	19,764	20,278
Share premium account	<b>4,415</b>	4,552	4,611	4,717	4,840
Other reserves	<b>5,770</b>	5,949	6,026	6,165	6,325
Profit and loss account	<b>5,181</b>	17,386	18,546	18,227	16,336
Current cost reserve	<b>1,300,116</b>	1,298,126	1,297,286	1,295,884	1,357,811
	<b>1,333,980</b>	1,345,084	1,345,788	1,344,757	1,405,590

Prior year figures have been restated into March 2003 values by applying RPI indexation using the change in inflation rates from each year-end.

The tangible fixed assets for the year ended 31 March 2000 are net of an AMP adjustment of £59,953,000.

Cash has increased in recent years as finance has been secured to fund the future capital programme and future debt maturities. There is a corresponding increase in creditors due after one year.

### C13. Transactions with associated companies

- a) Services received by the regulated business from associated companies in excess of £100,000 -

Nature of service	Associate	Turnover of associate £m	Terms of supply	Value of service	
				As opex £m	As capex £m
Mains and service laying engineering & construction	Walter Lawrence Civil & Mechanical Ltd	47.6	Competitive tender	1.8	4.3
			Other market testing	0.1	0.4
Carbon regeneration	Purton Carbons Ltd	1.0	Market tested	0.2	-
Management charge	Bristol Water Holdings plc	1.0	At cost	0.8	-
Managed Billing Service	Bristol Wessex Billing Services Ltd	10.8	Competitive tender	2.9	1.7

The Walter Lawrence Civil & Mechanical Limited 'Other Market Testing' Opex costs relate to the Portway Burst Main. Immediately after the main burst Lawrence were appointed to carry out the necessary emergency works to stabilise the highway and enable a limited flow of traffic, this cost was incurred in 2002. After lengthy discussions involving Bristol Water plc, Lawrence, consulting engineers, the Highway Authority, the insurers and other utilities, and the formulation of an acceptable design, cost negotiations commenced with Lawrence and a target cost was agreed. The insurers have accepted liability for the majority of the costs of this contract and as such had a keen interest in the accuracy of the target cost. An independent cost consultant was appointed, who confirmed the target cost for the proposed design. The contractual arrangements are on a cost-reimbursable partnering basis incorporating a pain/gain formula around an agreed target cost. The contract was awarded to Lawrence before the end of March 2002. The original target cost (contract value) was £836,000. This target has been increased to £1,020,000 to allow for necessary contractual variations. During the year, costs of £955,000 were incurred from Lawrence. The insurers liability was £800,000. The charge shown is the cost in excess of the anticipated insurance recovery. The work was completed during the year.

- b) Services provided by the regulated business to associated companies in excess of £100,000 -

Staff have been seconded to Walter Lawrence Civil & Mechanical Limited during the year, and the salary cost of £189,000 was recharged.

Bristol Wessex Billing Services Limited were recharged £421,000 for revenue costs incurred during the year. The recharge was primarily stationery, bulk mailing, and salary costs incurred in respect of the Joint Venture.

- c) Basis of cost allocations between regulated and non-regulated businesses

Costs are attributed to appropriate cost centres in the company's accounting system, which are identified as regulated or non-regulated. The majority of non-regulated costs are incurred directly with the remainder allocated on a time apportionment basis.

- d) Borrowing / lending with associated companies and related facilities -

No sums were either lent to or borrowed from associated companies at the beginning or end of the financial year. No loans, guarantees or security were provided to associated companies by the regulated business during the year.

e) Dividends paid to parent company –

Interim and final dividends amounting to £15.8m have been paid or proposed on the ordinary shares, all of which are held by Bristol Water Holdings plc. The dividend policy adopted by the directors takes into account a wide range of judgmental factors including, the amount of shareholder investment and how it changed during the year, the financial performance of the company, the achievement of efficiencies, the level of service provided to customers and consideration of the projected future position of the company.

In considering dividends, the Board focuses primarily on the Historic Cost Statements as the Current Cost Accounting Statements need to be considered in the context of the regulatory (RPI+K) price setting process. At the 1999 review, which set K values for the five years 2000-04, the DGWS made two technical assumptions which differ from the approach used within these statements.

The differences are:

- Deferred taxation – the DGWS ignored the effect of FRS19 in the price setting process. These statements incorporate FRS19 which has the effect of reducing profits and reserves.
- Current Cost Depreciation (CCD), Broad Equivalence Adjustment – the DGWS made an adjustment to reduce the company's forecasts of CCD for the purposes of price setting. These statements include unadjusted CCD and therefore profits and reserves are lower than if the DGWS's adjusted assumed figures had been used.

**BRISTOL WATER plc**

**REGULATORY CERTIFICATE BY THE DIRECTORS**

**To the Director General of Water Services**

In accordance with its Instrument of Appointment under the Water Act 1989, the directors are of the opinion that the company is in compliance with paragraph 3.1 of Condition K of that Instrument which relates to control over the assets of the Appointed Business.

In the opinion of the directors the Appointee will have available to it sufficient financial resources and facilities to enable it to carry out for at least the next twelve months the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under its Appointment) and will for at least the next twelve months have available to it management resources which are sufficient to enable it to carry out those functions.

The contract of appointment of the company's auditors, PricewaterhouseCoopers LLP, satisfies the requirements of paragraph 9.2 of Condition F of the Instrument of Appointment that the auditors will provide such further explanation or clarification of their reports and such further information in respect of the matters which are the subject of his reports as the Director General of Water Services may reasonably require.

Signed on behalf of the Board -

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

20 June 2003

**BRISTOL WATER plc**  
**REGULATORY ACCOUNTING STATEMENTS**

**INDEPENDENT AUDITORS' REPORT TO THE DIRECTOR GENERAL OF WATER SERVICES ("THE REGULATOR") AND THE DIRECTORS OF BRISTOL WATER plc**

We have audited the Regulatory Accounts of Bristol Water plc ("the Company") on pages 3 to 26 and 28 to 42 which comprise:

- the regulatory historical cost accounting statements comprising the historical cost profit and loss account, the statement of total recognised gains and losses, balance sheet, cash flow statement, related notes and statement of accounting policies; and
- the regulatory current cost accounting statements comprising the current cost profit and loss account, balance sheet, cash flow statement and the related notes including the statement of accounting policies.

This report is made solely to the Company and the Regulator in accordance with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the company as a water and sewage undertaker under the Water Industry Act 1991. Our audit work has been undertaken so that we might state to the Company and the Regulator those matters we have agreed to state to them in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility for our audit work, for our report, or for the opinions we have formed to any other person than those to whom we have agreed in writing to accept responsibility.

**Basis of preparation**

The Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention. As such, the Regulatory Accounts are separate from the statutory financial statements of the company and have not necessarily been prepared under the basis of Generally Accepted Accounting Principles. Financial information other than that prepared on the basis of Generally Accepted Accounting Principles does not necessarily represent a true and fair view of the financial position of a company as shown in financial statements prepared in accordance with the Companies Act 1985.

**Respective responsibilities of the Regulator, the Directors and Auditors**

The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no assessment.

The Directors' responsibilities for preparing the Regulatory Accounts in accordance with Regulatory Accounting Guidelines are set out in the statement of directors' responsibilities for regulatory information on page 27.

Our responsibility is to audit the Regulatory Accounts in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board, except as stated in the "Basis of audit opinion" below.

We report to you our opinion as to whether the regulatory historical cost accounting statements present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guideline 2.03 (Guideline for classification of expenditure), Regulatory Accounting Guideline 3.05 (Guideline for the contents of regulatory accounts) and Regulatory Accounting Guideline 4.02 (Guideline for the analysis of operating costs and assets); and whether the regulatory current cost accounting statements on pages 28 to 42 have been properly prepared in accordance with Regulatory Accounting Guideline 1.03 (Guideline for accounting for current costs and regulatory capital values), Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02. We also report to you if, in our opinion, the Company has not kept proper accounting records as required by paragraph 3 of Condition F and whether the information is in agreement with the appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1.03, Regulatory Accounting Guideline 2.03,

Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02.

We read the other information contained in the Regulatory Accounts, including any supplementary schedules on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts. The other information comprises the notes on regulatory information and the additional information required by the licence.

### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board except as noted below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Regulatory Accounts, 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 Regulatory Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards.

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company, which are prepared for a different purpose. We do not and will not by virtue of this report assume any responsibility, whether in contract, negligence or otherwise, in relation to our audits of the Company's statutory financial statements required by the Companies Act 1985.

The regulatory historical cost accounting statements on pages 3 to 26 have been drawn up in accordance with Regulatory Accounting Guideline 3.05 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Principles, and a reconciliation of the balance sheet drawn up on this basis with that drawn up under Companies Act 1985 is given on page 14.

### **Opinion**

In our opinion the Regulatory Accounts for the Company contain the information for the year ended 31 March 2003 to comply with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the company as a water undertaker under the Water Industry Act 1991.

In respect of this information we report that in our opinion:

- (a) proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F of the instrument;
- (b) the information is in agreement with the appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1.03, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the Regulator;
- (c) the regulatory historical cost accounting statements on pages 3 to 26 present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the company's Instrument of Appointment and Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the Regulator;
- (d) the regulatory current cost accounting statements on pages 28 to 42 have been properly prepared in accordance with Regulatory Accounting Guideline 1.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the Regulator.

**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors

Bristol

20 June 2003

Notes:

- 1. The maintenance and integrity of the Company web site is the responsibility of the Directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Regulator; 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 Regulatory Accounts since they were initially presented on the web sites.*
- 2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements and Regulatory Accounts may differ from legislation in other jurisdictions*