

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

YEAR ENDED 31 MARCH 2005

BRISTOL WATER plc
REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2005

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 Historical Cost and Current Cost Accounting Statements were approved by a Committee on 12 July 2005.

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BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

HISTORICAL COST ACCOUNTING STATEMENTS
for the year ended 31 March 2005

BRISTOL WATER plc

HISTORICAL COST ACCOUNTING POLICIES

The Regulatory Accounts are separate from the statutory financial statements of the Company. There are differences between United Kingdom Generally Accepted Accounting Principles (UK GAAP) and the basis of preparation of information provided in the regulatory accounts because the Regulatory Accounting Guidelines specify alternative treatment or disclosure in certain respects. Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed. Financial information other than that prepared wholly 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.

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, the disclosure of operating costs as explained in note 2 and the application of infrastructure renewals accounting as explained in note 7(e).

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

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

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

b. Turnover

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

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

c. Tangible fixed assets and depreciation

Tangible fixed assets comprise infrastructure assets and other assets.

Infrastructure assets

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

Other assets

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

Depreciation

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

Depreciation of infrastructure assets takes account of planned expenditure levels to maintain the operating capability of the company's infrastructure assets in perpetuity.

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

Operational properties and structures	40 to 100 years
Treatment, pumping and general plant	20 to 24 years
Computing 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. The company will be adopting FRS17 for 2005/06.

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 2005**

	Notes	Appointed business 2005 £m	Non- appointed 2005 £m	Total 2005 £m	Appointed business 2004 £m	Non- appointed 2004 £m	Total 2004 £m
Turnover	1	68.3	1.9	70.2	68.8	1.8	70.6
Operating costs	2	(50.3)	(1.5)	(51.8)	(49.8)	(1.5)	(51.3)
Exceptional operating costs		(2.0)	-	(2.0)	-	-	-
Total operating costs		(52.3)	(1.5)	(53.8)	(49.8)	(1.5)	(51.3)
Operating income, being profit on disposal of tangible fixed assets		0.1	-	0.1	0.2	-	0.2
Operating profit		16.1	0.4	16.5	19.2	0.3	19.5
Other net income, being rents		0.2	-	0.2	0.2	-	0.2
Net interest payable and similar charges	3	(6.6)	-	(6.6)	(6.2)	-	(6.2)
Profit on ordinary activities before taxation		9.7	0.4	10.1	13.2	0.3	13.5
Taxation on profit on ordinary activities	4	(1.2)	(0.1)	(1.3)	(2.3)	(0.1)	(2.4)
Profit on ordinary activities after taxation		8.5	0.3	8.8	10.9	0.2	11.1
Dividends	5						
On irredeemable preference shares		(1.1)	-	(1.1)	(1.1)	-	(1.1)
On ordinary shares		(7.0)	(1.1)	(8.1)	(6.2)	-	(6.2)
Total dividends		(8.1)	(1.1)	(9.2)	(7.3)	-	(7.3)
Profit/(loss) retained for the year		0.4	(0.8)	(0.4)	3.6	0.2	3.8
Balance on profit and loss account, beginning of year		39.8	0.8	40.6	36.2	0.6	36.8
Balance on profit and loss account, end of year		40.2	-	40.2	39.8	0.8	40.6
Earnings per share	6			<u>128.1p</u>			<u>166.0p</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 2005

	Notes	Appointed business 2005 £m	Non- appointed 2005 £m	Total 2005 £m	Appointed business 2004 £m	Non- appointed 2004 £m	Total 2004 £m
Fixed assets							
Tangible fixed assets	7	195.1	1.4	196.5	193.9	1.3	195.2
Investment – loan to ultimate holding company	8	47.0	-	47.0	47.0	-	47.0
Current assets							
Stocks	9	0.6	-	0.6	0.6	0.1	0.7
Debtors	10	18.4	0.1	18.5	19.5	0.1	19.6
Cash at bank and on deposit	11	12.0	-	12.0	17.4	-	17.4
		<u>31.0</u>	<u>0.1</u>	<u>31.1</u>	<u>37.5</u>	<u>0.2</u>	<u>37.7</u>
Creditors: amounts falling due within one year							
Short-term borrowings	11	(3.7)	-	(3.7)	(6.9)	-	(6.9)
Other creditors	12	(22.8)	(1.5)	(24.3)	(23.6)	(0.7)	(24.3)
		<u>(26.5)</u>	<u>(1.5)</u>	<u>(28.0)</u>	<u>(30.5)</u>	<u>(0.7)</u>	<u>(31.2)</u>
Net current assets/(liabilities)		4.5	(1.4)	3.1	7.0	(0.5)	6.5
Total assets less current liabilities		246.6	-	246.6	247.9	0.8	248.7
Creditors: amounts falling due after more than one year							
Long-term borrowings		(146.9)	-	(146.9)	(149.3)	-	(149.3)
Irredeemable debenture stocks		(1.5)	-	(1.5)	(1.5)	-	(1.5)
	11	<u>(148.4)</u>	<u>-</u>	<u>(148.4)</u>	<u>(150.8)</u>	<u>-</u>	<u>(150.8)</u>
Deferred income	13	(8.6)	-	(8.6)	(8.5)	-	(8.5)
Provisions for liabilities and charges	15	(20.7)	-	(20.7)	(20.1)	-	(20.1)
Net assets		<u>68.9</u>	<u>-</u>	<u>68.9</u>	<u>68.5</u>	<u>0.8</u>	<u>69.3</u>
Capital and reserves							
Called up share capital	16	18.5	-	18.5	18.5	-	18.5
Share premium account	17	4.4	-	4.4	4.4	-	4.4
Other non-distributable reserves	17	5.8	-	5.8	5.8	-	5.8
Profit and loss account	17	40.2	-	40.2	39.8	0.8	40.6
Total shareholders' funds	17	<u>68.9</u>	<u>-</u>	<u>68.9</u>	<u>68.5</u>	<u>0.8</u>	<u>69.3</u>
<i>Analysed as -</i>							
<i>Equity shareholders' funds</i>		56.4	-	56.4	56.0	0.8	56.8
<i>Non-equity shareholders' funds</i>		<u>12.5</u>	<u>-</u>	<u>12.5</u>	<u>12.5</u>	<u>-</u>	<u>12.5</u>

The accounts were approved by a Committee on 12th July 2005 and signed on its behalf by -

A Parsons, Chairman

A Nield, Finance Director

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

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

**HISTORICAL COST CASH FLOW STATEMENT
for the year ended 31 March 2005**

	Notes	Appointed business 2005 £m	Non- appointed 2005 £m	Total 2005 £m	Appointed business 2004 £m	Non- appointed 2004 £m	Total 2004 £m
Net cash inflow from operating activities	20a	33.7	0.1	33.8	32.6	0.2	32.8
Returns on investments and servicing of finance -							
Other income received		0.3	-	0.3	0.2	-	0.2
Interest received		3.6	-	3.6	1.1	-	1.1
Interest paid		(7.8)	-	(7.8)	(5.9)	-	(5.9)
Interest paid on finance leases		(1.1)	-	(1.1)	(1.2)	-	(1.2)
Dividends paid on non-equity shares	5	(1.7)	-	(1.7)	(1.1)	-	(1.1)
Net cost of issue of new loans		-	-	-	(0.7)	-	(0.7)
		<u>(6.7)</u>	<u>-</u>	<u>(6.7)</u>	<u>(7.6)</u>	<u>-</u>	<u>(7.6)</u>
Taxation -							
Corporation tax paid		(1.8)	(0.1)	(1.9)	(2.9)	(0.1)	(3.0)
Capital Expenditure and investing activities -							
Purchase of tangible fixed assets		(12.3)	-	(12.3)	(21.3)	(0.1)	(21.4)
Less contributions received		3.7	-	3.7	3.4	-	3.4
Infrastructure renewals expenditure		(7.8)	-	(7.8)	(6.6)	-	(6.6)
Proceeds on disposal of tangible fixed assets		-	-	-	0.4	-	0.4
Loan advanced to ultimate holding company		-	-	-	(47.0)	-	(47.0)
		<u>(16.4)</u>	<u>-</u>	<u>(16.4)</u>	<u>(71.1)</u>	<u>(0.1)</u>	<u>(71.2)</u>
Dividends paid on equity shares		<u>(7.3)</u>	<u>-</u>	<u>(7.3)</u>	<u>(15.9)</u>	<u>-</u>	<u>(15.9)</u>
Net cash inflow/(outflow) before management of liquid resources and financing		1.5	-	1.5	(64.9)	-	(64.9)
Management of liquid resources being (increase)/decrease in short-term deposits		<u>5.4</u>	<u>-</u>	<u>5.4</u>	<u>(9.4)</u>	<u>-</u>	<u>(9.4)</u>
Financing -							
New term loans		-	-	-	98.5	-	98.5
Capital element of lease repayments		(1.6)	-	(1.6)	(1.5)	-	(1.5)
Loan repayments		(5.3)	-	(5.3)	(24.3)	-	(24.3)
Net cash (outflow)/inflow from financing		<u>(6.9)</u>	<u>-</u>	<u>(6.9)</u>	<u>72.7</u>	<u>-</u>	<u>72.7</u>
Decrease in cash	20c	-	-	-	(1.6)	-	(1.6)
Cash, beginning of year		1.6	-	1.6	3.2	-	3.2
Cash, end of year		<u>1.6</u>	<u>-</u>	<u>1.6</u>	<u>1.6</u>	<u>-</u>	<u>1.6</u>

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

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

NOTES TO THE HISTORICAL COST ACCOUNTS

1. TURNOVER

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

2. OPERATING COSTS

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

(a) Operating costs comprise -

	Operating costs before exceptional items 2005 £m	Exceptional operating costs* 2005 £m	Operating costs after exceptional items 2005 £m	2004 £m
Wages, salaries and severance costs	10.9	0.4	11.3	10.1
Social security costs	0.9	-	0.9	0.8
Pension costs (note 19(b))	1.7	1.4	3.1	1.6
Total payroll cost	13.5	1.8	15.3	12.5
less charged to fixed assets	(2.6)	-	(2.6)	(3.0)
Net payroll cost	10.9	1.8	12.7	9.5
Other operating costs				
Operating lease rentals on plant and machinery	0.2	-	0.2	0.1
Research and development expenditure	0.1	-	0.1	0.1
Auditors' remuneration **	0.1	-	0.1	0.2
Raw materials, consumables, bad debts and other charges less recoveries	25.9	0.2	26.1	26.5
Total other operating costs	26.3	0.2	26.5	26.9
Depreciation of tangible fixed assets ***				
On owned assets	5.8	-	5.8	5.5
On leased assets	1.8	-	1.8	2.5
Amortisation of related deferred income	(0.3)	-	(0.3)	(0.3)
Net depreciation	7.3	-	7.3	7.7
Infrastructure renewals charge	7.3	-	7.3	7.2
Total operating costs	51.8	2.0	53.8	51.3

***Exceptional operating costs - Restructuring**

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

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

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

(b) Employee details -

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

(c) Directors' emoluments -

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

The emoluments above for 2004 include charges towards the remuneration of three directors – Mr A Parsons, Mr A Nield and Mr R Wyatt – who were employed and paid by the former ultimate parent company Bristol Water Holdings plc up to 27 November 2003, and for whom a charge was made to the company. From that date all three have held service contracts with, and been paid, by Bristol Water plc. Bonus represents amounts accrued and approved, but not paid as at 31 March 2005.

The remuneration of each director is established by the Remuneration Committee of the ultimate parent company on the basis of duties and responsibilities held using market data for comparable positions in other companies. Bonuses relate to the achievement of corporate objectives and are subject for the year to 31 March 2005 to a maximum of 30% of base salary. For the year to 31 March 2006 the maximum bonus level has been increased to 50%.

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

No directors exercised options to purchase shares in the ultimate parent company during the year. In 2004 four directors exercised options to purchase shares in the ultimate parent company with a net gain on exercise of £42,000 of which £14,000 related to the highest paid director.

Details of options previously granted to directors and the redemption of B shares are set out in the Directors' Report to the statutory accounts.

The aggregate emoluments of the highest paid director in the year, paid under his service contract with the company, were £203,000 (2004 - £194,000) paid by both the company and its ultimate parent. At the end of the year, the highest paid director in the year had an accrued pension entitlement available on his normal retirement date of £38,000 (2004 - £34,000) and an accrued lump sum entitlement of three times that amount.

3. NET INTEREST PAYABLE AND SIMILAR CHARGES

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

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

4. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

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

The adjustment to prior periods primarily relates to the effect of the company reducing its capital allowance claim for the year ended 31 March 2003. This amendment enabled the company to write back Advance Corporation Tax (ACT) to be utilised against the resulting increased taxable profits.

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

Factors that may affect future tax charges

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

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

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

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

5. DIVIDENDS

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

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

6. EARNINGS PER ORDINARY SHARE

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

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

7. TANGIBLE FIXED ASSETS

(a) The movements for the year comprise –

	Freehold land & operational structures £m	Plant and equipment £m	Infra- structure assets £m	Assets Under Construction £m	Total £m
Cost					
At 1 April 2004	140.1	25.1	84.4	13.7	263.3
Additions	-	-	-	12.6	12.6
Capitalisation of completed assets	17.6	1.7	4.9	(24.2)	-
Disposals	-	(0.9)	-	-	(0.9)
Grants and contributions	-	-	(3.7)	-	(3.7)
At 31 March 2005	157.7	25.9	85.6	2.1	271.3
Depreciation					
At 1 April 2004	53.3	14.8	-	-	68.1
Charge for year	4.9	2.7	-	-	7.6
Disposals	-	(0.9)	-	-	(0.9)
At 31 March 2005	58.2	16.6	-	-	74.8
Net book value at 31 March 2005	99.5	9.3	85.6	2.1	196.5
At 31 March 2004	86.8	10.3	84.4	13.7	195.2

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

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

- (b) Included above at 31 March 2005 is freehold land, not subjected to depreciation in the year, of £1.3m (2004 - £1.3m).
- (c) Included above at 31 March 2005 are fixed assets held under finance leases analysed by asset type as follows -

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

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

- (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 £m	Assets under construction £m
Cost		
Cost at 31 March 2005 per Regulatory Accounts	85.6	2.1
Adjustment to opening balance	75.4	-
Additions	-	7.8
Infrastructure renewals expenditure capitalised in the year	7.8	(7.8)
Disposals	(1.8)	-
Cost at 31 March 2005 per Statutory Accounts	167.0	2.1
Depreciation		
At 31 March 2005 per Regulatory Accounts	-	-
Adjustment to opening balance	76.9	-
Depreciation charge for Infrastructure Renewals Expenditure	7.3	-
Disposals	(1.9)	-
At 31 March 2005 per Statutory Accounts	82.3	-
Net book value		
At 31 March 2005 per Regulatory Accounts	85.6	2.1
Adjustment for infrastructure renewals accounting	(0.9)	-
At 31 March 2005 per Statutory Accounts	84.7	2.1

8. INVESTMENT - LOAN TO ULTIMATE HOLDING COMPANY

£m

At 1 April 2004 and at 31 March 2005 47.0

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

9. STOCKS

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

10. DEBTORS

Debtors comprise -	2005 £m	2004 £m
Trade debtors	9.3	8.5
Due from group and associated companies	1.8	2.9
Other debtors	0.7	1.7
Prepayments and accrued income	6.7	6.5
	18.5	19.6

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

11. NET BORROWINGS

(a) At 31 March 2005 net borrowings comprise -

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

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

Security for borrowings

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

In respect of Bristol Water plc

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

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

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

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

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

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

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

(c) Details of borrowings repayable after five years -

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

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

12. OTHER CREDITORS DUE WITHIN ONE YEAR

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

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

13. DEFERRED INCOME

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

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

14. FINANCIAL INSTRUMENTS

The company's financial instruments, other than derivatives, comprise irredeemable preference shares, borrowings, cash and various items, such as trade debtors and trade creditors, that arise directly from its operations together with a long term loan made to the ultimate parent company. The company also enters into interest rate swaps and gilt locks to manage the interest rate risk arising from its operations and sources of finance. It is the company's policy not to trade in financial instruments.

Interest rate risk management

The company borrows at fixed, index-linked and floating rates of interest; it then uses interest rate swaps to generate the desired interest rate profile and manage its exposure to interest rate fluctuations. The company's policy is to maintain the majority of its net debt on a fixed or index-linked interest basis, using swaps where appropriate to manage this position. At the year end, 65% (2004 – 66%) of the company's financial liabilities, including irredeemable preference shares, were at fixed rates after taking into account interest rate swaps.

Liquidity risk management

It is company policy to ensure continuity of funding. At the year end at least 77% (2004 – 76%) of its financial liabilities, including irredeemable preference shares, mature after five years. Short term flexibility is achieved using committed bank facilities and short term deposits.

Interest rate risk profile of financial liabilities

The interest rate risk profile of the company's financial liabilities at 31 March 2005, after taking account of the interest rate swaps used to manage the interest rate profile, and after deducting net costs of issue of loans not yet amortised, was –

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

All financial liabilities are denominated in sterling.

Short-term debtors, creditors, cash and deposits have been excluded from the above disclosures. All the company's creditors falling due within one year (other than borrowings) are excluded from the above table either due to the exclusion of short-term balances or because they do not meet the definition of a financial liability within FRS13, such as tax balances.

At 31 March 2005, the company was party to one interest rate swap. The swap is designated against a £10m variable rate bank loan and £10m of variable rate leases. The swap exchanges LIBOR rates on a 3 monthly basis for a fixed rate of 7.72% until expiry on 25 September 2006.

The Board's current intention is to maintain a future interest rate management profile consisting of financial liabilities at either fixed or index-linked rates amounting to 70% or more of such liabilities.

Analysis of fixed rate financial liabilities

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

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

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

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

Interest rate risk of financial assets

The financial assets comprise:

- cash at bank and short term deposits which are all denominated in sterling. Cash and short term deposits are placed with banks and building societies on a rolling basis of up to one year earning interest based on LIBID equivalents.
- a loan of £47.0m to the ultimate parent company, bearing interest at a fixed rate at a small margin over related external financial liabilities with the same maturity date.

Borrowing facilities

At 31 March 2005, the company had two 5-year term £10.0m committed undrawn borrowing facilities expiring in May 2008 and December 2008 respectively. The facilities are floating rate and incur non-utilisation fees at market rates. These facilities have subsequently been cancelled and replaced by a 5-year term £30.0m committed undrawn borrowing facility.

Fair values of financial assets and financial liabilities

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

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

Summary of methods and assumptions

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

Interest rate hedges

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

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

15. PROVISIONS FOR LIABILITIES AND CHARGES

	2005 £m	2004 £m
Restructuring costs (see note 2)	2.0	-
Deferred tax – note (a)	17.8	18.7
Infrastructure accrual – note (b)	0.9	1.4
	<u>20.7</u>	<u>20.1</u>

(a) Provision for deferred tax comprises -

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

Deferred tax movement:

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

(b) Infrastructure accrual

The movement on the infrastructure renewals account is as follows:

	2005 £m	2004 £m
Opening accrual	1.4	0.8
Charge for the year	7.3	7.2
Expenditure	(7.8)	(6.6)
	<u>0.9</u>	<u>1.4</u>

In the statutory accounts, as required by FRS15, 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	
	2005	2004	2005	2004
	£m	£m	£m	£m
Authorised				
5,998,025 (2004 – 5,998,025) ordinary shares of £1 each	6.0	6.0		
14,000,000 (2004 – 14,000,000) 8.75% irredeemable cumulative preference shares of £1 each	14.0	14.0		
Issued and fully paid				
5,998,025 (2004 – 5,998,025) ordinary shares of £1 each			6.0	6.0
12,500,000 (2004 – 12,500,000) 8.75% irredeemable cumulative preference shares of £1 each			12.5	12.5
	20.0	20.0	18.5	18.5

The 8.75% irredeemable cumulative preference shares, which do not carry any voting rights, were issued in 1992 at £1 per share. Shareholders are entitled to receive dividends at 8.75% per annum on the par value of these shares on a cumulative basis; these dividends are payable half yearly on 1 April and 1 October. On winding up, the preference shareholders rank above ordinary shareholders and are entitled to receive £1 per share and any dividends accrued but unpaid in respect of their shares. In the event that dividends on the preference shares are in arrears for six months or more, holders of the preference shares become entitled to vote at general meetings of members.

17. MOVEMENT IN SHAREHOLDERS' FUNDS

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

18. COMMITMENTS AND CONTINGENCIES

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

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

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

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

19. PENSIONS

(a) Pension arrangements

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

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

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

The most recent triennial actuarial valuation at 1 April 2002 assumed that investment returns would be 7.2% pa pre-retirement and 5.2% pa post-retirement, salaries would increase on average by 4.8% pa, and pensions by 2.8% pa. The actuarial valuation at 1 April 2002 showed the market value of section assets relating to the company as £97.0m and that the actuarial value of these assets represented 107% of accrued benefits allowing for future earnings increases.

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

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

The section is currently invested primarily in equities. The investment strategy has been carefully examined and it has been concluded that the appropriate long term strategy is to reduce the proportion of equities with a corresponding increase in investments in bonds and other fixed income securities. In accordance with this strategy £15m of investments were switched from equities to bonds during February 2005.

In connection with the new financing and return to shareholders by the ultimate parent company as described in Note 21, the company intends to make a one-off contribution to WCPS of £7m. It also intends to make additional contributions of £1m in each of the four years beginning 1 April 2006 and a further £0.9m in 2010/11. The amounts are in addition to the normal pension contributions required by the WCPS trustee. The additional contributions are conditional on the proposed return to shareholders by the ultimate parent company being made.

(b) Accounting under SSAP24

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

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

assets relating to the company as £82.8m and that these represented 97% of accrued benefits allowing for future earnings increases.

The SSAP24 charge has been based on the updated interim valuation.

The total pension charge for the year was £1.7m (2004 - £1.6m) before exceptional operating costs. This includes £40,000 (2004 - £38,000) in respect of contributions to defined contribution schemes and £0.3m (2004 - £0.4m) accrued in accordance with SSAP24 bringing the total accrued at 31 March 2005 to £1.5m (2004 - £1.2m). Past service surpluses/deficits are amortised over the expected remaining service lives of members. There were no outstanding or prepaid contributions at the balance sheet date.

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

Full implementation of FRS17 "Retirement Benefits" in the primary financial statements will become mandatory for accounting periods starting on or after 1 January 2005 which for the company will be the year ending 31 March 2006.

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

The following transitional disclosures are required:

Basis of valuation

The formal actuarial valuation of the Bristol Water plc section of the Water Companies' Pension Scheme as at 1 April 2002 was updated to 31 March 2005, by an independent qualified actuary, using the following major assumptions in accordance with the transitional arrangements of FRS17:

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

Asset distribution and expected return

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

	Expected long term rate of return			Market values of section assets		
	2005	2004	2003	2005	2004 restated	2003
				£m	£m	£m
Equities	7.7%	7.9%	7.5%	63.2	71.5	53.9
Bonds	4.7%	4.7%	4.5%	35.0	18.4	5.4
Corporate bonds	-	-	5.6%	-	-	7.0
Property	-	-	6.0%	-	-	1.6
Cash	4.7%	4.6%	3.8%	-	-	5.7
Market value of section assets				98.2	89.9	73.6
Present value of the company WCPS pension section's liabilities				(110.1)	(103.4)	(92.1)
Deficit in the section				(11.9)	(13.5)	(18.5)
Deferred taxation				3.6	4.1	5.5
Net pension liability				(8.3)	(9.4)	(13.0)

Effect on financial statements

If the above amounts had been recognised in the financial statements, the company's net assets and Profit and Loss Account reserve at 31 March 2005 would have been:

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

Contributions

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

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

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

	2005	2004
	£m	£m
Analysis of the amount charged to operating profit		
Employer's part of current service cost	2.1	1.8
Past service cost	0.3	-
Total operating charge	2.4	1.8
Analysis of the amount credited/(charged) to other finance income		
Expected return on pension section assets	6.4	4.9
Interest on post-retirement liabilities	(5.6)	(5.1)
Net return – credit/(charge) to other finance income	0.8	(0.2)
Analysis of amount recognised in the Statement of Recognised Gains and Losses (STRGL)		
Actual return less expected return on pension section assets	4.0	13.5
Experience gains/(losses) arising on section liabilities	2.2	(0.2)
Changes in assumptions underlying the present value of section liabilities	(4.5)	(7.6)
Actuarial gain recognised in STRGL	1.7	5.7

	2005 £m	2004 £m
Movement in section pre tax deficit during the year		
Deficit in section at beginning of the year	(13.5)	(18.5)
Movement in year:		
Current service cost (employee and employer)	(2.4)	(2.2)
Aggregate contributions (employee and employer)	1.8	1.7
Past service cost – curtailment loss	(0.3)	-
Credit/(charge) to other finance income	0.8	(0.2)
Actuarial gain recognised in STRGL	1.7	5.7
Deficit in section at end of the year	<u>(11.9)</u>	<u>(13.5)</u>

The history of experience gains and losses is:

Difference between expected and actual return on section assets:

Amount – surplus	4.0	13.5
Percentage of section assets	4%	15%

Experience gains and losses on section liabilities

Amount – gain/(loss)	2.2	(0.2)
Percentage of the present value of the section liabilities	2%	-

Total amount recognised in STRGL

Amount – gain	1.7	5.7
Percentage of the present value of the section liabilities	<u>2%</u>	<u>6%</u>

20. ADDITIONAL INFORMATION TO THE CASH FLOW STATEMENT

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

	2005 £m	2004 £m
Operating profit	16.5	19.5
Depreciation, net	7.3	7.7
Deduct profit on sale of fixed assets	(0.1)	(0.2)
Infrastructure Renewals charge	7.3	7.2
Cash flow from operations	<u>31.0</u>	<u>34.2</u>
Working capital movements -		
Stocks	0.1	-
Debtors	1.2	(2.4)
Creditors	1.5	1.0
Net cash inflow from operating activities	<u>33.8</u>	<u>32.8</u>

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

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

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

* Represents indexation of term loans.

21. POST BALANCE SHEET EVENTS

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

The company has agreed to advance approximately £22m of the new funds in the form of a long term interest bearing loan to the ultimate parent company. Together with other cash balances the ultimate parent company plans to use this to finance a £30m return to shareholders.

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

At 31 March 2005 the company had two 5 year term £10m committed undrawn borrowing facilities with The Royal Bank of Scotland. The facilities expire in May 2008 and December 2008. After the year end the company has cancelled these and replaced them with a new £30m facility with an expiry date of May 2010.

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

22. ULTIMATE PARENT COMPANY AND RELATED PARTY TRANSACTIONS

The ultimate parent and controlling company is Bristol Water Group plc, which is the only entity within the Group to consolidate these accounts. Copies of its consolidated accounts are available from PO Box 218, Bridgwater Road, Bristol BS99 7AU.

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

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 2005

BRISTOL WATER plc
APPOINTED BUSINESS

REGULATORY ACCOUNTING STATEMENTS

CURRENT COST ACCOUNTING STATEMENTS
for the year ended 31 March 2005

BRISTOL WATER plc**REGULATORY ACCOUNTING STATEMENTS****CURRENT COST PROFIT AND LOSS ACCOUNT FOR THE APPOINTED BUSINESS
for the year ended 31 March 2005**

	Notes	2005 £m	2004 £m
Turnover	C3	68.3	68.8
Current cost operating costs		(55.1)	(53.9)
Exceptional operating costs		(2.0)	-
Total current cost operating costs	C4	(57.1)	(53.9)
Operating income, being loss on sale of fixed assets		-	(0.1)
		11.2	14.8
Working capital adjustment		-	-
Current cost operating profit		11.2	14.8
Other income		0.2	0.2
Net interest payable		(6.6)	(6.2)
Financing adjustment		3.0	1.9
Current cost profit before taxation		7.8	10.7
Taxation			
Current tax		(2.1)	(2.8)
Deferred tax		0.9	0.5
Current cost profit on ordinary activities		6.6	8.4
Dividends		(8.1)	(7.3)
Current cost (loss)/profit retained		(1.5)	1.1

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 2005**

	Notes	2005 £m	2004 £m
Fixed assets			
Tangible fixed assets	C5	1,591.7	1,542.5
Third party contributions since 1 April 1990		(60.3)	(54.9)
Working capital	C6	(0.1)	0.6
Net operating assets		1,531.3	1,488.2
Cash		12.0	17.4
Investments - Intragroup loan		47.0	47.0
Non-trade debtors		0.7	1.7
Non-trade creditors due within one year		(4.9)	(9.2)
Creditors due after one year		(148.4)	(150.8)
Provision for liabilities and charges		(19.8)	(18.7)
Dividends payable		(4.2)	(5.0)
Net assets employed		1,413.7	1,370.6
Capital and reserves			
Called up share capital		18.5	18.5
Share premium account		4.4	4.4
Other reserves		5.8	5.8
Profit and loss account		4.8	6.3
Current cost reserve	C7	1,380.2	1,335.6
		1,413.7	1,370.6

The accounts were approved by a Committee on 12th July 2005 and signed on its behalf by -

A Parsons, Chairman
A Nield, Finance Director

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

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

**CURRENT COST CASH FLOW STATEMENT
FOR THE APPOINTED BUSINESS
for the year ended 31 March 2005**

	Notes	2005 £m	2004 £m
Net cash inflow from operating activities	C8	33.7	32.6
Returns on investments and servicing of finance -			
Other income received		0.3	0.2
Interest received		3.6	1.1
Interest paid		(7.8)	(5.9)
Interest paid on finance leases		(1.1)	(1.2)
Dividends paid on non-equity shares		(1.7)	(1.1)
Net costs of issue of new loans		-	(0.7)
		<u>(6.7)</u>	<u>(7.6)</u>
Taxation -			
Corporation tax paid		(1.8)	(2.9)
Capital expenditure and investing activities -			
Purchase of fixed assets		(12.3)	(21.3)
less contributions received		3.7	3.4
Infrastructure renewals expenditure		(7.8)	(6.6)
Proceeds on disposal of fixed assets		-	0.4
Loan advanced to ultimate holding company		-	(47.0)
		<u>(16.4)</u>	<u>(71.1)</u>
Dividends paid on equity shares		<u>(7.3)</u>	<u>(15.9)</u>
Net cash inflow/(outflow) before management of liquid resources and financing		1.5	(64.9)
Management of liquid resources being decrease/(increase) in short-term deposits		<u>5.4</u>	<u>(9.4)</u>
Financing -			
New term loans		-	98.5
Capital element of lease repayments		(1.6)	(1.5)
Loan repayments		(5.3)	(24.3)
Net cash (outflow)/inflow from financing		<u>(6.9)</u>	<u>72.7</u>
Decrease in cash	C9	-	(1.6)
Cash, beginning of year		1.6	3.2
Cash, end of year		<u>1.6</u>	<u>1.6</u>

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

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. The company has decided at this stage not to adopt International Financial Reporting Standards (IFRS). The company will therefore continue to prepare both its statutory and regulatory financial statements using UK GAAP accounting standards for the foreseeable future. This is in line with the guidance issued by Ofwat in RD 10/04 for regulatory statements.

(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 1998 and have been expressed in real terms by indexing using the Retail Price Index ("RPI") since that date.

Specialised operational properties at 31 March 1998 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 determination 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.

(e) Pension costs

The appropriate transitional disclosures under FRS17, "Retirement Benefits", the new accounting standard on pensions, are included in note 19 to the Historical Cost Accounts. The company will be adopting FRS17 for 2005/06.

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

	2005 £m	2004 £m
Measured	23.2	22.7
Unmeasured	39.7	40.2
Large user revenues	3.0	3.4
Other sources	1.8	1.9
Third party services	0.6	0.6
Total turnover	<u>68.3</u>	<u>68.8</u>

Turnover was lower than 2003/04 due to the net effect of price increases of £0.6m (the allowed price rise was 0.6%, RPI being 2.5% and a negative K of 1.9%), and new connections of £0.4m, offset by lower consumption levels by metered customers during poor summer weather compared to the previous year.

C4. Commentary on 2004/05 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 operating costs 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.

Variances from 2003/04

Operating expenditure increased in the year. After allowing for the impact of inflation and the exceptional item there was a reduction on last year's costs. Key factors in the net movement are:

	£m
Operating expenditure 2003/04	34.9
Inflation including significant increase in power tariffs	1.4
One off items in 2003/04 not repeated	
- Release of S74 provision following the outcome of Transco vs. Leicester City case	0.6
- Costs of modifications to Company's Licence of appointment	(0.2)
Decrease in regulation costs which were high during 2003/04 reflecting PRO4 business plan submissions	(0.2)
Reduced insurance premiums/claims	(0.3)
Other net changes and efficiency gains	(0.5)
Exceptional item – restructuring costs, mainly severance payments	2.0
	<u>37.7</u>

Charitable Donations

All charitable donations are made through the ultimate parent company.

C4. (Continued) Analysis of operating costs of the Appointed Business for 2004/05

£m	Service analysis -			Business analysis -		
	Resources & treatment	Distri- bution	Sub-total	Customer services	Scientific services	Cost of regulation
Direct costs -						
Employment costs	1.5	2.7	4.2			
Power	1.7	1.4	3.1			
Hired & contracted services	2.5	0.8	3.3			
Associated companies	-	1.1	1.1			
Materials and consumables	1.5	0.3	1.8			
Service charges EA	2.3	-	2.3			
Bulk supply imports	0.1	-	0.1			
Other direct costs	0.7	0.5	1.2			
Total direct costs	10.3	6.8	17.1	1.8	1.3	0.5
General & support costs	3.8	3.4	7.2	0.5	0.9	0.2
Functional expenditure *	14.1	10.2	24.3	2.3	2.2	0.7
Total functional and business activity expenditure						29.5
Rates						3.2
Bad and doubtful debts						1.7
Exceptional items						2.0
Total operating expenditure before third party costs						36.4
Third party operating expenditure						1.3
Total operating expenditure						37.7
Capital costs -						
Infrastructure renewals -						
Expenditure	1.9	5.9	7.8			
Movement in infrastructure renewal	(1.2)	0.7	(0.5)			
Current cost depreciation	8.4	4.0	12.4			
Amortisation of deferred Credits			(0.3)			
Total capital maintenance			19.4			19.4
Total operating costs						57.1
Current cost Modern Equivalent Asset values -						
Service activities and water supply total	576.9	1,000.4	1,577.3			
Services for third parties	1.8	12.6	14.4			
Total	578.7	1,013.0	1,591.7			

* included within these costs is £2.1m in respect of reactive maintenance to infrastructure assets, planned maintenance is included within the infrastructure renewals expenditure. Also included is £1.8m in respect of planned and reactive maintenance to non-infrastructure assets.

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

£m	Service analysis -			Business analysis -		
	Resources & treatment	Distri- bution	Sub-total	Customer services	Scientific services	Cost of Regulation
Direct costs -						
Employment costs	1.2	2.8	4.0			
Power	1.4	1.4	2.8			
Hired and contracted	2.4	0.4	2.8			
Associated companies	-	1.6	1.6			
Materials and consumables	1.3	0.5	1.8			
Service charges EA	1.9	-	1.9			
Bulk supply imports	0.1	-	0.1			
Other direct costs	0.8	0.6	1.4			
Total direct costs	9.1	7.3	16.4	2.1	1.3	1.0
General & support costs	3.3	3.5	6.8	0.5	0.7	0.2
Functional expenditure *	12.4	10.8	23.2	2.6	2.0	1.2
Total functional and business activity expenditure						29.0
Rates						3.0
Bad and doubtful debts						1.5
Total operating expenditure before third party costs						33.5
Third party operating expenditure						1.4
Total operating expenditure						34.9
Capital costs -						
Infrastructure renewals -						
Expenditure	1.4	5.2	6.6			
Movement in						
infrastructure renewal	(0.7)	1.3	0.6			
Current cost depreciation	7.4	4.7	12.1			
Amortisation of deferred						
Credits			(0.3)			
Total capital maintenance			19.0			19.0
Total operating costs						53.9
Current cost Modern						
Equivalent Asset values -						
Service activities						
and water supply total	563.1	965.4	1,528.5			
Services for third parties	1.8	12.2	14.0			
Total	564.9	977.6	1,542.5			

* included within these costs is £3.1m in respect of reactive maintenance to infrastructure assets, planned maintenance is included within the infrastructure renewals expenditure. Also included is £2.1m 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 £m	Non- Specialised Operational Assets £m	Infra- structure Assets £m	Other Tangible Assets £m	Total £m
Gross replacement cost -					
Balance 1 April 2004	509.0	15.9	1,324.2	2.9	1,852.0
RPI Adjustment	16.3	0.5	42.3	-	59.1
Disposals	(0.9)	-	-	(0.2)	(1.1)
Additions	7.6	0.1	4.7	-	12.4
Balance 31 March 2005	532.0	16.5	1,371.2	2.7	1,922.4
Depreciation -					
Balance 1 April 2004	306.5	0.9	-	2.1	309.5
RPI Adjustment	9.8	-	-	-	9.8
Disposals	(0.9)	-	-	(0.2)	(1.1)
Charge for year	12.0	0.2	-	0.3	12.5
Balance 31 March 2005	327.4	1.1	-	2.2	330.7
Net Book Value at 31 March 2005	204.6	15.4	1,371.2	0.5	1,591.7
Net Book Value at 1 April 2004	202.5	15.0	1,324.2	0.8	1,542.5

C6. Working capital

	2005 £m	2004 £m
Stocks	0.6	0.6
Trade debtors	9.1	8.4
Net Group trade debtors/(creditors)	0.6	0.8
Prepayments and accrued income	6.7	6.5
Trade creditors	(0.7)	(0.6)
Short-term capital creditors	(2.2)	(2.0)
Infrastructure renewals accrual	(0.9)	(1.3)
Other trade accruals	(5.1)	(5.2)
Receipts in advance	(7.6)	(6.0)
Tax and social security	(0.6)	(0.6)
	(0.1)	0.6

C7. Movement on current cost reserve

	2005 £m	2004 £m
Balance at 1 April	1,335.6	1,300.1
RPI adjustments -		
Fixed assets	49.3	38.8
Working capital	-	-
Financing	(3.0)	(1.9)
Grants and contributions	(1.7)	(1.4)
Balance at 31 March	1,380.2	1,335.6

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

	2005	2004
	£m	£m
Operating profit	11.2	14.8
Depreciation charges, net of amortisation of deferred credits	12.1	11.8
Loss on disposal of fixed assets	-	0.1
Infrastructure renewals charge	7.3	7.2
Cashflow from operations	30.6	33.9
Working capital requirements -		
Stocks	-	-
Debtors	1.2	(2.9)
Creditors	1.9	1.6
Working capital adjustment	-	-
Net cash inflow from operating activities	33.7	32.6

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

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

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

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

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

* Represents indexation of term loans

C10. Regulatory Capital Value (RCV) at 2004/05 Prices

	£m
Closing RCV for 2003/04	208.4
Indexation to 2004/05 year end price base	<u>6.6</u>
	215.0
Capital expenditure	20.4
Infrastructure renewals expenditure	6.8
Infrastructure renewals charge	(7.2)
Grants and contributions	(3.0)
Depreciation	(7.3)
Outperformance of Regulatory Assumptions (5 years in arrears)	13.2
Closing RCV carried forward at 31 March 2005 at year end price base	<u>237.9</u>
Average regulatory capital value for 2004/05 at average 2004/05 price base	<u>223.7</u>

The RCV shown is the value used by Ofwat in setting the price limits for the period 2000/01 to 2004/05.

The reconciliation of the opening and closing RCVs uses year end RPI to index from 1997/98 prices to 2004/05 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 2004/05 prices. The average RCV cannot therefore be calculated as the simple average of the opening and closing RCVs.

The RCV used by Ofwat for the period 2005/06 to 2009/10 in the PRO4 Price Determination is shown below as set out in Ofwat's RD 07/05 letter.

Regulatory Capital Values at 2004/05 prices

	2005/06 £m	2006/07 £m	2007/08 £m	2008/09 £m	2009/10 £m
Closing RCV at 31 March 2005 as above	237.9				
Change in the notified index	9.2				
Land sales	(1.4)				
Logging up/down and shortfalls	(20.1)				
Other adjustments	(0.6)				
Opening RCV at 31 March year end price base	<u>225.0</u>	229.1	242.7	246.5	238.0
Capital expenditure (excluding IRE)	21.0	32.0	23.1	11.3	14.1
Infrastructure renewals expenditure	9.8	8.8	8.8	8.5	8.3
Infrastructure renewals charge	(9.6)	(9.7)	(9.7)	(9.8)	(9.8)
Grants and contributions	(3.1)	(2.9)	(2.9)	(2.9)	(2.9)
Depreciation	(13.6)	(14.2)	(15.1)	(15.2)	(14.4)
Outperformance of regulatory assumptions	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Closing RCV at 31 March year end price base	<u>229.1</u>	<u>242.7</u>	<u>246.5</u>	<u>238.0</u>	<u>232.9</u>
Average Year RCV at average 2004/05 price base	<u>224.3</u>	<u>233.1</u>	<u>241.7</u>	<u>239.3</u>	<u>232.6</u>

C11. Summary of current cost profit and loss accounts (restated at 2004/05 prices) for the Appointed Business

Years ended 31 March -	2005	2004	2003	2002	2001
	£m	£m	£m	£m	£m
Turnover	68.3	70.9	71.9	71.4	69.5
Current cost operating costs	(35.4)	(35.7)	(37.0)	(37.8)	(36.3)
Exceptional operating costs	(2.0)	-	-	-	-
Current cost depreciation	(12.4)	(12.4)	(13.2)	(13.0)	(12.0)
Infrastructure renewals charge	(7.3)	(7.4)	(7.4)	(7.4)	(7.3)
Total operating costs	(57.1)	(55.5)	(57.6)	(58.2)	(55.6)
Operating (expense)/income	-	(0.1)	0.2	0.5	0.1
Working capital adjustment	-	-	0.1	0.1	-
Current cost operating profit	11.2	15.3	14.6	13.8	14.0
Other income	0.2	0.2	0.2	0.2	0.2
Net interest	(6.6)	(6.5)	(5.5)	(5.0)	(4.9)
Financing adjustment	3.0	2.0	2.4	0.9	1.8
Current cost profit before taxation	7.8	11.0	11.7	9.9	11.1
Taxation	(1.2)	(2.4)	(6.3)	(3.8)	(3.6)
Current cost profit on ordinary activities	6.6	8.6	5.4	6.1	7.5
Dividends	(8.1)	(7.5)	(17.9)	(7.1)	(6.7)
Current cost (loss)/profit retained	(1.5)	1.1	(12.5)	(1.0)	0.8

The figures for 2001 to 2004 have been restated into 2004/05 values by applying RPI indexation using the change in average inflation rates over the financial years.

Operating costs, excluding the exceptional charge in 2005 and depreciation, have reduced in real terms by £0.9m over the five year period as a result of efficiency improvements offset by additional costs such as increased pension, insurance and bad debt charges. The £2.0m exceptional operating cost in 2005 was restructuring costs.

Net interest costs have increased in line with additional borrowings used mainly to finance the capital investment programme together with £47m used to provide in February 2004 an intercompany loan to the ultimate parent company. The intercompany loan is interest bearing and the combined borrowing/loan has a broadly neutral effect on net interest.

The financing adjustment relates to inflation on the previous year's net debt less the financial asset of the intercompany loan. It therefore varies in line with changes in net debt less financial assets and inflation.

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 (restated at 2004/05 prices) for the Appointed Business

Years ended 31 March -	2005 £m	2004 £m	2003 £m	2002 £m	2001 £m
Tangible fixed assets	1,591.7	1,591.8	1,582.8	1,578.5	1,568.6
Third party contributions since 1 April 1990	(60.3)	(56.6)	(53.0)	(49.4)	(46.6)
Working capital	(0.1)	0.6	(1.3)	(3.5)	(5.8)
Net operating assets	1,531.3	1,535.8	1,528.5	1,525.6	1,516.2
Cash	12.0	18.0	10.2	16.0	10.5
Investments – Intragroup loan	47.0	48.5	-	-	-
Non-trade debtors	0.7	1.8	1.2	1.2	1.2
Non-trade creditors due within one year	(4.9)	(9.5)	(9.3)	(6.7)	(5.3)
Dividends payable	(4.2)	(5.1)	(15.5)	(4.9)	(4.6)
Creditors due after one year	(148.4)	(155.7)	(82.3)	(90.4)	(78.4)
Provisions for liabilities & charges	(19.8)	(19.3)	(20.3)	(16.6)	(14.6)
Net assets employed	1,413.7	1,414.5	1,412.5	1,424.2	1,425.0
Called up share capital	18.5	19.1	19.6	20.2	20.5
Share premium account	4.4	4.5	4.7	4.8	4.9
Other reserves	5.8	6.0	6.1	6.3	6.4
Profit and loss account	4.8	6.5	5.5	18.4	19.6
Current cost reserve	1,380.2	1,378.4	1,376.6	1,374.5	1,373.6
	1,413.7	1,414.5	1,412.5	1,424.2	1,425.0

Prior year figures have been restated into March 2005 values by applying RPI indexation using the change in inflation rates from each year-end.

Creditors due after one year have increased substantially over the five year period. This reflects additional borrowings used mainly to finance the capital investment programme and a £47m interest bearing loan to the ultimate parent company.

The company has fundamentally restructured its debt portfolio based on a financial ringfencing of the regulated water business. In May 2003 the company raised £45m of long term loans maturing in 2032 and 2033 and repaid an existing short term £20m bank loan.

The company raised a further £57m of long term loans, again maturing in 2032 and 2033 in February 2004. £47m of the funds were used to make the £47m intercompany loan to the ultimate parent company.

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*	32.6	Competitive tender	1.6	4.8
Carbon regeneration	Purton Carbons Ltd*	0.6	Market tested	0.2	-
Management charge	Bristol Water Holdings plc/ Bristol Water Group plc	0.4	At cost	0.4	-
Managed Billing Service	Bristol Wessex Billing Services Ltd	9.9	Competitive tender	1.8	0.3

* no longer associates

- (b) Services provided by the regulated business to associated companies in excess of £0.1m -

Directors' costs of £0.1m were recharged to Verdant Group Limited.

- (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 -

A loan of £47m was made to the ultimate parent company Bristol Water Group plc in 2003/04. 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 £2.8m was received in relation to the loan during 2004/05.

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, other than in respect of the security given in respect of the majority of the company's financial liabilities as set out in Note 11 to the Historical Cost Accounts, were provided to associated companies by the regulated business during the year.

- (e) Disposal of associates

Bristol Water Group's subsidiary Verdant Group Limited completed the sale of Walter Lawrence Civil & Mechanical Limited to Land and Marine Limited, a subsidiary of Daniel Contractors Limited on 21st February 2005.

Purton Carbons was a joint venture between Bristol Water Group and Norit UK. On 17th December 2004 Bristol Water Group's subsidiary Verdant Group Limited sold its share of Purton Carbons to Norit UK and it ceased to be an associate of Bristol Water plc from that date.

(f) Dividends paid to parent company –

Interim and final dividends amounting to £8.1m have been paid or proposed on ordinary shares, all of which are held by Bristol Water Core Holdings Ltd.

In summary, dividends were:

	2004/05	2003/04
	£m	£m
Preference dividends	1.1	1.1
Ordinary dividends	8.1	6.2
Total	<u>9.2</u>	<u>7.3</u>

The overall total dividend increase was 26% (23% in real terms). The ordinary dividend comprises two elements:

- a base level of dividend which reflects a wide range of judgemental factors
- an additional dividend equivalent to the post tax cost of the interest payable by the ultimate parent company on the £47m intercompany loan

The base level of dividend will be rebased in 2005/06 at a level consistent with the PRO4 allowed cost of capital.

(g) 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 2005

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 28 and 31 to 45 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 for the appointed business comprising the current cost profit and loss account, the current cost balance sheet, the current cost 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 Director General of Water Services ("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. There are differences between United Kingdom Generally Accepted Accounting Principles (UK GAAP) and the basis of preparation of information provided in the regulatory accounts because the Regulatory Accounting Guidelines specify alternative treatment or disclosure in certain respects. Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed. Financial information other than that prepared wholly on the basis of UK GAAP may 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 29.

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 31 to 45 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 26 May 2005, 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 28 have been drawn up in accordance with Regulatory Accounting Guideline 3.05 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Principles, and a reconciliation of the balance sheet drawn up on this basis with that drawn up under Companies Act 1985 is given on page 14.

Opinion

In our opinion the Regulatory Accounts of the Company for the year ended 31 March 2005 fairly present in accordance with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water undertaker under the Water Industry Act 1991, the Regulatory Accounting Guidelines issued by the Regulator and the accounting policies set out on pages 3 to 5 and pages 34 and 35, the state of the Company's affairs at 31 March 2005 on an historical cost and current cost basis, the historical cost and current cost profit for the year and the historical cost and current cost cash flow for the year and have been properly prepared in accordance with those conditions, guidelines and accounting policies.

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 28 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 31 to 45 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

Date: July 2005

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*