

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

YEAR ENDED 31 MARCH 2004

BRISTOL WATER plc
REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2004

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 9 July 2004.

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BRISTOL WATER plc
APPOINTED BUSINESS

REGULATORY ACCOUNTING STATEMENTS

HISTORICAL COST ACCOUNTING STATEMENTS
for the year ended 31 March 2004

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 long-life assets is charged from the start of the financial year following capitalisation.

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

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

d. Grants and contributions

Contributions received in respect of tangible assets other than infrastructure assets are treated as deferred income and amortised 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 19 to the accounts.

g. Research and development

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

h. Taxation

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

Advance Corporation Tax in respect of dividends in previous years 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.

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

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

HISTORICAL COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2004

	Notes	Appointed business 2004 £000	Non- appointed 2004 £000	Total 2004 £000	Appointed business 2003 £000	Non- appointed 2003 £000	Total 2003 £000
Turnover	1	68,797	1,871	70,668	67,853	2,121	69,974
Operating costs	2	(49,769)	(1,555)	(51,324)	(49,101)	(1,743)	(50,844)
Operating income, being profit on disposal of tangible fixed assets		209	(3)	206	374	12	386
Operating profit		19,237	313	19,550	19,126	390	19,516
Other income, being rents		191	-	191	231	-	231
Net interest payable and similar charges	3	(6,260)	-	(6,260)	(5,176)	(8)	(5,184)
Profit on ordinary activities before taxation		13,168	313	13,481	14,181	382	14,563
Taxation on profit on ordinary activities	4	(2,336)	(94)	(2,430)	(5,978)	(115)	(6,093)
Profit on ordinary activities after taxation		10,832	219	11,051	8,203	267	8,470
Dividends	5						
On irredeemable preference shares		(1,094)	-	(1,094)	(1,094)	-	(1,094)
On ordinary shares		(6,200)	-	(6,200)	(15,788)	-	(15,788)
Total dividends		(7,294)	-	(7,294)	(16,882)	-	(16,882)
Profit/(Loss) retained for the year		3,538	219	3,757	(8,679)	267	(8,412)
Balance on profit and loss account, beginning of year		36,248	603	36,851	44,927	336	45,263
Balance on profit and loss account, end of year		39,786	822	40,608	36,248	603	36,851
Earnings per share	6			<u>166.0p</u>			<u>123.0p</u>

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

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

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

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

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

HISTORICAL COST BALANCE SHEET

at 31 March 2004

	Notes	Appointed business 2004 £000	Non- appointed 2004 £000	Total 2004 £000	Appointed business 2003 £000	Non- appointed 2003 £000	Total 2003 £000
Fixed assets							
Tangible fixed assets	7	193,905	1,289	195,194	184,195	1,315	185,510
Investment – loan to ultimate holding company	8	47,000	-	47,000	-	-	-
Current assets							
Stocks	9	586	69	655	577	57	634
Debtors	10	19,525	100	19,625	16,659	106	16,765
Cash at bank and on deposit	11	17,437	-	17,437	9,661	-	9,661
		<u>37,548</u>	<u>169</u>	<u>37,717</u>	<u>26,897</u>	<u>163</u>	<u>27,060</u>
Creditors: amounts falling due within one year							
Short-term borrowings	11	6,941	-	6,941	6,742	18	6,760
Other creditors	12	23,672	636	24,308	33,199	857	34,056
		<u>30,613</u>	<u>636</u>	<u>31,249</u>	<u>39,941</u>	<u>875</u>	<u>40,816</u>
Net current assets/(liabilities)		6,935	(467)	6,468	(13,044)	(712)	(13,756)
Total assets less current liabilities		<u>247,840</u>	<u>822</u>	<u>248,662</u>	<u>171,151</u>	<u>603</u>	<u>171,754</u>
Creditors: amounts falling due after one year							
Long-term borrowings		(149,273)	-	(149,273)	(76,154)	-	(76,154)
Irredeemable debenture stocks		(1,570)	-	(1,570)	(1,570)	-	(1,570)
	11	<u>(150,843)</u>	<u>-</u>	<u>(150,843)</u>	<u>(77,724)</u>	<u>-</u>	<u>(77,724)</u>
Deferred income	13	(8,472)	-	(8,472)	(8,429)	-	(8,429)
Provisions for liabilities and charges	15	(20,056)	-	(20,056)	(20,067)	-	(20,067)
Net assets		<u>68,469</u>	<u>822</u>	<u>69,291</u>	<u>64,931</u>	<u>603</u>	<u>65,534</u>
Capital and reserves							
Called up share capital	16	18,498	-	18,498	18,498	-	18,498
Share premium account	17	4,415	-	4,415	4,415	-	4,415
Other non-distributable reserves	17	5,770	-	5,770	5,770	-	5,770
Profit and loss account	17	39,786	822	40,608	36,248	603	36,851
Total shareholders' funds	17	<u>68,469</u>	<u>822</u>	<u>69,291</u>	<u>64,931</u>	<u>603</u>	<u>65,534</u>
<i>Analysed as -</i>							
<i>Equity shareholders' funds</i>		<u>55,969</u>	<u>822</u>	<u>56,791</u>	<u>52,431</u>	<u>603</u>	<u>53,034</u>
<i>Non-equity shareholders' funds</i>		<u>12,500</u>	<u>-</u>	<u>12,500</u>	<u>12,500</u>	<u>-</u>	<u>12,500</u>

The accounts were approved by the Board on 12 July 2004 and signed on its behalf by -

A Parsons, Chairman

A Nield, Finance Director

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

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

HISTORICAL COST CASH FLOW STATEMENT

for the year ended 31 March 2004

	Notes	Appointed business 2004 £000	Non- appointed 2004 £000	Total 2004 £000	Appointed business 2003 £000	Non- appointed 2003 £000	Total 2003 £000
Net cash inflow from operating Activities	20	32,608	183	32,791	29,223	289	29,512
Returns on investments and servicing of finance -							
Other income received		191	-	191	231	-	231
Interest received		1,073	-	1,073	517	-	517
Interest paid		(5,918)	-	(5,918)	(4,761)	-	(4,761)
Interest paid on finance leases		(1,163)	-	(1,163)	(1,346)	(8)	(1,354)
Dividends paid on non-equity shares		(1,094)	-	(1,094)	(1,094)	-	(1,094)
		(6,911)	-	(6,911)	(6,453)	(8)	(6,461)
Taxation -							
Corporation tax paid		(2,917)	(115)	(3,032)	(2,889)	(121)	(3,010)
Capital Expenditure and investing activities -							
Purchase of tangible fixed assets less contributions received		(21,369)	(54)	(21,423)	(14,094)	(15)	(14,109)
Infrastructure renewals expenditure		(6,633)	-	(6,633)	(6,286)	-	(6,286)
Proceeds on disposal of tangible fixed assets		410	4	414	854	33	887
Loan advanced to ultimate holding company		(47,000)	-	(47,000)	-	-	-
		(71,146)	(50)	(71,196)	(16,117)	18	(16,099)
Dividends paid on equity shares		(15,870)	-	(15,870)	(5,592)	-	(5,592)
Net cash (outflow)/inflow before management of liquid resources and financing		(64,236)	18	(64,218)	(1,828)	178	(1,650)
Management of liquid resources being (increase)/decrease in short-term deposits		(9,368)	-	(9,368)	7,500	-	7,500
Financing -							
New term loans		98,520	-	98,520	-	-	-
Capital element of lease repayments		(1,514)	(18)	(1,532)	(1,402)	(178)	(1,580)
Loan repayments		(24,307)	-	(24,307)	(1,785)	-	(1,785)
Net costs of issue of new loans		(687)	-	(687)	-	-	-
Net cash inflow/(outflow) from Financing		72,012	(18)	71,994	(3,187)	(178)	(3,365)
(Decrease)/increase in cash	20	(1,592)	-	(1,592)	2,485	-	2,485
Cash, beginning of year		3,161	-	3,161	676	-	676
Cash, end of year		1,569	-	1,569	3,161	-	3,161

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 principal business.

(a) Operating costs comprise -

	2004	2003
	£000	£000
Wages and salaries	10,105	10,053
Social security costs	823	721
Pension costs (note 19(b) below)	1,622	1,258
Total payroll cost	12,550	12,032
less charged to fixed assets	(3,008)	(3,003)
Net payroll cost	9,542	9,029
Other operating costs		
Operating lease rentals on plant and machinery	139	115
Research and development expenditure	86	59
Auditors' remuneration *		
Statutory audit	36	47
Other audit services including audit of regulatory returns	133	28
Other non-audit services mainly tax advice and compliance work	12	12
Raw materials, consumables, bad debts and other charges less recoveries	26,506	27,586
Total other operating costs	26,912	27,847
Depreciation of tangible fixed assets -		
On owned assets	5,569	4,746
On leased assets	2,447	2,567
Amortisation of related deferred income	(301)	(292)
Net depreciation	7,715	7,021
Infrastructure renewals charge	7,155	6,947
Total operating costs	51,324	50,844

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

(b) Employee details -

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

(c) Directors' emoluments -

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

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

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

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

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

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

3. NET INTEREST PAYABLE AND SIMILAR CHARGES

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

4. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

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

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

Factors that may affect future tax charges

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

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

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

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

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

5. DIVIDENDS

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

6. EARNINGS PER SHARE

	2004	2003
	000	000
Earnings per share have been calculated as follows -		
On average number of ordinary shares in issue during the year -		
Earnings attributable to ordinary shares	£9,957	£7,376
Weighted average number of ordinary shares	5,998	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	Assets under construction £000	Total £000
Cost					
At 1 April 2003	136,454	26,449	84,120	3,199	250,222
Additions	-	-	-	21,354	21,354
Capitalisation of completed assets	5,079	2,302	3,461	(10,842)	-
Disposals	(1,161)	(3,631)	-	-	(4,792)
Grants and contributions	(257)	-	(3,189)	-	(3,446)
At 31 March 2004	140,115	25,120	84,392	13,711	263,338
Depreciation					
At 1 April 2003	48,988	15,724	-	-	64,712
Charge for year	5,235	2,781	-	-	8,016
Disposals	(962)	(3,622)	-	-	(4,584)
At 31 March 2004	53,261	14,883	-	-	68,144
Net book value					
At 31 March 2004	86,854	10,237	84,392	13,711	195,194
At 31 March 2003	87,466	10,725	84,120	3,199	185,510

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

Assets under construction include £13,229,000 (2003: £1,680,000) in respect of the upgrade of the Barrow treatment plant.

- (b) Included above at 31 March 2004 is freehold land, not subjected to depreciation in the year, of £1,312,000 (2003 - £1,316,000).
- (c) Included above at 31 March 2004 are fixed assets held under finance leases analysed by asset type as follows -

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

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

- (e) 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:

	Infrastructure Assets £000	Assets under construction £000
Cost		
Cost at 31 March 2004 per Regulatory Accounts	84,392	13,711
Adjustment to opening balance	70,642	-
Additions	-	6,633
Infrastructure renewals expenditure capitalised in the year	6,633	(6,633)
Disposals	(1,764)	-
Cost at 31 March 2004 per Statutory Accounts	159,903	13,711
Depreciation		
At 31 March 2004 per Regulatory Accounts	-	-
Adjustment to opening balance	71,467	-
Depreciation charge for Infrastructure Renewals Expenditure	7,155	-
Disposals	(1,764)	-
At 31 March 2004 per Statutory Accounts	76,858	-
Net book value		
At 31 March 2004 per Regulatory Accounts	84,392	13,711
Adjustment for infrastructure renewals accounting	(1,347)	-
At 31 March 2004 per Statutory Accounts	83,045	13,711

8. INVESTMENT - LOAN TO ULTIMATE HOLDING COMPANY

	£000
At 1 April 2003	-
Additions during year	47,000
At 31 March 2004	47,000

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

9. STOCKS

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

10. DEBTORS

Debtors comprise -

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

11. NET BORROWINGS

(a) At 31 March 2004 net borrowings comprise -

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

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

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

In respect of Bristol Water plc

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

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

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

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

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

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

	2004 £000	2003 £000
Within one year	23	-
Between one and two years	23	-
Between two and five years	69	-
After five years	550	-
	665	-

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

	2004 £000	2003 £000
Debentures (listed on the London Stock Exchange) -		
11.20% Redeemable 2005 to 2009 at the company's option	-	1,776
4.00% Consolidated irredeemable	1,405	1,405
4.00% Perpetual irredeemable	55	55
4.25% Perpetual irredeemable	37	37
3.50% Perpetual irredeemable	73	73
	1,570	3,346
Bank loans -		
Unsecured, repayable in instalments between 2006 and 2010, fixed interest at 7.75% pa to 2003 then LIBOR related	-	20,000
Unsecured, repayable 2008, fixed interest at 6.137% pa	-	5,000
Unsecured, repayable 2008, fixed interest at 6.537% pa	-	10,000
Finance leases	15,630	17,537
Other term loans -		
Secured, repayable 2032, principal index-linked to RPI, fixed interest at 3.635% on the indexed principal	41,397	-
Secured, repayable 2033, fixed interest at 6.01%	57,500	-
	116,097	55,883

12. OTHER CREDITORS DUE WITHIN ONE YEAR

Other creditors due within one year comprise -

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

13. DEFERRED INCOME

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

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

14. 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 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, 66% (2003: 61%) of the company's financial liabilities, including irredeemable preference shares, were at fixed rates after taking into account interest rate swaps.

Liquidity risk management

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

Interest rate risk profile of financial liabilities

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

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

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

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

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

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

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

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

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

Interest rate risk of financial assets

The financial assets comprise:

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

Borrowing facilities

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

Fair values of financial assets and financial liabilities

Although the company does not intend to trade in any financial instruments, the following table provides a comparison, by category, of the carrying amounts and the fair value of the 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 2004		31 March 2003	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Primary financial instruments held or issued to finance the company's operations:				
Cash at bank and short term deposits	17,437	17,437	9,661	9,661
Short-term borrowings	(6,941)	(6,941)	(6,760)	(6,760)
Long-term borrowings	(150,843)	(156,551)	(77,724)	(79,354)
Irredeemable Preference shares	(12,500)	(16,281)	(12,500)	(16,625)
Primary financial instruments issued to finance the ultimate holding company:				
Long term loan	47,000	48,061	-	-
Derivative financial instruments held to manage the interest rate profile:				
Interest rate swaps	-	(1,081)	-	(2,145)
	(105,847)	(115,356)	(87,323)	(95,223)

Summary of methods and assumptions

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

Interest rate hedges

The company hedges interest rate risk using interest rate swaps. The table below shows the extent to which the 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 will increase future interest costs as follows -

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

Gilt locks

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

15. PROVISIONS FOR LIABILITIES AND CHARGES

	2004	2003
	£000	£000
Deferred taxation - note (a)	18,709	19,242
Infrastructure accrual - note (b)	1,347	825
	20,056	20,067
(a) Deferred taxation		
Analysis of deferred taxation liability:		
Accelerated capital allowances and capital element of finance		
Leases	35,367	35,163
Deferred income	(2,541)	(2,529)
Short term timing differences	(520)	(393)
	32,306	32,241
Effect of discounting	(13,597)	(12,999)
Net provision	18,709	19,242
Deferred tax movement:		
	2004	2003
	£000	£000
Provision brought forward at 1 April	19,242	15,236
(Credit)/Charge to Profit and Loss Account	(533)	3,822
Advance Corporation Tax utilised	-	184
Provision carried forward at 31 March	18,709	19,242
(b) Infrastructure accrual		
The movement on the infrastructure renewals account is as follows:		
	2004	2003
	£000	£000
Opening accrual	825	164
Charge for the year	7,155	6,947
Expenditure	(6,633)	(6,286)
Closing accrual	1,347	825

In the statutory accounts, as required by FRS 15, the accrual is deducted from fixed assets (see note 7(e)).

16. CALLED UP SHARE CAPITAL

The authorised and issued share capital of the company is -

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

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

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

17. MOVEMENT IN SHAREHOLDERS' FUNDS

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

18. COMMITMENTS AND CONTINGENCIES

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

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

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

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

19. PENSIONS

(a) Pension arrangements

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

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

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

The most recent triennial actuarial valuation at 1 April 2002 assumed that investment returns would be 7.2% per annum pre-retirement and 5.2% post-retirement, salaries 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 the level of cash contributions to the WCPS section effective from 1 April 2003 was agreed with the Trustees. A further increase has been agreed effective from 1 April 2004. The estimated cash contributions for 2004/05 are approximately £1.4m.

(b) Accounting under SSAP24

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

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

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

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

(c) **Accounting under FRS17 “Retirement Benefits”**

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

The disclosures for 2003/04 differ from those set out in the Company’s statutory accounts which showed a deficit net of tax as at 31 March 2004 of £12.4m. In the light of updated information the scheme actuary has now reassessed the deficit as at 31 March 2004 at a lower value net of tax of £9.4m. The reassessed figures form the basis of this disclosure note.

Basis of valuation

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

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

Asset distribution and expected return

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

	Expected long-term rate of return			Market values of section assets		
	2004	2003	2002	2004 £000	2003 £000	2002 £000
Equities	7.9%	7.5%	8.2%	71,501	53,900	77,092
Bonds	4.7%	4.5%	5.2%	18,428	5,400	11,198
Corporate bonds	5.5%	5.6%	6.1%	-	7,000	4,445
Property	6.3%	6.0%	6.7%	-	1,600	2,900
Cash	4.6%	3.8%	5.2%	16	5,700	1,597
Market value of section assets				89,945	73,600	97,232
Present value of the company WCPS pension section’s liabilities				(103,417)	(92,100)	(82,882)
(Deficit)/surplus in the section				(13,472)	(18,500)	14,350
Deferred taxation				4,042	5,500	(4,305)
Net pension (liability)/asset				(9,430)	(13,000)	10,045

Effect on financial statements

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

	2004	2003
	£000	£000
Net assets:		
Net assets excluding pension liability	69,291	65,534
Adjustment in respect of SSAP24 accrual	1,229	861
Deferred Tax relating to SSAP24 accrual	(369)	(258)
Net pension liability	(9,430)	(13,000)
Net assets including pension liability	<u>60,721</u>	<u>53,137</u>
Reserves:		
Profit and Loss Account excluding pension liability	40,608	36,851
Adjustment in respect of SSAP24 accrual	1,229	861
Deferred Tax relating to SSAP24 accrual	(369)	(258)
Net pension liability	(9,430)	(13,000)
Profit and Loss Account including pension liability	<u>32,038</u>	<u>24,454</u>

Contributions

Contributions paid to the section including those from other companies in the section in the year ended 31 March 2004 were £1,332,000 (2003 - £638,000). In accordance with the terms of the scheme, during the year Bristol Water plc was required to contribute at the rates of 18.1% (2003 - 9.8%) for the main sub section and 8.1% (2003 - Nil%) for the alternative sub section.

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

	2004	2003
	£000	£000
Analysis of the amount charged to operating profit		
Employer's part of current service cost	1,812	1,700
Total operating charge	<u>1,812</u>	<u>1,700</u>
Analysis of the amount credited/(charged) to other finance income		
Expected return on pension section assets	4,922	7,400
Interest on post-retirement liabilities	(5,111)	(5,100)
Net return - (charge)/credit to other finance income	<u>(189)</u>	<u>2,300</u>
Analysis of amount recognised in the Statement of Recognised Gains and Losses (STRGL)		
Actual return less expected return on pension section assets	13,546	(28,450)
Experience gains and (losses) arising on the section liabilities	(217)	2,100
Changes in assumptions underlying the present value of section liabilities	(7,581)	(7,800)
Actuarial gain/(loss) recognised in STRGL	<u>5,748</u>	<u>(34,150)</u>

Movement in section pre tax (deficit)/surplus during the year

(Deficit)/Surplus in section at beginning of the year	(18,500)	14,350
Movement in year:		
Current service cost (total)	(2,196)	(2,100)
Aggregate contributions	1,665	1,100
(Charge)/Credit to other finance income	(189)	2,300
Actuarial gain (loss) recognised in STRGL	5,748	(34,150)
(Deficit) in section at end of the year	<u>(13,472)</u>	<u>(18,500)</u>

The history of experience gain and losses is:**Difference between expected and actual return on section assets:**

Amount – surplus/(deficit)	13,546	(28,450)
Percentage of section assets	15%	(39)%

Experience gains and losses on section liabilities

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

Total amount recognised in STRGL

Amount	5,748	(34,150)
Percentage of the present value of the section Liabilities	6%	(37)%

20. ADDITIONAL INFORMATION TO THE CASH FLOW STATEMENT

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

	2004	2003
	£000	£000
Operating profit	19,550	19,516
Depreciation, net	7,715	7,021
Profit on sale of fixed assets	(206)	(386)
Infrastructure Renewals charge	7,155	6,947
	<hr/> 34,214	33,098
Cash flow from operations		
Working capital movements -		
Stocks	(21)	(197)
Debtors	(2,427)	(4,051)
Creditors	1,025	662
	<hr/> 32,791	29,512
Net cash inflow from operating activities		

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

	2004	2003
	£000	£000
(Decrease)/increase in net cash in year	(1,592)	2,485
Cash used to repay borrowings	25,839	3,365
Cash from new borrowings	(98,520)	-
Net costs of issue of loans	687	-
Cash from increase/(decrease) in liquid resources	9,368	(7,500)
	<hr/> (64,218)	(1,650)
Increase in net borrowings		
New debt not affecting cash flow	(1,306)	(1,669)
Net borrowings at beginning of year	(74,823)	(71,504)
	<hr/> (140,347)	(74,823)
Net borrowings at end of year		

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

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

Cash at bank includes overnight deposits.

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

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

21. ULTIMATE PARENT COMPANY AND RELATED PARTY TRANSACTIONS

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

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

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

BRISTOL WATER plc

DIRECTORS' RESPONSIBILITIES FOR THE PREPARATION OF REGULATORY ACCOUNTING STATEMENTS

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

The directors are required by UK company law to prepare regulatory accounting 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 regulatory accounting 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 regulatory accounting statements, subject to any material departures being disclosed and explained in the notes to the regulatory accounting statements. The directors are required to prepare the regulatory accounting 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 regulatory accounting statements comply with the Companies Act 1985, except for the financial information which is not prepared on the basis of UK GAAP. 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
12 July 2004

BRISTOL WATER plc
APPOINTED BUSINESS

REGULATORY ACCOUNTING STATEMENTS

CURRENT COST ACCOUNTING STATEMENTS
for the year ended 31 March 2004

BRISTOL WATER plc**REGULATORY ACCOUNTING STATEMENTS****CURRENT COST PROFIT AND LOSS ACCOUNT FOR THE APPOINTED BUSINESS
for the year ended 31 March 2004**

	Notes	2004 £000	2003 £000
Turnover	C3	68,797	67,853
Current cost operating costs	C4	(53,847)	(54,321)
Operating income, being (loss)/profit on sale of fixed assets		(123)	222
		<hr/>	<hr/>
		14,827	13,754
Working capital adjustment		32	100
		<hr/>	<hr/>
Current cost operating profit		14,859	13,854
Other income		191	231
Net interest payable		(6,260)	(5,176)
Financing adjustment		1,968	2,269
		<hr/>	<hr/>
Current cost profit before taxation		10,758	11,178
Taxation			
Current tax		(2,869)	(2,156)
Deferred tax		533	(3,822)
		<hr/>	<hr/>
Current cost profit on ordinary activities		8,422	5,200
Dividends		(7,294)	(16,882)
		<hr/>	<hr/>
Current cost profit/(loss) retained		1,128	(11,682)

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 2004**

	Notes	2004 £000	2003 £000
Fixed assets			
Tangible fixed assets	C5	1,542,462	1,494,872
Third party contributions since 1 April 1990		(54,846)	(50,057)
Working capital	C6	624	(1,220)
Net operating assets		1,488,240	1,443,595
Cash		17,437	9,661
Investments - Intragroup loan		47,000	-
Non-trade debtors		1,710	1,127
Non-trade creditors due within one year		(9,181)	(8,765)
Creditors due after one year		(150,843)	(77,724)
Provision for liabilities and charges			
Deferred tax		(18,709)	(19,242)
Dividends payable		(5,002)	(14,672)
Net assets employed		1,370,652	1,333,980
Capital and reserves			
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		6,309	5,181
Current cost reserve	C7	1,335,660	1,300,116
		1,370,652	1,333,980

The accounts were approved by the Board on 12 July 2004 and signed on its behalf by -

A Parsons, Chairman
A Nield, Finance Director

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

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

**CURRENT COST CASH FLOW STATEMENT
FOR THE APPOINTED BUSINESS
for the year ended 31 March 2004**

	Notes	2004 £000	2003 £000
Net cash inflow from operating activities	C8	32,608	29,223
Returns on investments and servicing of finance -			
Other income received		191	231
Interest received		1,073	517
Interest paid		(5,918)	(4,761)
Interest paid on finance leases		(1,163)	(1,346)
Dividends paid		(1,094)	(1,094)
		(6,911)	(6,453)
Taxation -			
Corporation tax paid		(2,917)	(2,889)
Investing activities -			
Purchase of fixed assets		(21,369)	(14,094)
less contributions received		3,446	3,409
Infrastructure renewals expenditure		(6,633)	(6,286)
Proceeds on disposal of fixed assets		410	854
Loan advanced to ultimate holding company		(47,000)	-
		(71,146)	(16,117)
Dividends paid on equity shares		(15,870)	(5,592)
Net cash outflow before management of liquid resources and financing		(64,236)	(1,828)
Management of liquid resources being (increase)/decrease in short-term deposits		(9,368)	7,500
Financing -			
New term loans		98,520	-
Capital element of lease repayments		(1,514)	(1,402)
Loan repayments		(24,307)	(1,785)
Net costs of issue of new loans		(687)	-
Net cash inflow/(outflow) from financing		72,012	(3,187)
(Decrease)/increase in cash	C9	(1,592)	2,485
Cash, beginning of year		3,161	676
Cash, end of year		1,569	3,161

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 conjunction with the setting of price limits by Ofwat at 5 yearly intervals. 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 periodic 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 of Appointment.

(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 for Environment, Food and Rural Affairs. All other activities are classified as non-appointed business.

C3. Analysis of turnover for the Appointed Business

	2004 £000	2003 £000
Measured	22,670	21,233
Unmeasured	40,248	40,377
Large user revenues	3,419	4,166
Other sources	1,866	1,400
Third party services	594	677
Total turnover	<u>68,797</u>	<u>67,853</u>

The increase in turnover is mainly due to the RPI increase of 2.7%. This was offset by the fall in large user revenue following the loss of the Company's largest customer, Britannia Zinc, at the start of the year.

C4. Commentary on 2003/04 operating costs

Cost Allocation

Costs are allocated in the following way:

All operational costs of day to day collection, storage, treatment and supply of water are allocated as Opex along with the costs of technical and administrative support.

All 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.

Variations from 2002/03

Operating expenditure reduced in the year. After allowing for the impact of inflation this was a reduction of 3.5% on last year's costs. Key factors in the net movement are:

	£m
Operating expenditure 2002/03	35.2
Inflation	1.0
One off items in 2002/03 not repeated	
- S74 claims provision no longer required following Transco vs. Leicester City case being settled in favour of Transco	(0.5)
- Other one off items	(0.3)
One off items in 2003/04	
- Release of S74 provision following the outcome of Transco vs. Leicester City case	(0.6)
Statutory reduction in cumulo rates bill, which has been phased in over several years	(0.5)
Increased pension cost	0.4
Insurance premium increases in line with market increases	0.5
Increased Regulation Cost, including £0.4m related to PRO4 and £0.2m related to modifications to the Company's Licence of Appointment	0.6
Further efficiency gains from Joint Billing arrangements as anticipated savings are realised	(0.3)
Other net changes and efficiency gains	(0.6)
Operating expenditure 2003/04	<u>34.9</u>

Charitable Donations

All charitable donations are made through the ultimate parent company.

C4. (Continued) Analysis of operating costs of the Appointed Business for 2003/04

£000	Service analysis -			Business analysis -		
	Resources & treatment	Distri- bution	Sub-total	Customer services	Scientific services	Cost of regulation
Direct costs -						
Employment costs	1,223	2,741	3,964			
Power	1,455	1,395	2,850			
Hired & contracted services	2,344	399	2,743			
Associated companies	7	1,640	1,647			
Materials and consumables	1,266	534	1,800			
Service charges NRA	1,938	-	1,938			
Bulk supply imports	104	-	104			
Other direct costs	807	611	1,418			
Total direct costs	9,144	7,320	16,464	2,109	1,271	1,021
General & support costs	3,324	3,525	6,849	458	704	166
Functional expenditure *	12,468	10,845	23,313	2,567	1,975	1,187
Total functional and business activity expenditure						29,042
Rates						3,021
Doubtful debts						1,490
Total operating expenditure before third party costs						33,553
Third party operating expenditure						1,390
Total operating expenditure						34,943
Capital costs -						
Infrastructure renewals -						
Expenditure	1,443	5,191	6,634			
Movement in infrastructure renewal	(727)	1,248	521			
Current cost depreciation	7,389	4,661	12,050			
Amortisation of deferred Credits			(301)			
Total capital maintenance			18,904			18,904
Total operating costs						53,847
Current cost Modern Equivalent Asset values -						
Service activities and water supply total	563,108	965,325	1,528,433			
Services for third parties	1,822	12,207	14,029			
Total	564,930	977,532	1,542,462			

* included within these costs is £3,079,000 in respect of reactive maintenance to infrastructure assets. Planned maintenance is included within the infrastructure renewals expenditure. £2,138,000 is included in respect of planned and reactive maintenance to non-infrastructure assets.

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

£000	Service analysis -			Business analysis -		
	Resources & treatment	Distri- bution	Sub-total	Customer services	Scientific services	Cost of regulation
Direct costs -						
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			
Total direct costs	9,253	7,487	16,740	2,389	1,231	452
General & support costs	3,426	3,434	6,860	453	767	79
Functional expenditure *	12,679	10,921	23,600	2,842	1,998	531
Total functional and business activity expenditure						28,971
Rates						3,417
Doubtful debts						1,431
Total operating expenditure before third party costs						33,819
Third party operating expenditure						1,418
Total operating expenditure						35,237
Capital costs -						
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)			
Total capital maintenance			19,084			19,084
Total operating costs						54,321
Current cost Modern Equivalent Asset values -						
Service activities and water supply total	541,222	939,893	1,481,115			
Services for third parties	1,849	11,908	13,757			
Total	543,071	951,801	1,494,872			

* 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.

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 2003	480,918	15,841	1,287,183	4,434	1,788,376
RPI Adjustment	12,504	412	33,467	-	46,383
Disposals	(1,668)	(548)	-	(1,885)	(4,101)
Additions	17,280	199	3,497	350	21,326
Balance 31 March 2004	509,034	15,904	1,324,147	2,899	1,851,984
Depreciation -					
Balance 1 April 2003	289,223	744	-	3,537	293,504
RPI Adjustment	7,520	19	-	-	7,539
Disposals	(1,668)	(18)	-	(1,885)	(3,571)
Provision for year	11,437	163	-	450	12,050
Balance 31 March 2004	306,512	908	-	2,102	309,522
Net Book Value at 31 March 2004	202,522	14,996	1,324,147	797	1,542,462
Net Book Value at 1 April 2003	191,695	15,097	1,287,183	897	1,494,872

C6. Working capital

	2004 £000	2003 £000
Stocks	586	577
Trade debtors	8,450	6,587
Trade creditors	(556)	(560)
Short-term capital creditors	(2,010)	(2,986)
Infrastructure renewals accrual	(1,347)	(825)
Other trade accruals	(5,181)	(5,167)
Receipts in advance	(5,982)	(4,546)
Tax and social security	(629)	(559)
Group trade creditors	803	(184)
Prepayments and accrued income	6,490	6,443
	624	(1,220)

C7. Movement on current cost reserve

	2004 £000	2003 £000
Balance at 1 April	1,300,116	1,259,094
RPI adjustments -		
Fixed assets	38,844	44,792
Working capital	(32)	(100)
Financing	(1,968)	(2,269)
Grants and contributions	(1,300)	(1,401)
Balance at 31 March	1,335,660	1,300,116

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

	2004 £000	2003 £000
Operating profit	14,859	13,854
Depreciation charges, net of amortisation of deferred credits	11,749	12,137
Loss/(profit) on disposal of fixed assets	123	(222)
Infrastructure renewals charge	7,155	6,947
Cashflow from operations	<u>33,886</u>	<u>32,716</u>
Working capital requirements -		
Stocks	(9)	(213)
Debtors	(2,866)	(4,491)
Creditors	1,629	1,311
Working capital adjustment	(32)	(100)
Net cash inflow from operating activities	<u>32,608</u>	<u>29,223</u>

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

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

	2004 £000	2003 £000
Decrease in net cash in year	(1,592)	2,485
Cash used to repay borrowings	25,821	3,187
Cash from new borrowings	(98,520)	-
Net costs of issue of loans	687	-
Cash from increase/(decrease) in liquid resources	9,368	(7,500)
Increase in net debt	<u>(64,236)</u>	<u>(1,828)</u>
Net debt not affecting cash flow	(1,306)	(1,669)
Net borrowings at beginning of year	(74,805)	(71,308)
Net borrowings at end of year	<u>(140,347)</u>	<u>(74,805)</u>

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

	Opening net borrowings £000	Cash flows in year £000	Debt maturities £000	New debt not affecting cashflow £000	Closing net borrowings £000
Cash at bank	3,161	(1,592)	-	-	1,569
Short-term deposits	6,500	9,368	-	-	15,868
	<u>9,661</u>	<u>7,776</u>	<u>-</u>	<u>-</u>	<u>17,437</u>
Borrowings due within one year	(6,742)	7,649	(6,941)	*(907)	(6,941)
Borrowings due after one year	(77,724)	(79,661)	6,941	**(399)	(150,843)
Net borrowings	<u>(74,805)</u>	<u>(64,236)</u>	<u>-</u>	<u>(1,306)</u>	<u>(140,347)</u>

Cash at bank includes overnight deposits.

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

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

C10. Regulatory Capital Value (RCV) at 2003-04 Prices

	£000
Closing RCV for 2002/03	183,132
Indexation to 2003/04 year end price base	<u>4,785</u>
	187,917
Capital expenditure	22,030
Infrastructure renewals expenditure	6,878
Infrastructure renewals charge	(6,995)
Grants and contributions	(2,991)
Depreciation	(6,755)
Outperformance of Regulatory Assumptions (5 years in arrears)	8,287
Closing RCV carried forward at 31 March 2004 at year end price base	<u>208,371</u>
Average regulatory capital value for 2003/04 at average 2003/04 price base	<u>195,890</u>

The RCV shown is the value used by Ofwat in setting the price limits for the period 2000-01 to 2004-05. Differences between assumed and actual capital expenditure and depreciation will not affect price limits in the current period unless an interim determination of 'k' is triggered. Capital efficiencies will be taken into account in the calculation of RCV for the next five year regulatory period 2005/06 to 2009/10.

The reconciliation of the opening and closing RCVs uses year end RPI to index from 1997/98 prices to 2003/04 prices. (1997/98 was the base year for PR99 and therefore all assumptions about inflation are made relative to that point). The average RCV is presented using year average RPI to index to 2003/04 prices. The average RCV cannot therefore be calculated as the simple average of the opening and closing RCVs.

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

Years ended 31 March -	2004 £000	2003 £000	2002 £000	2001 £000	2000 £000
Turnover	68,797	69,753	69,278	67,431	74,273
Current cost operating costs	(53,847)	(55,842)	(56,433)	(53,934)	(58,308)
Operating (expense)/income	(123)	228	459	104	516
Working capital adjustment	32	103	57	32	165
Current cost operating profit	14,859	14,242	13,361	13,633	16,646
Other income	191	237	212	197	126
Net interest	(6,260)	(5,321)	(4,805)	(4,779)	(5,377)
Financing adjustment	1,968	2,333	903	1,707	1,958
Current cost profit before taxation	10,758	11,491	9,671	10,758	13,353
Taxation	(2,336)	(6,145)	(3,675)	(3,513)	(5,006)
Current cost profit on ordinary activities	8,422	5,346	5,996	7,245	8,347
Dividends	(7,294)	(17,355)	(6,934)	(6,501)	(5,979)
Current cost profit/(loss) retained	1,128	(12,009)	(938)	744	2,368

The figures for 2000 to 2003 have been restated into 2003/04 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.

Interest costs have risen year on year from 2001, as net borrowings have increased to fund the capital programme.

The financing adjustment relates to the previous year's level of net debt. Therefore it is lowest in 2002, as the net debt was lowest in 2001.

The charge for taxation includes current and deferred tax. In accordance with Ofwat guidelines, the tax charge is based on the Historical Cost Accounts, and deferred tax has not been recalculated to take account of Current Cost Depreciation. Deferred tax is provided for on a discounted basis and the charge fluctuates in line with discount rates used to calculate the total provision.

In 2003 dividends included a special interim ordinary dividend of £10m.

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

Years ended 31 March -	2004 £000	2003 £000	2002 £000	2001 £000	2000 £000
Tangible fixed assets	1,542,462	1,533,738	1,529,585	1,519,978	1,515,824
Third party contributions since 1 April 1990	(54,846)	(51,358)	(47,827)	(45,164)	(42,617)
Working capital	624	(1,252)	(3,412)	(5,663)	1,017
Net operating assets	1,488,240	1,481,128	1,478,346	1,469,151	1,474,224
Cash	17,437	9,912	15,524	10,147	1,701
Investments – Intragroup loan	47,000	-	-	-	-
Non-trade debtors	1,710	1,156	1,119	1,186	676
Non-trade creditors due within one year	(9,181)	(8,993)	(6,531)	(5,093)	(4,765)
Dividends payable	(5,002)	(15,053)	(4,735)	(4,409)	(4,095)
Creditors due after one year	(150,843)	(79,745)	(87,550)	(75,970)	(73,497)
Provisions for liabilities & charges	-	-	-	(335)	(996)
Provision for deferred taxation	(18,709)	(19,742)	(16,117)	(13,898)	(13,527)
Net assets employed	1,370,652	1,368,663	1,380,056	1,380,779	1,379,721
Called up share capital	18,498	18,979	19,567	19,822	20,278
Share premium account	4,415	4,530	4,670	4,731	4,840
Other reserves	5,770	5,920	6,104	6,183	6,325
Profit and loss account	6,309	5,316	17,838	19,028	18,701
Current cost reserve	1,335,660	1,333,918	1,331,877	1,331,015	1,329,577
1,370,652	1,368,663	1,380,056	1,380,779	1,379,721	

Prior year figures have been restated into March 2004 values by applying RPI indexation using the change in inflation rates from each year-end.

During 2004 there was a major refinancing of the company, based on a financial ringfencing of the regulated water business. In May 2003 the company raised £45m of long term funds and used £20m to repay an existing bank loan.

In February 2004 the Company raised a further £53m, of which £47m was used to make an interest bearing intercompany loan to the ultimate parent company Bristol Water Group plc.

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. It has increased the level of debt to Regulatory Capital Value to 67% compared to 41% in March 2003.

£41m 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 £58m 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.

Cash and short term investments have increased following the drawdown of funds using the Artesian Finance facilities in the year offset by the loan to Bristol Water Group plc, debt repayments, financing of capital investment and working capital movements.

The special interim dividend in respect of 2002/03 was paid during 2003/04.

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	46.7	Competitive tender	2.2	4.3
Carbon regeneration	Purton Carbons Ltd	1.0	Market tested	0.2	-
Management charge	Bristol Water Holdings plc/ Bristol Water Group plc	0.9	At cost	0.7	-
Managed Billing Service	Bristol Wessex Billing Services Ltd	8.9	Competitive tender	1.8	0.5

- (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 £105,000 was recharged.

- (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 -

During the year a loan of £47m was made to the ultimate parent company Bristol Water Group plc. The unsecured loan was advanced on 12 February 2004, under an agreement dated 4 December 2003, out of the proceeds of the new Artesian loans entered into during the year. The loan is due for repayment on 30 September 2033 and bears a fixed interest rate of 6.042%. Interest income of £382,000 was received in relation to the loan during 2003/04.

Only the £47m loan to the ultimate holding company Bristol Water Group plc was either lent to or borrowed by 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.

During the year £0.4m was received by Bristol Water from Walter Lawrence Civil & Mechanical Limited in respect of payment for tax losses surrendered for the period 2002/03. This amount had been accrued in the 2002/03 accounts.

(e) Dividends paid to parent company –

Interim and final dividends amounting to £6.2m have been paid or proposed on ordinary shares, all of which are held by Bristol Water Core Holdings Ltd. Dividends are proposed by the directors following consideration of a wide range of judgmental factors including, the amount of shareholder investment and how it changed during the financial 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 Historical Cost Statements as the Current Cost Accounting Statements need to be considered in the context of the regulatory (RPI+K) price setting process. When setting price limits for the 5 years 2000/01 to 2004/05, Ofwat made two technical assumptions which differ from the approach used within these statements.

The differences are:

- Deferred taxation – Ofwat 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 – Ofwat 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 Ofwat adjusted assumed figures had been used.

(f) To the best of the directors' knowledge, all appropriate transactions with associated companies have been disclosed.

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

12 July 2004

BRISTOL WATER plc
REGULATORY ACCOUNTING STATEMENTS

INDEPENDENT ACCOUNTANTS' 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 27 and 29 to 44 which comprise:

- the regulatory historical cost accounting statements comprising the historical cost profit and loss account, balance sheet, cash flow statement, related notes and the 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, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of 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 ("the Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Regulator, for our audit work, for this report or for the opinions we have formed.

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.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of Generally Accepted Accounting Principles in the United Kingdom ("UK GAAP"). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or 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 the preparation of regulatory accounting statements on page 28.

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 and having regard to the guidance contained in Audit 05/03 *"Reporting to Regulators of Regulated Entities"*.

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 29 to 44 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 Company's Regulatory 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 accounts of the Company on which we reported on 27 May 2004, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our "Statutory" audit) was made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a Statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

The regulatory historical cost accounting statements on pages 3 to 27 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 13.

Opinion

In our opinion the Regulatory Accounts for the Company contain the information for the year ended 31 March 2004 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 27 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 29 to 44 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

Bristol

12 July 2004

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*