

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

YEAR ENDED 31 MARCH 2010

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS for the year ended 31 March 2010

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 Water Services Regulation Authority (Ofwat). These financial statements have been prepared for use by Ofwat. They may not be appropriate for any other purpose. As required by Ofwat, they do not correspond with the Statutory Annual Report and Accounts particularly in respect of infrastructure renewals accounting.

The accompanying Historical Cost and Current Cost Accounting Statements were approved by a Committee of the Board on 26 July 2010.

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BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS for the year ended 31 March 2010

OPERATING AND FINANCIAL REVIEW

This Operating and Financial Review is based on the Chairman's Statement and the Directors' Report and Business Review included in the Company's Annual Report and Accounts for the year ended 31 March 2010, but adapted to remove some specific disclosures and include additional commentary relevant to the Regulatory Accounts

BUSINESS STRATEGY AND OBJECTIVES

The company's objective is **'to provide a highly reliable supply of water of excellent quality, delivered in a sustainable and affordable way'**.

To achieve this objective the company's key tasks are to:

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

The company provides water supply and related services to a population of over 1.1 million people and businesses in an area of almost 2,400 square kilometres centred on Bristol.

The company is a regulated business and subject to economic regulation by the Water Services Regulation Authority (Ofwat) through a price cap mechanism, whereby the prices the company can charge for the majority of its services are limited to increases in inflation plus or minus a K factor (RPI+/-K). Price limits, the 'K' factors, are currently reviewed every five years. The result of the last review, covering the five years 2010-15, was announced in November 2009 and was rejected by the company, primarily on the grounds that price limits were too low for the outputs required. As required by the relevant legislation, Ofwat has referred the company's rejection to the Competition Commission ("CC"). The CC's Provisional Findings suggested a rise in Ofwat's Final Determination tariff increase of 1.7% p/a average to 2.3% p/a average. The CC is expected to publish its Final Determination by 6 August 2010.

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

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

GOING CONCERN

In November 2009 Ofwat set final determinations of price limits and regulatory output requirements for the five years ended March 2015 for all water companies in England and Wales. Bristol Water plc rejected Ofwat's Final Determination, primarily on the grounds that price limits were too low for the outputs required. As required by the relevant legislation, Ofwat has referred the company's rejection to the Competition Commission ("CC").

On 18 June the CC issued its Provisional Findings broadly suggesting an increase in maintenance expenditure, capital expenditure, operating expenditure and taxation compared to Ofwat's Final Determination. However the CC has suggested a reduction in the cost of capital relative to Ofwat's Final Determination. The net effect of the Provisional Findings suggests an increase in charges to customers of approximately 2.3% p/a average. The CC is expected to publish its Final Determination by 6 August 2010.

The issue of financeability of the company's operations for the regulatory period 2010-15 has not yet been fully resolved, however, the directors consider that the provisional increases in expenditure mentioned above are significant improvements relative to Ofwat's Final Determination. The directors are in the process of providing a response to the CC's Provisional Findings, and, noting the legal obligations placed on the CC to ensure that regulatory settlements can be funded appropriately, they expect further improvements in the CC's Final Determination relative to its Provisional Findings. The uncertainty about the financeability of the company's operations for the regulatory period 2010-15 has been further discussed in the 'Risk and Uncertainty' section below.

In considering the going concern basis, the directors have considered a range of possible scenarios, both favourable and unfavourable, which may arise after the CC's Final Determination. If the outcome of the CC's price determination is less favourable to the company relative to the company's final 'Statement of Case', the directors will implement measures to reduce capital and operating expenditure with a view to minimising expenditure in the short-term, and with a view to achieving stability in the long term.

After considering these matters, the existing cash resources and, as highlighted in note 13, an unutilised committed borrowing facility of £30m, the directors of the company continue to adopt the going concern basis for preparing the accounts.

RISK AND UNCERTAINTY

The key risks and uncertainties that the company faces include:

Operational:

- contamination or interruption of water resources and/or supplies
- failure of key assets to maintain expected outputs, adversely affecting the ability to maintain supplies to customers
- climate/weather pattern change affecting resource availability and/or customer demand
- retention and recruitment of key staff
- serious health and safety related incidents.

Regulatory:

- failure to meet existing regulatory requirements which could result in penalties or enforcement action by Ofwat, EA or DWI
- increased costs of meeting regulatory requirements
- impact of legislative changes including those related to environmental or drinking water quality requirements
- significant development of competition within the water sector
- impact of future periodic and/or interim determinations of price limits by the Competition Commission; their assessment of Ofwat's determination will set prices for April 2011 onward for the 5 year period 2010-2015.

Financial:

- as mentioned in 'Going Concern' section above, the issue of financeability of the company's operations for the regulatory period 2010-15 cannot be fully resolved until the CC provides its Final Determination in August 2010. The directors consider that they have a range of financing options available to them, which includes the possibility of issuing additional share capital or sub-ordinated debt, if necessary, either to its parent group or to third parties in the later part of the regulatory period 2010-15,
- loss of major customers as a result of closure of their facilities
- pensions – the company is a member of the Water Companies' Pension Scheme (WCPS) via a separate section of the scheme. Defined benefits are provided based on final pensionable pay. The section was closed to new employees a number of years ago but remains open to future benefit accrual for existing members. At 31 March 2010 the scheme had a recognised surplus before taxation of £8.8m on a FRS17 basis (although a deficit in actuarial terms). The funding requirements of the scheme are subject to a range of factors including longevity assumptions, investment allocation and investment returns. Additionally changes in pension regulations could have a significant impact on future company contributions
- worsening debt collection experience, particularly in relation to household debt giving rise to increasing levels of bad debts

- inflation or deflation – operating costs, the capital investment programme and the company's £105.5m of index-linked debt is subject to inflation; potential adverse impacts of high inflation or deflation are partially mitigated by the index-linking of the majority of revenues through the RPI +/- K price limits
- increases in energy prices, although the company has already fixed prices for the majority of its 2010/11 requirements
- changes in the taxation regime applicable to the company
- failure to meet banking covenants
- financial markets turmoil, which could impact the company's ability to raise additional future finance.

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

Financial risk management policies are further discussed in note 15 to the financial statements.

DEVELOPMENT AND PERFORMANCE OF THE BUSINESS DURING THE YEAR

The company has completed its fifth year of the regulatory period covering the years 2005-10 and have completed the delivery of the required outputs and efficiency targets assumed by Ofwat in its determination of price limits in the 2004 periodic review.

OPERATIONAL PERFORMANCE

We are now at the end of the current regulatory period 2005-10 and have completed the delivery of the required outputs and efficiency targets assumed by Ofwat in its previous determination. During the year we invested £24.4m in capital projects. The major projects were largely completed earlier in the regulatory period 2005-10. Total capital expenditure over the regulatory period 2005-10 is approximately £180m (in 2009/10 prices before grants and contributions), which is broadly in line with Ofwat's assumptions.

We have also met the leakage target set by Ofwat despite the severe winter, which led to more bursts than in a normal year. The water quality compliance results were the best ever.

Our customer service performance remains at a high level with customer surveys consistently showing high satisfaction. As a result, Bristol Water took first position in the last DG9 annual survey.

Our continued focus on environmental performance has led to the company attaining the Carbon Trust Standard for its work to minimise its carbon footprint. In addition, all the Sites of Special Scientific Interest (SSSI) owned and managed by the company have retained their top rating as assessed by Natural England, giving Bristol Water the best performance assessment in the water industry.

Bristol Water's contribution to innovation in the water industry has been recognised for its development of 'Ice Piggling' technology for cleaning water mains, in conjunction with the University of Bristol.

BOARD STRUCTURE

In November 2009 Stefano Pellegrini left his executive director position in the company and is now a non-executive director.

Miquel Anglada was appointed as Finance Director on 1 December 2009.

At the date of this report, for the purpose of Condition P of the companies Instrument of Appointment as a Water Undertaker, the three non-executive directors regarded as independent, are Robert Davis, Peter McIlwraith and Chris Curling.

FINANCIAL PERFORMANCE

The company continues to report under UK GAAP, as modified by Ofwat in certain situations.

Summary performance:

	Regulated Historical Cost Accounts Total		Regulated Historical Cost Accounts Appointed business		Current Cost Accounts Appointed business	
	2010	2009	2010	2009	2010	2009
	£m	£m	£m	£m	£m	£m
Turnover	99.2	96.3	96.5	93.4	96.5	93.4
Operating costs	(50.7)	(47.3)	(48.3)	(45.0)	(48.3)	(45.0)
Depreciation	(10.5)	(9.5)	(10.5)	(9.4)	(17.2)	(14.3)
Infrastructure renewals charge	(12.1)	(12.9)	(12.1)	(12.9)	(12.1)	(12.9)
Operating income	0.2	-	0.2	-	-	-
Working capital adjustment	-	-	-	-	(0.1)	-
Operating profit	26.1	26.6	25.8	26.1	18.8	21.2
Other net income	0.4	0.4	0.4	0.4	0.4	0.4
Net finance costs	(5.0)	(11.7)	(5.0)	(11.7)	(5.0)	(11.7)
Financing adjustment	-	-	-	-	6.8	(0.5)
Profit before tax	21.5	15.3	21.2	14.8	21.0	9.4
Taxation	(4.5)	(5.3)	(4.4)	(5.2)	(4.4)	(5.2)
Profit after tax	17.0	10.0	16.8	9.6	16.6	4.2
Capital investment before grants & contributions	24.4	31.3				
Net debt (excluding 8.75% irredeemable cumulative preference shares) at 31 March	191.5	201.8				
Ratio of net debt (excluding 8.75% irredeemable cumulative preference shares): Regulatory Capital Value (RCV)	70%	76%				

Regulated Historical cost performance – Appointed Business

Turnover increased by £3.1m to £96.5m. This primarily reflects the impact of the RPI only increase of 3.0%.

Operating costs increased by £3.3m compared to the previous year. In real terms this represents an increase of approximately 7.0% (£3.1m). The table below sets out the principal reasons for the increase in operating costs:

	Change £m
Real increase in power costs	1.6
Additional Bad Debt costs	1.4
Additional new Quality & supply/demand opex	0.5
Reduction in PR09 Costs	(0.5)
Competition Commission appeal	1.5
Reduction in FRS17 pension charge	(0.5)
Release of provisions and write-back of overpayments from untraceable customers	(0.8)
Efficiency and other net changes	(0.1)
	<u>3.1</u>
General inflationary increase in costs	0.2
Total	<u>3.3</u>

An important element of our operating cost base is energy. Energy costs for 2009/10 were £6.7m compared to £5.1m in 2008/09. Power costs during 2008/09 benefited from lower power use as a result of the wet summer and part of the increase reflects a return towards more normal operating conditions (albeit the poor summer in 2009 also resulted in less power consumption than usual). The majority of the increase reflected a significant upward movement in wholesale prices and previous hedging policy.

Bad debt costs have increased from £2.3m in 2008/09 to £3.7m in 2009/10. This increase reflects the impact of the recession on the ability of segments of our customer base to pay their bills, together with a general adverse trend since domestic disconnections have been banned.

Reactive (opex) maintenance costs for non-infrastructure assets increased again from £2.9m to £3.1m. Since 2004/05 reactive maintenance costs for non-infrastructure assets have increased by over 50%.

There were no donations to charitable trusts assisting customers or similar funds made during the year.

Historical cost depreciation increased by £1.0m.

	£m
Assets fully depreciated	(1.4)
Additions	1.5
Accelerated depreciation	0.9
Net increase	<u>1.0</u>

Infrastructure renewals charge

The Infrastructure renewals charge (IRC) is calculated over a fifteen year period.

The infrastructure renewals charge is based upon:

- One fifteenth of the total actual and forecast expenditure between 2005 and 2020
- An adjustment is made to the charge to ensure that there is no pre-payment or accrual at the end of 2020, taking into account:
 1. The opening accrual in 2005 and the charge for 2005/06, 2006/07, 2007/08 and 2008/09.
 2. That the charge during 2010-2015 will be based on expenditure between 2010 and 2025
 3. That the charge between 2015-2020 will be based on expenditure between 2015 and 2030.
- Forecast expenditure between 2010 and 2030 is based on the capital programme supporting the Statement of Case (SoC) submitted to the Competition Commission. In 2008/09, Final Business Plan figures were used between 2010 and 2030, which are primarily the figures in the Statement of Case.

This approach has been used for the purposes of Regulatory Accounting only. In the UK GAAP statutory accounts the IRC is based on the Infrastructure Renewals Expenditure (IRE) for the current five year regulatory period.

The only change from the basis used in 2008/09 is the use of the SoC expenditure forecast rather than the FBP expenditure post 2010. We believe this is currently our best estimate of future maintenance requirements.

The method used in 2006/07 changed from the basis used in 2005/06 Regulatory Accounts in that the fifteen years period was from 2005-2020 rather than 2000-2015. This change was made to achieve a charge which was more consistent year on year. A further change in 2005/06 was the adjustment to bring the accrual at the end of 2020 to nil by incorporating the anticipated changes to the IRC following each AMP period. Using a five year calculation, the company always aimed to have a zero infrastructure provision at the end of each AMP period. However, the zero position will now be at the end of the 31 March 2020. At 31 March 2010 there is an accrual of £8.7m.

The approach taken for the Regulatory Accounts:

- Takes a medium term view
- Avoids creation of a non-reversing accrual or prepayment
- Uses the SoC values for 2010 onwards as our best indication of future spend.

The **current and deferred tax charges** are included in line with the statutory accounts. The regulatory accounts adjustments do not have an effect on the current tax charges and for deferred tax have been treated as permanent timing differences within the tax reconciliation.

The tax charge of £4.4m represents an effective tax rate of 21% (2009: 35%). The principal reason for the change is the effect of discounting on the deferred tax element, following an increase in the discount rates.

Current Cost Performance

The **current cost depreciation charge** increased by £2.9m to £17.2m reflecting:

	£m	£m
2008/09 charge		14.3
Inflation	0.6	
Revaluation	1.7	
Assets fully depreciated	(1.4)	
Additions	1.6	
Change in lives	-	
Accelerated depreciation fallout	0.4	
Net decrease		<u>2.9</u>
2009/10 charge		<u>17.2</u>

The depreciation charge included in the movement on fixed assets is £0.1m higher than the charge to the profit and loss account. This is because depreciation on assets which had a nil nbv prior to the revaluation and were re-valued and re-lifed has been charged directly to reserves in line with Ofwat guidance.

The **financing adjustment** has changed from a charge of £0.5m in 2008/09 to a credit of £6.8m in 2009/10. This is the effect of a change in the year end RPI of 4.8% compared to last year.

TREASURY

Net cash inflow from operating activities was £48.0m (2009: £47.5m). The outflow from financing activities was £2.2m (2009: £1.9m). Net cash used in investing activities was £20.5m (2009: £29.0m). Net cash outflow from investment returns and servicing finance was £6.1m (2009: £6.6m).

Net interest charges and indexation in the year totalled £5.0m (2009: £11.7m) and were covered 5.6 times (2009: 2.5 times) by operating profit; an abnormal position due to RPI reductions on index-linked debt.

At 31 March 2010 gross debt excluding the 8.75% irredeemable cumulative preference shares was £218.3m (2009: £222.4m). Approximately 48% of this debt is index-linked and 34% is at fixed rates; the index-linked element is hedged by the company's largely index-linked revenue base.

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

The company maintains cash balances and committed credit facilities to meet foreseeable cash flow requirements.

Net debt including the 8.75% irredeemable cumulative preference shares decreased to £204.0m from £214.3m at 31 March 2009. This decrease mainly reflects an increase in short-term deposits, which is due to net cash inflow during the year, and a decrease in index-linked debt due to a decrease in RPI.

At the year-end net debt excluding the 8.75% irredeemable cumulative preference shares was £191.5m (2009: £201.8m), representing approximately 70% (2009: 76%) of Regulatory Capital Value. This is in line with the company's projections. This is a key ratio, which is effectively replicated within the company's banking covenants. The range that the company expects to operate within provides a headroom margin to meet adverse impacts from risks and uncertainties.

PENSIONS

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

At 31 March 2010 the gross surplus before tax under FRS17 of the company's section of WCPS was £8.8m. This represents a recognised £0.1m increase from the £8.7m surplus at 31 March 2009. The company has previously agreed to make an additional contribution of £0.9m in 2010/11.

The most recent triennial valuation of the pension scheme was completed at 1 April 2008. An updated estimate of the scheme's funding deficit at 31 December 2009 indicated a funding deficit of approximately £14.0m. The company has kept the minimum level of regular contributions at 21% of pensionable salary in recognition of the additional contributions being made. The actuary has indicated an expectation that contributions rates will need to increase to 27% after the next review in March 2011.

DIVIDENDS

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

- A base level reflecting the cost of capital allowed by Ofwat in the 5-year determination of price limits, adjusted to reflect actual gearing levels and where appropriate actual performance relative to Ofwat's assumptions.
- An amount equal to the post-tax interest receivable from Agbar UK Ltd (the ultimate UK parent company, formerly known as Bristol Water Group Ltd) in respect of inter-company loans.

A final dividend of £3.6m in respect of the 2009 financial year was approved at the Annual General Meeting (AGM) in August 2009 and paid in September 2009.

During the year the following interim dividends have been paid in respect of the 2010 financial year:

- First interim for the inter-company loan interest element of £1.5m paid in September 2009
- Second interim in respect of the base level dividend of £3.7m paid in November 2009
- Third interim for the inter-company loan interest element of £1.4m paid in March 2010.

The Board has not proposed a final dividend in respect of the year ended 31 March 2010 (31 March 2009: 60.02p per share totalling £3.6m) due to underlying uncertainties arising from the pending price determination by the CC.

In addition, dividends of £1.1m (2009: £1.1m) have been paid during the year on the irredeemable preference shares which are required to be shown as debt in the balance sheet.

NON-FINANCIAL PERFORMANCE

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

Years to 31 March	Notes	2009	2008
Performance measures			
Ofwat overall performance assessment (OPA):			
OPA score (out of 288)		279	283
OPA ranking (out of 22 companies)		10th	3 rd
Customer satisfaction survey		84%	87%

The 2010 rankings will be published by Ofwat later this year.

The English and Welsh water companies operate to very high quality and service levels and relatively small differences in performance can have a significant impact on the Ofwat performance measures.

	Units	Notes	2010	2009
Environment				
Excavated materials diverted from landfill	Tonnes		24,903	19,207
Average energy used to supply 1ML of water	KwH	1	767	719
Emission of greenhouse gases in total to supply 1 ML of water	Tonnes of CO ₂ e	1,2,3	0.410	0.404
Compliance with EA abstraction licences			100%	100%
Status of SSSIs – percentage favourable			100%	100%
Social				
Security of supply index			100%	100%
Water quality compliance		4,5	99.98%	99.97%
Employees				
Turnover rate			3.0%	2.6%
Accidents reportable to HSE	No.	4	6	3
Assets				
Percentage of properties with interruptions to supply greater than six hours			0.37%	0.50%
Loss of water from supply network	MI/d	6	52.8	54.0

- Notes:
- 1 ML = megalitres (1 megalitre = 1000 cubic metres)
 - 2 The “emission factor” used to calculate CO₂ emissions associated with mains electricity has been changed several times in the last few years, which accounts for part of this increase. Most of the rest of the increase arises as a result of an increase in electricity consumption due to climatic and operating conditions requiring a different balancing of sources used.
 - 3 CO₂e refers to “CO₂ equivalent” meaning that all emissions have been accounted for in a standard format.
 - 4 Based on 12 months to 31 December ending in the relevant accounting period
 - 5 Water quality is based on mean zonal compliance data
 - 6 MI/d = megalitres per day

CORPORATE SOCIAL RESPONSIBILITY

The company is committed to acting in a responsible and sustainable manner, and seeks to be a leading example of good environmental management in the Agbar Group.

Environment

The water industry has several impacts on the environment; effective management of these is essential for the industry to be sustainable in the long term. By reference to a range of sustainability measures developed by Water UK (the trade body for water companies in England and Wales), the company performs well compared with its peer group.

We:

- meet, and in many cases exceed, all our legal obligations to the environment
- have achieved the Carbon Trust Standard for the work we have done to manage and reduce our carbon footprint
- manage our landholdings with biodiversity in mind. Our Sites of Special Scientific Interest are all in “favourable” status as measured by the regulator. This is the top rating in the water industry
- have top-level commitment to sustainable management of the business. Our Environmental Management Group includes the Chief Executive, Managing Director, Executive and Non-Executive Directors and all senior operational managers in the company
- assess the potential environmental impact of our work so that risks to the environment are managed properly.

Social and community

We:

- deliver high quality reliable supplies of water to over 1.1 million people and businesses
- promote the efficient use of water
- provide the best possible public access to our reservoir sites whilst maintaining a balance between wildlife and recreational demands. Our reservoirs in the Mendip hills have an international reputation for angling and bird life, and are also used by walkers, sailors and casual visitors for recreation
- undertake a structured programme of educational support including open days, access to visitor centres and school visits
- make charitable donations, sponsorships and grants to local organisations and individuals to promote good causes

Employees

Our employees are vital to the success of the company.

We:

- are committed to employee involvement, communication, training and sound relationships with trade unions
- are an equal opportunity employer providing employment and appropriate facilities for disabled people and for those who have become disabled while employed by the company
- have high standards for health and safety
- operate bonus schemes for all employees linked to financial and service level performance targets
- make continued efforts to improve the work environment.

Key Performance Indicators

The company uses a series of KPIs to monitor environmental performance. These are reported monthly to the Board; some key measures are included in the non-financial performance section on page 10.

Annual Environment & Sustainability Reports and further details of the company’s environmental, conservation and recreation policies are available on our website www.bristolwater.co.uk.

OUTLOOK

The main drivers of future profitability will be:

- increases in charges to customers in line with the RPI+/-K price limits. The 'K' factor allowed by Ofwat and now subject to review for next year is 0.6%;
- changes in operating costs - further efficiencies will be obtained by the company, offset by the cost of new obligations and inflation;
- inflation or deflation – operating costs, the capital investment programme and the company's £105.5m of index-linked debt are subject to inflation; potential adverse impacts of high inflation or deflation are mitigated by the index-linking of the majority of revenues through the RPI +/- K price limits;
- energy costs are significant for the company; power costs are constantly changing in line with crude oil markets. Total energy costs for 2010 increased by 32% compared to 2009. This increase was due to a significant increase in energy prices, as well as an increase in demand over the unusually low consumption of 2009. We currently anticipate that energy costs for 2011 will stay broadly at the same levels as 2010. We expect energy costs to remain volatile in the future;
- price determination by CC, as the company rejected Ofwat's final determination for regulatory period 2010-15; and
- changes in pension funding assumptions.

Ofwat price review for 5 years from 2010 (PR09)

In November 2009 Ofwat set final determinations of price limits and regulatory output requirements for the five years ended March 2015 for all water companies in England and Wales. Bristol Water plc rejected Ofwat's Final Determination, primarily on the grounds that price limits were too low for the outputs required. As required by the relevant legislation, Ofwat has referred the company's rejection to the Competition Commission ("CC").

On 18 June the CC issued its Provisional Findings broadly suggesting an increase in maintenance expenditure, capital expenditure, operating expenditure and taxation compared to Ofwat's Final Determination. However the CC has suggested a reduction in the cost of capital relative to Ofwat's Final Determination. The net effect of the Provisional Findings suggests an increase in charges to customers of approximately 2.3% p.a average. The CC is expected to publish its Final Determination by 6 August 2010.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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

The company has decided at this stage not to adopt IFRS. The company will therefore continue to prepare its financial statements using UK GAAP accounting standards for the foreseeable future. This is in line with the guidance issued by Ofwat in RD 06/06 for regulatory accounting statements.

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

DIRECTORS' RESPONSIBILITIES FOR THE PREPARATION OF FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

After making enquiries, the directors are of the opinion that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt a going concern basis in preparing these financial statements.

In addition, the directors have responsibility for ensuring that the company keeps proper accounting records sufficient to enable the historical cost and current cost information required by Condition F of the licence to be prepared, having regard to all Regulatory Accounting Guidelines.

The directors are also required to confirm in the financial statements that, in their opinion, the company was in compliance with paragraph 3.1 of Condition K of the licence relating to the availability of the rights and assets, at the end of the financial year.

By order of the Board
S C Robson
Secretary
26 July 2010

BRISTOL WATER plc
REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2010

RECONCILIATION BETWEEN STATUTORY ANNUAL REPORT AND ACCOUNTS AND REGULATORY ACCOUNTS

PROFIT AND LOSS ACCOUNT

	Statutory Annual Report and Accounts 2010	Net rental income	Basis for Infrastructure renewals charge	Regulatory Historical Cost Accounts 2010	Non- appointed activities	Regulatory Appointed Historical Cost Accounts 2010
	£m	£m	£m	£m	£m	£m
Turnover	99.7	(0.5)	-	99.2	(2.7)	96.5
Operating costs	(50.8)	0.1	-	(50.7)	2.4	(48.3)
Operating Income	0.2	-	-	0.2	-	0.2
Depreciation	(10.5)	-	-	(10.5)	-	(10.5)
Infrastructure renewals charge	(10.5)	-	(1.6)	(12.1)	-	(12.1)
Operating profit	28.1	(0.4)	(1.6)	26.1	(0.3)	25.8
Other net income	-	0.4	-	0.4	-	0.4
Net finance costs	(5.0)	-	-	(5.0)	-	(5.0)
Profit before tax	23.1	-	(1.6)	21.5	(0.3)	21.2
Taxation	(4.5)	-	-	(4.5)	0.1	(4.4)
Profit after tax	18.6	-	(1.6)	17.0	(0.2)	16.8

Ofwat accounting guidelines state that net rental income should be classified as "other income", below operating profit.

In the Statutory Annual Report and Accounts the infrastructure renewals charge (IRC) calculation is based on the infrastructure renewals expenditure for the current five year regulatory period. The calculation of the charge in the regulatory accounts is based on a fifteen year forward looking period, creating a higher charge than in the Statutory Annual Report and Accounts.

RECONCILIATION BETWEEN STATUTORY ANNUAL REPORT AND ACCOUNTS AND REGULATORY ACCOUNTS

BALANCE SHEET

	Statutory Annual Report and Accounts	Infrastructure renewals charge	Infrastructure renewals provision	Regulatory Historical Cost Accounts	Non- appointed activities	Regulatory Appointed Historical Cost Accounts
	2010 £m	£m	£m	2010 £m	£m	2010 £m
Tangible fixed assets (net book value)	251.2	(8.2)	8.7	251.7	(1.3)	250.4
Investments-loans to ultimate UK holding company	68.5	-	-	68.5	-	68.5
Net current assets	19.7	-	-	19.7	1.3	21.0
Creditors-amounts falling due after more than one year	(215.8)	-	-	(215.8)	-	(215.8)
8.75% Irredeemable preference shares	(12.5)	-	-	(12.5)	-	(12.5)
Deferred Income	(10.3)	-	-	(10.3)	-	(10.3)
Provisions for liabilities and charges	(22.2)	-	(8.7)	(30.9)	-	(30.9)
Retirement benefit scheme surplus	6.3	-	-	6.3	-	6.3
Net assets	84.9	(8.2)	-	76.7	-	76.7
Capital and reserves						
Called up share capital	6.0	-	-	6.0	-	6.0
Share premium account	4.4	-	-	4.4	-	4.4
Other reserves	5.0	-	-	5.0	-	5.0
Profit and loss account	69.5	(8.2)	-	61.3	-	61.3
Total shareholders' funds	84.9	(8.2)	-	76.7	-	76.7

RECONCILIATION BETWEEN STATUTORY ANNUAL REPORT AND ACCOUNTS AND REGULATORY ACCOUNTS

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. Infrastructure renewals expenditure is included in additions to fixed assets, and the infrastructure charge (IRC) is included in depreciation. However for the purposes of the regulatory accounts, Ofwat requires that FRS15 is not applied for infrastructure renewals accounting, thereby providing a basis consistent with prior years and the inclusion of an infrastructure renewals provision. The £8.2m represents the cumulative difference between the IRC in the Statutory Annual Report and Accounts and the regulatory accounts. Below is a reconciliation of the fixed assets in the Statutory Annual Report and Accounts, to those in the regulatory appointed historical cost accounts:

FIXED ASSETS

	Statutory Annual Report and Accounts	Adjustment to opening balance in respect of infrastructure renewals accounting	Additions	Infrastructure renewals expenditure capitalised in year	Reallocated statutory accounts IRC for year	Regulatory Historical Cost Accounts	Non- appointed activities	Regulatory Appointed Historical Cost Accounts
	2010 £m	£m	£m	£m	£m	2010 £m	£m	2010 £m
Cost								
Freehold land and operational structures	218.1	-	-	-	-	218.1	(1.6)	216.5
Plant & equipment	40.7	-	-	-	-	40.7	(0.3)	40.4
Infrastructure assets	234.1	(122.5)	-	(8.5)	-	103.1	-	103.1
Assets under construction	7.9	-	(8.5)	8.5	-	7.9	-	7.9
Total	500.8	(122.5)	(8.5)	-	-	369.8	(1.9)	367.9
Depreciation								
Freehold land and operational structures	88.8	-	-	-	-	88.8	(0.4)	88.4
Plant & equipment	29.3	-	-	-	-	29.3	(0.2)	29.1
Infrastructure assets	131.5	(121.0)	-	-	(10.5)	-	-	-
Total	249.6	(121.0)	-	-	(10.5)	118.1	(0.6)	117.5
Net Book Value								
Freehold land and operational structures	129.3	-	-	-	-	129.3	(1.2)	128.1
Plant & equipment	11.4	-	-	-	-	11.4	(0.1)	11.3
Infrastructure assets	102.6	(1.5)	-	(8.5)	10.5	103.1	-	103.1
Assets under construction	7.9	-	(8.5)	8.5	-	7.9	-	7.9
Total	251.2	(1.5)	(8.5)	-	10.5	251.7	(1.3)	250.4

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

**HISTORICAL COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2010**

	Appointed business 2010	Non- appointed 2010	Total 2010	Appointed business 2009	Non- appointed 2009	Total 2009
	£m	£m	£m	£m	£m	£m
Turnover	96.5	2.7	99.2	93.4	2.9	96.3
Operating costs	(70.9)	(2.4)	(73.3)	(67.3)	(2.4)	(69.7)
Operating income-being profit on disposal of tangible fixed assets	0.2	-	0.2	-	-	-
Operating profit	25.8	0.3	26.1	26.1	0.5	26.6
Other net income, being rents	0.4	-	0.4	0.4	-	0.4
Other net interest payable and similar charges	(3.1)	-	(3.1)	(10.4)	-	(10.4)
Dividends on 8.75% irredeemable cumulative preference shares	(1.1)	-	(1.1)	(1.1)	-	(1.1)
Net finance income in respect of retirement benefit obligations	(0.8)	-	(0.8)	(0.2)	-	(0.2)
Profit on ordinary activities before taxation	21.2	0.3	21.5	14.8	0.5	15.3
Taxation on profit on ordinary activities	(4.4)	(0.1)	(4.5)	(5.2)	(0.1)	(5.3)
Profit on ordinary activities after taxation	16.8	0.2	17.0	9.6	0.4	10.0
Dividends on ordinary shares	(10.0)	(0.2)	(10.2)	(8.4)	(0.4)	(8.8)
Profit retained for the year	6.8	-	6.8	1.2	-	1.2

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

BRISTOL WATER plc**REGULATORY ACCOUNTING STATEMENTS****STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 March 2010**

	Appointed Business	Non- appointed	Total	Appointed Business	Non- appointed	Total
	2010 £m	2010 £m	2010 £m	2009 £m	2009 £m	2009 £m
Profit attributable to Bristol Water plc shareholders	16.8	0.2	17.0	9.6	0.4	10.0
Actuarial losses recognised in respect of retirement benefit obligations	(0.4)	-	(0.4)	(5.8)	-	(5.8)
Attributable deferred taxation	0.1	-	0.1	1.6	-	1.6
Change in the fair value of the interest rate swap	0.1	-	0.1	(1.2)	-	(1.2)
Attributable deferred taxation	-	-	-	0.3	-	0.3
Total recognised gains for the year	16.6	0.2	16.8	4.5	0.4	4.9

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

**HISTORICAL COST BALANCE SHEET
at 31 March 2010**

	Appointed business	Non- appointed	Total	Appointed business	Non- appointed	Total
	2010 £m	2010 £m	2010 £m	2009 £m	2009 £m	2009 £m
Fixed assets						
Tangible fixed assets	250.4	1.3	251.7	248.8	1.4	250.2
Investment – loans to ultimate UK holding company	68.5	-	68.5	68.5	-	68.5
Current assets						
Stocks	0.9	0.1	1.0	1.0	0.1	1.1
Debtors	23.0	0.1	23.1	21.6	-	21.6
Cash at bank and on deposit	26.8	-	26.8	20.6	-	20.6
	50.7	0.2	50.9	43.2	0.1	43.3
Creditors: amounts falling Due within one year						
Short-term borrowings	(2.5)	-	(2.5)	(2.2)	-	(2.2)
Other creditors	(27.2)	(1.5)	(28.7)	(23.5)	(1.5)	(25.0)
	(29.7)	(1.5)	(31.2)	(25.7)	(1.5)	(27.2)
Net current assets/(liabilities)	21.0	(1.3)	19.7	17.5	(1.4)	16.1
Total assets less current liabilities	339.9	-	339.9	334.8	-	334.8
Creditors: amounts falling due after more than one year						
Long-term borrowings	(214.2)	-	(214.2)	(218.6)	-	(218.6)
Irredeemable debenture stocks	(1.6)	-	(1.6)	(1.6)	-	(1.6)
Other creditors	-	-	-	(0.2)	-	(0.2)
	(215.8)	-	(215.8)	(220.4)	-	(220.4)
8.75% irredeemable cumulative preference shares	(12.5)	-	(12.5)	(12.5)	-	(12.5)
Deferred income	(10.3)	-	(10.3)	(10.2)	-	(10.2)
Provisions for liabilities and charges	(30.9)	-	(30.9)	(27.9)	-	(27.9)
Retirement benefit scheme surplus	6.3	-	6.3	6.3	-	6.3
Net assets	76.7	-	76.7	70.1	-	70.1
Capital and reserves						
Called up share capital	6.0	-	6.0	6.0	-	6.0
Share premium account	4.4	-	4.4	4.4	-	4.4
Other non-distributable reserves	5.0	-	5.0	4.9	-	4.9
Profit and loss account	61.3	-	61.3	54.8	-	54.8
Equity shareholders' funds	76.7	-	76.7	70.1	-	70.1

The accounts were approved by a Committee of the Board on 26 July 2010 and signed on its behalf by

A Parsons, Managing Director
M Anglada, Finance Director

RELATED PARTY TRANSACTIONS

Related parties include members and joint ventures of the Agbar UK (AUK) group of companies, members of the Agbar group of companies and key management personnel. The principal related parties are:

Sociedad General de Aguas de Barcelona S.A. (Agbar), registered in Spain and from June 2006 until 30 September 2009 the ultimate parent company of Bristol Water plc.

In October 2009 Suez Environnement (partly owned by the French group GDF Suez) announced their plan to take 75% control of Agbar, and on 8 June 2010 the final step in the take over of Agbar was completed.

Agbar UK Ltd (formerly known as Bristol Water Group Ltd), registered in England and Wales, whose year-end is 31 December, is the ultimate UK holding company of Bristol Water plc and is a subsidiary of Agbar.

Bristol Wessex Billing Services Limited (BWBSL), registered in England and Wales, whose year-end is 31 March. The joint venture interest is held by Agbar Solutions Ltd, a fellow subsidiary and intermediate holding company within the AUK group, which owns 100 class 'B' shares in the company, representing a holding of 50% of the voting and equity rights of the company. Prior to 25 March 2010 the shares currently owned by Agbar Solutions Limited were owned by Bristol Water Holdings Limited, another subsidiary company in the Agbar UK group. BWBSL has contracted to provide billing and customer services to both Bristol Water plc and Wessex Water Services Limited, under a cost sharing arrangement. Costs are shared in proportion to business activity.

Agbar Serco Technology Solutions Limited (ASTS), registered in England and Wales, whose year-end is 31 December. The joint venture company is owned 50% by Agbar Solutions Ltd, a fellow subsidiary and intermediate holding company within the AUK group, and 50% by Serco UK Limited. Prior to 28 February 2010 the shares currently owned by Agbar Solutions Limited were owned by Aquagest Services Company S.A. (formerly known as Agbar Serveis Compartits S.A.) a 100% owned subsidiary of the ultimate holding company Agbar. Following a competitive tendering process, ASTS was contracted to provide IT maintenance and development services to the company from 1 November 2008.

Agbar Environment Limited (AEL), registered in England and Wales, whose year-end is 31 December. This company is a fellow subsidiary within the AUK group and is engaged principally in providing flushing services relating to cleaning pipes, evacuating materials from pipes or separating materials within pipes, in each case by means of pumping a mass of crushed ice through such pipes. During the year Bristol Water plc has provided resources to AEL to enable it to engage in its principal activities and recharged the costs accordingly.

Basis of cost allocations used for management charges and allocations between the appointed and non-appointed businesses of Bristol Water plc

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.

Nature of Service	Associate	Turnover of Associate	Terms of Supply	Value of Service Received
		£m		£m
Managed Billing Service	Bristol Wessex Billing Services Ltd	12.3	Competitive tender	2.5
IT support contract	AgbarSerco Technology Solutions	2.2	Competitive Tender	1.2
Maintenance & repair of Security Equipment	AgbarSerco Technology Solutions	2.2	Competitive Tender	0.3
Systems development and upgrade	AgbarSerco Technology Solutions	2.2	Other market testing	0.6

Group Tax Relief

Bristol Water plc claims group tax relief from the non-regulated companies in the Bristol Water Group. The non-regulated companies within Bristol Water Group have a December year end. The amount of the group relief claimed for 2009/10 is not yet ascertained. The 2007/08 and 2008/09 Bristol Water plc tax computations included group relief surrendered by the non-regulated companies based on their accounts for the year to December 2008 of £4.6m. Further group relief will be surrendered for the period January to March 2009, but the amount of relief for this period is yet to be finalised. Bristol Water plc pays the standard tax rate multiplied by the surrendered losses to each surrendering company (30% for relief generated up to 31 March 2008, 28% for relief generated thereafter). This group relief payment policy ensures that relieving losses around the group has no effect on the current tax charge in Bristol Water plc. The payment for loss relief surrendered for the year ended 31 December 2008 was settled in the first quarter of 2010. This is later than the date that corporation tax is normally paid.

Agbar ex-gratia payments

As part of the acquisition process BWG's SAYE share option scheme was terminated and Bristol Water plc employees were able to exercise their options. Because of the early termination, some share options lapsed. To compensate for this Agbar agreed, subject to conditions, to make a series of ex-gratia payments to employees. The first of these payments was made in September 2006 and for administrative purposes was paid through the Bristol Water plc payroll at a total cost of c£0.5m. Agbar made a payment to Bristol Water plc to fully meet this cost prior to the payroll date. A second payment of £692k was made in September 2007, a third payment of £539k was made in September 2008 and a fourth payment of £130k in September 2009. A further payment will be made in 2010. Payments are made through the Bristol Water plc payroll and are fully reimbursed by Agbar.

Borrowing/lending with associated companies and related facilities

A loan of £47m was made to Bristol Water Group Limited (ultimate parent company until June 2006) 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 that 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 2009/10.

A further loan of £21.5m was made to Bristol Water Group Limited (BWG) in 2005/06. The unsecured loan was advanced on 13 July 2005, under an agreement dated 10 June 2005, out of proceeds of the new Artesian loan entered into in that year. The loan is due for repayment on 30 September 2032 and bears a fixed interest rate of 5.55%. Interest income of £1.2m was received in relation to the loan in 2009/10.

There is a provision in both loans to BWG that BWG may defer an interest payment. Interest will be payable on deferred interest as if it were a further loan, at 1% higher than the loan interest rate. This facility has never been invoked.

Dividends paid to parent company-policy

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

- a base level reflecting the cost of capital allowed by Ofwat in the 5-year determination of price limits, adjusted to reflect actual gearing levels and where appropriate actual performance relative to Ofwat's assumptions.
- an amount equal to the post-tax interest receivable from Bristol Water Group Ltd (the ultimate UK parent company) in respect of intercompany loans.

During the year ordinary dividend payments were:

- Base level – final dividend in respect of the 2008/09 trading year of £3.6m.
- Base level - interim dividend in respect of the 2009/10 trading year of £3.7m.
- Interim dividends for 2009/10 in respect of the intercompany loan interest element of £2.9m.

No final dividend in respect of the trading year 2009/10 has been proposed due to uncertainties relating to the outcome of the Competition Commission appeal.

BRISTOL WATER plc**REGULATORY ACCOUNTING STATEMENTS****CURRENT COST PROFIT AND LOSS ACCOUNT FOR THE APPOINTED BUSINESS
for the year ended 31 March 2010**

	Notes	2010 £m	2009 £m
Turnover	C3	96.5	93.4
Current cost operating costs	C4	(77.6)	(72.2)
Operating income		-	-
Working capital adjustment		(0.1)	-
Current cost operating profit		<hr/> 18.8	21.2
Other income		0.4	0.4
Net interest payable and similar charges		(3.1)	(10.4)
Dividends on 8.75% irredeemable cumulative preference shares		(1.1)	(1.1)
Net finance income in respect of retirement benefit obligations		(0.8)	(0.2)
Financing adjustment		6.8	(0.5)
Current cost profit before taxation		<hr/> 21.0	9.4
Taxation			
Current tax		(4.8)	(2.3)
Deferred tax		0.4	(2.9)
Current cost profit on ordinary activities		<hr/> 16.6	4.2
Dividends on ordinary shares		(10.0)	(8.4)
Current cost profit/(loss) retained		<hr/> 6.6	(4.2)

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 2010**

	Notes	2010	2009
		£m	£m
Fixed assets			
Tangible fixed assets	C5	2,202.4	1,810.9
Third party contributions since 1 April 1990		(90.4)	(83.4)
		2,112.0	1,727.5
Working capital			
Working capital	C6	0.6	1.3
Cash		1.8	1.2
Short term deposits		25.0	19.4
Infrastructure renewals accrual		(8.7)	(5.1)
		2,130.7	1,744.3
Net operating assets			
Non-operating assets and liabilities			
Borrowings		(2.5)	(2.2)
Non-trade debtors		0.8	0.5
Non-trade creditors due within one year		(0.6)	(0.7)
Investments – Intragroup loans		68.5	68.5
Corporation tax payable		(4.1)	(2.0)
		62.1	64.1
Creditors: amounts falling due after more than one year			
Borrowings		(215.8)	(220.2)
Other creditors		-	(0.2)
		(215.8)	(220.4)
8.75% irredeemable cumulative preference shares		(12.5)	(12.5)
Provisions for liabilities and charges			
Deferred tax provision		(22.3)	(22.8)
Retirement benefit scheme surplus net of associated deferred taxation		6.3	6.3
		1,948.5	1,559.0
Net assets employed			
Capital and reserves			
Called up share capital		6.0	6.0
Share premium account		4.4	4.4
Other reserves		5.0	4.9
Profit and loss account		18.8	12.6
Current cost reserve	C7	1,914.3	1,531.1
		1,948.5	1,559.0

The accounts were approved by a Committee of the Board on 26 July 2010 and signed on its behalf by -

A Parsons, Managing Director
M Anglada, 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 2010**

	Notes	2010	2009
		£m	£m
Net cash inflow from operating activities	C8	47.6	47.0
Returns on investments and servicing of finance -			
Interest received		4.2	5.1
Interest paid		(8.3)	(9.7)
Interest paid on finance leases		(0.9)	(0.9)
Dividends paid on 8.75% irredeemable cumulative preference shares		(1.1)	(1.1)
Net costs of issue of new loans		-	-
		<u>(6.1)</u>	<u>(6.6)</u>
Taxation -			
Corporation tax paid		<u>(2.7)</u>	<u>(2.0)</u>
Capital expenditure and investing activities -			
Purchase of fixed assets		(16.0)	(21.7)
Less contributions received		3.9	3.6
Infrastructure renewals expenditure		(8.5)	(10.9)
Proceeds on disposal of fixed assets		0.2	-
		<u>(20.4)</u>	<u>(29.0)</u>
Dividends paid on equity shares		<u>(10.0)</u>	<u>(8.4)</u>
Net cash inflow before management of liquid resources and financing		8.4	1.0
Management of liquid resources being (increase)/decrease in short-term deposits		<u>(5.6)</u>	<u>1.9</u>
Financing -			
New term loans		-	15.0
Capital element of lease repayments		(2.2)	(1.9)
Loan repayments		-	(15.0)
Net cash outflow from financing		<u>(2.2)</u>	<u>(1.9)</u>
Increase in cash		0.6	1.0
Cash, beginning of year		1.2	0.2
Cash, end of year	C9	<u>1.8</u>	<u>1.2</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.

The company has not adopted International Financial Reporting Standards (IFRS) for its financial statements for the year ended 31 March 2010, and has no current plans to do so until UK GAAP and IFRS are fully harmonised. This is in line with the guidance issued by Ofwat in RD 06/06 for regulatory accounting statements.

The accounting policies used are the same as those adopted in the Statutory Historical Cost Accounts, except as set out below:

(a) Tangible fixed assets

The valuation of all assets is based on the modern equivalent asset valuation produced by the Asset Management Plan (AMP) valuation at 31 March 2008, as amended for additions, disposals, and retail price index adjustments after this date to the period ended 31 March 2010. This equates to a proxy for depreciated replacement cost of their operating capability. This is the first year the 31 March 2008 valuation has been included, the previous basis was the 31 March 1998 valuation.

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 2008 and have been expressed in real terms by indexing using the Retail Price Index ("RPI") since that date.

Specialised operational properties at 31 March 2008 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 a proxy replacement cost determined principally on the basis of data provided by AMP. A continuing process of refinement of asset records is expected to produce adjustments to existing values when periodic reviews of the AMP takes place. This is 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 are valued periodically at depreciated replacement cost. The last valuation included being at 31 March 2008. Between periodic reviews, values are restated for inflation as measured by changes in the RPI. Vehicles and mobile plant were stated at depreciated historical cost until 31 March 2008 as differences between historical cost and current cost values were not considered material. A revaluation of assets at 31 March 2008 showed a significant difference between the historic and current cost values of these assets. The current cost value of these assets is now included and from 1 April 2008 RPI has been applied to vehicles and mobile plant.

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 working capital.

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
- deferred tax provision
- retirement benefit scheme surplus net of associated deferred taxation.

(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 company has adopted FRS 17, as included in note 22 'Retirement benefit obligations' in the statutory accounts.

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

	2010	2009
	£m	£m
Measured	38.3	35.4
Unmeasured	51.6	51.3
Large user revenues and special agreements	4.7	4.9
Non potable large user and special agreements	0.3	0.4
Rechargeable works	0.6	0.5
Bulk supplies	0.5	0.4
Other turnover	0.5	0.5
Total turnover	96.5	93.4

Revenue Recognition Accounting Policy

The regulatory accounts apply the same policy for turnover recognition as the statutory accounts.

Turnover comprises charges to and accrued income from customers for water and other services, exclusive of VAT. Turnover is recognised upon delivery of water or completion of other services.

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

All turnover is recognised in the regulatory accounts, with the exception of rental income, which is included below operating profit in "other net income" in accordance with the regulatory accounting guidelines.

Revenue is recognised from chargeable properties in accordance with the policy above.

Vacant unfurnished unmetered properties are not charged. Normal charges apply to furnished unmetered vacant properties.

Metered vacant properties are not charged, however meter readings are still taken and if any consumption is recorded normal charges apply once we have established the occupier details. Normal charges apply to vacant metered non-household agricultural properties.

A metered customer can request their supply to be temporarily turned off, after which they are not charged until their supply is restored. Disconnected properties are not charged.

If a household property is unoccupied due to the customer being hospitalised, or residing in care, charges do not normally apply.

A property which is believed to be occupied, but the occupier's details are not known, is charged when the occupier details are established.

Cash received from 'charges on income' is not treated as revenue but is applied to reduce the outstanding debt derived from the turnover recognition policy (i.e. cash received directly from benefit payments reduces debt). When the income was invoiced (or accrued) the revenue was recognised in line with the accounting policy.

Revenue from new properties is recognised from the date the meter is installed and the customer details have been obtained.

C4. Analysis of operating costs of the Appointed Business for 2009/10

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.

Commentary on the 2009/10 operating costs is set out in the Operating and Financial Review.

C4. Analysis of operating costs of the Appointed Business for 2009/10 (Continued)

	Service analysis		
	Resources & treatment £m	Distribution £m	Sub-total £m
Direct costs -			
Employment costs	2.9	2.6	5.5
Power	3.6	2.9	6.5
Hired and contracted services	3.1	2.1	5.2
Materials and consumables	2.2	0.4	2.6
Service charges	2.9	-	2.9
Bulk supply imports	0.2	-	0.2
Other direct costs	0.6	0.3	0.9
Total direct costs	15.5	8.3	23.8
General & support costs	4.3	3.9	8.2
Functional expenditure *	19.8	12.2	32.0
Business activities			
Customer services			2.7
Scientific services			1.6
Other business activities			2.8
Business activities sub total			7.1
Local authority rates			4.2
Bad and doubtful debts			3.7
Total operating expenditure less third party costs			47.0
Third party operating expenditure			1.3
Total operating expenditure			48.3
Capital costs -			
Infrastructure renewals charge	2.3	9.8	12.1
Current cost depreciation	10.6	6.9	17.5
Amortisation of deferred credits			(0.5)
Total capital maintenance less third party costs			29.1
Third party current cost depreciation			0.2
Total capital maintenance			29.3
Total operating costs			77.6
*Included within these costs is £3.1m in respect of reactive maintenance of infrastructure assets. Planned maintenance is included within infrastructure renewals expenditure. Also included is £3.1m in respect of planned and reactive maintenance of non-infrastructure assets.			
Current cost Modern Equivalent Asset values -	£m	£m	£m
Service activities and water supply total	802.7	1,381.5	2,184.2
Services for third parties	4.1	14.1	18.2
Total	806.8	1,395.6	2,202.4

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 2009	659.8	20.0	1,553.3	4.8	2,237.9
AMP Adjustment	70.8	16.2	235.5	2.6	325.1
RPI Adjustment	32.5	1.6	79.6	0.3	114.0
Disposals	(0.7)	(0.2)	-	(0.3)	(1.2)
Additions	11.1	0.2	4.4	0.2	15.9
Balance 31 March 2010	773.5	37.8	1,872.8	7.6	2,691.7
Depreciation -					
Balance 1 April 2009	422.4	2.0	-	2.6	427.0
AMP Adjustment	19.4	3.6	-	2.4	25.4
RPI Adjustment	19.7	0.2	-	0.2	20.1
Disposals	(0.7)	-	-	(0.3)	(1.0)
Charge for year	16.7	0.4	-	0.7	17.8
Balance 31 March 2010	477.5	6.2	-	5.6	489.3
Net Book Value at 31 March 2010	296.0	31.6	1,872.8	2.0	2,202.4
Net Book Value at 1 April 2009	237.4	18.0	1,553.3	2.2	1,810.9

C6. Working capital

	2010 £m	2009 £m
Stocks	0.9	0.9
Trade debtors		
- measured household	3.2	3.0
- unmeasured household	4.4	3.9
- measured non-household	2.7	3.4
- unmeasured non-household	(0.2)	0.1
Other trade debtors	0.4	0.2
Measured income accrual	9.0	8.3
Prepayments and other debtors	2.7	2.2
Trade creditors	(1.4)	(1.2)
Receipts in advance	(9.4)	(8.8)
Short-term capital creditors	(4.2)	(4.4)
Accruals and other creditors	(7.5)	(6.3)
	0.6	1.3

C7. Movement on current cost reserve

	2010 £m	2009 £m
Balance at 1 April	1,531.1	1,537.1
AMP Adjustment	299.7	-
RPI adjustments -		
Fixed assets	93.9	(6.8)
Financing	(6.8)	0.5
Grants and contributions	(3.6)	0.3
Balance at 31 March	1,914.3	1,531.1

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

	2010 £m	2009 £m
Current cost operating profit	18.8	21.2
Movement in working capital	0.9	(0.9)
Receipts from other income	0.4	0.4
Current cost depreciation	17.2	14.3
Infrastructure renewals charge	12.1	12.9
Additional contributions to pension scheme	(1.0)	(1.0)
Movements in provisions	(0.8)	0.1
Net cash inflow from operating activities	47.6	47.0

C9. Net debt analysis

	Interest rate risk profile			2010 Total	2009 Total
	Fixed rate	Floating rate	Index linked		
	£m	£m	£m	£m	£m
Maturity profile					
Less than one year	-	2.5	-	2.5	2.2
Between one and two years	-	2.8	-	2.8	2.5
Between two and five years	-	20.6	-	20.6	23.2
Between five and twenty years	10.0	12.5	-	22.5	22.7
In more than twenty years	57.5	-	105.5	163.0	164.6
Net unamortised debt issue premiums	4.2	-	-	4.2	4.4
Change in fair value of interest rate swap	-	1.1	-	1.1	1.2
Irredeemable debentures	1.6	-	-	1.6	1.6
Borrowings (excluding irredeemable preference shares)	73.3	39.5	105.5	218.3	222.4
Irredeemable preference share capital				12.5	12.5
Total borrowings				230.8	234.9
Cash				(1.8)	(1.2)
Short term deposits				(25.0)	(19.4)
Net debt including irredeemable preference shares				204.0	214.3

C10. Regulatory Capital Value (RCV)

	£m
Closing RCV for 2008/09	265.4
Indexation to 2009/10 year end price base	11.8
	277.2
Capital expenditure (excluding infrastructure renewals charge)	16.3
Infrastructure renewals expenditure	9.7
Infrastructure renewals charge	(11.4)
Grants and contributions	(3.4)
Depreciation	(16.7)
Outperformance of regulatory assumptions in previous periods	(0.4)
Adjustment arising from the interim determination in December 2007	0.4
Closing RCV carried forward at 31 March 2010 at year end price base	271.7
Average regulatory capital value for 2009/10 at average 2009/10 price base	268.4

The RCV shown is the value and calculation used by Ofwat in setting the price limits for the period 2005/06 to 2009/10, and is equivalent to the values set out in RD 06/09 inflated to 2009/10 prices.

The differences from the actual capital expenditure and the depreciation will not affect price limits in the current period. Capital efficiencies will be taken into account in the calculation for the price limits for the period 2010/11 to 2014/15.

The reconciliation of the opening and closing RCVs uses year end RPI to index from 2002/03 prices to 2009/10 prices. (2002/03 was the base year for PR04 and therefore all adjustments about inflation are made relative to that point). The average RCV is presented using year average RPI to index to 2009/10 prices. The average RCV cannot therefore be calculated as the simple average of the opening and closing RCVs.

RCV is inflated by RPI each year during 5 year PR04 regulatory periods. At the start of the next regulatory period (PR09) an adjustment is made to reflect differential rates of inflation relative to RPI for capital expenditure as measured by COPI compared to the PR04 Final Determination assumptions.

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS for the year ended 31 March 2010

DIRECTORS' REMUNERATION

The Statutory Annual Report and Accounts for Bristol Water plc sets out a detailed Remuneration Committee report, not repeated within the Regulatory Accounting Statements, setting out the basis of Director remuneration.

Bonus eligibility for Directors is based on the components set out below. These components are used at various levels of weighting for all employees of the Company. All Directors are given the same percentage award for all applicable components except the personal element. In 2009/10 the personal element award was determined by the Remuneration Committee for each Director and was 20% against a maximum weight of 20%. Bonus levels as a percentage of salary and actual awards are considered and approved by the Remuneration Committee. The Director appointed before 2005 has a maximum award of 50% of salary whereas subsequent appointees have a maximum award of 30% of salary.

The maximum and actual awards for the non-personal element, by component, for each Director for 2009/10 were –

		Maximum	Actual
Profit before tax against budget as set by the Board at start of year		20%	20%
Cumulative profit before tax against Ofwat 2004 Final Determination adjusted for pension accounting and gearing (set in 2005 by Remuneration Committee)		20%	0%
Agbar water division profitability		20%	20%
Customer service targets (breakdown and performance standards given below)		20%	15.5%
Sub Service	Bonus target mechanism set by Remuneration Committee at the start of the year		
Water quality	<20 sample failures 100% <30 sample failures 66% <40 sample failures 33%	5%	5%
Discoloured water complaints	0% at 1800, then pro rata to 100% for <=1200	5%	4.39%
Meet leakage target	Amount is on "all or nothing" basis	3.75%	3.75%
DG3 interruptions	0% at 0.3, then pro rata to 100% at 0	3.75%	0%
DG7 complaints	Pro rata in range of 98 to 100%	1.25%	1.22%
DG9 response time	Pro rata in range 97 to 99%	1.25%	1.09%

Actual awards for 2009/10, approved by the Remuneration Committee and paid in June 2010 were :

	£000
L Garcia	26
A Parsons	75
M Anglada	12
S Pellegrini	16 (Note 1)

Non-executive Directors do not participate in the bonus scheme.

The Remuneration Committee reviews the bonus arrangements each year and set these particular arrangements on 18 May 2009. The actual customer service targets used are the same for all staff to ensure all are aiming at the same targets. These service standards have been picked to give a balanced blend of the different aspects of customer service that are monitored and together form a picture of what our customers experience and what we understand they want the company to achieve. Some standards relate to specific parts of the Ofwat OPA for this reason. These service standards are based on auditable data compiled by the company that is used for regulatory reporting to Ofwat and the DWI.

Note 1: As Mr Pellegrini left before the end of the financial year his bonus was assessed separately on a pro rata basis by reference to his bonus award from performance in the 2008/09 financial year. Bonus criteria on performance in 2008/09 were identical to those in 2009/10.

INDEPENDENT AUDITORS' REPORT TO THE WATER SERVICES REGULATION AUTHORITY AND DIRECTORS OF BRISTOL WATER plc

We have audited the Regulatory Accounts of the Company on pages 3 to 12 and 14 to 35 which comprise:

- the regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between statutory and regulatory accounts; 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 to the current cost financial statements including the statement of accounting policies.

This report is made, on terms that have been agreed, solely to the company and the Water Services Regulation Authority ("the WSRA") 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 WSRA 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 company's Instrument of Appointment to procure such a report and (b) to facilitate the carrying out by the WSRA 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 WSRA, 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 2006.

Respective responsibilities of the WSRA, the directors and auditors

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

The Directors' responsibilities for preparing the Regulatory Accounts in accordance with Regulatory Accounting Guidelines are set out in the statement of directors' responsibilities for regulatory information on page 13.

Our responsibility is to audit the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland) 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 the classification of expenditure), Regulatory Accounting Guideline 3.06 (Guideline for the contents of regulatory accounts) and Regulatory Accounting Guideline 4.03 (Guideline for the analysis of operating costs and assets); and whether the regulatory current cost accounting statements on pages 23 to 33 have been properly prepared in accordance with Regulatory Accounting Guideline 1.04 (Guideline for accounting for current costs and regulatory capital values), Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03. 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 appointees' accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1.04, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.06, and Regulatory Accounting Guideline 4.03.

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 operating and financial review, the notes on regulatory information, and the additional information required by the licence.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards.

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the company on which we report, 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 sections 495, 496 and 497 of the Companies Act 2006. 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 auditors' 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 17 to 19 have been drawn up in accordance with Regulatory Accounting Guideline 3.06 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 2006 is given on pages 14 to 16.

Opinion

In our opinion the Regulatory Accounts of the company for the year ended 31 March 2010 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 WSRA and the accounting policies set out on pages 26 to 29, the state of the company's affairs at 31 March 2010 on an historical cost and current cost basis, the historical cost and current cost profit for the year and the 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 1.04, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03 issued by the WSRA;
- (c) the regulatory historical cost accounting statements on pages 17 to 19 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 3.06 and Regulatory Accounting Guideline 4.03 issued by the WSRA;
- (d) the regulatory current cost accounting statements on pages 23 to 33 have been properly prepared in accordance with Regulatory Accounting Guideline 1.04, Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03 issued by the WSRA.

Deloitte LLP
Chartered Accountants
Bristol, United Kingdom

BRISTOL WATER plc
REGULATORY CERTIFICATE BY THE DIRECTORS

As required under condition F6A.2A of its Instrument of Appointment the Directors of Bristol Water plc confirm:

- (1) That 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 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations * under the Appointment); and
- (2) That in the opinion of the Directors the Appointee will, for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out those functions; and
- (3) That in the opinion of the Directors, all contracts entered into with any Associated Company include all necessary provisions and requirements concerning the standard of service to be supplied to the Appointee, to ensure that it is able to meet all its obligations as a water undertaker.

As required by condition F6A.2B(1) the main factors that the Directors have taken into account in giving this certificate:

(1) Financial resources:

- Profit and loss budget, and capital programme, for 2010/11, approved by the Board
- Monthly management accounts prepared for periods prior to the certificate date
- Cash at bank/on deposit held in the Bristol Water balance sheet of £26.8m at 31 March 2010
- Unutilised committed term facilities of £30m with the Royal Bank of Scotland

(2) Management resources:

- Bristol Water plc has a stable and experienced senior management team with good knowledge of the water industry.

(3) Associated company contracts:

- The company currently has very limited contracts with Associates and any of the associated companies do comply with the ringfencing conditions set out in the Instrument of Appointment.

* Bristol Water's obligations are subject to a re-determination by the Competition Commission. At the current time the terms of the re-determination are not certain. However given the legal duties imposed on the Competition Commission, then the Directors consider they can at this date and as required by Ofwat reasonably make the statement above.

Approved by the Board on 20 July 2010 and signed on its behalf on 26 July 2010 by:

Alan Parsons Managing Director

Miquel Anglada Finance Director

APPENDIX

STATUTORY ANNUAL REPORT AND ACCOUNTS

YEAR ENDED 31 MARCH 2010

BRISTOL WATER plc

ANNUAL REPORT AND ACCOUNTS 2010

Registered number - 2662226

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BRISTOL WATER plc supplies water to over 1.1 million people and businesses in an area of almost 2,400 square kilometres centred on Bristol.

Bristol Water plc is a member of the Agbar group, which provides water services to approximately 26 million people worldwide.

FINANCIAL HIGHLIGHTS

Year ended 31 March	2010 £m	2009 £m
Turnover	99.7	96.7
Operating profit	27.9	29.1
Profit before tax (*)	23.1	17.4
Profit after tax	18.6	12.1
Regulatory Capital Value (RCV)	271.7	265.4
Net debt (excluding 8.75% irredeemable cumulative preference shares) as percentage of RCV	70%	76%

(*) The result for the current year benefited from a credit of £1.8m (2009: cost of £5m) in respect of the indexation, and amortisation of fees and premium related to the index-linked debt.

CHAIRMAN'S STATEMENT

Introduction

The 2010 financial year is going to be remembered as the year in which Bristol Water plc Board of Directors announced that it could not accept the regulator Ofwat's determination of price limits for the regulatory period 2010-2015.

During the long price-setting process, we worked hard and innovatively to find solutions to a range of issues at the least possible cost to customers. In the end the Board, after a careful review, considered that the Final Business Plan, initially submitted to Ofwat in April 2009, was the correct proposition, and we still believe so.

Our customers have benefited for a long period in which we have been able to minimise bills by stretching our assets' working lives. Unfortunately, there are now a number of factors coming together which will not allow us to defer increased levels of investment any further. Additionally there is a need to reflect our current and anticipated cost increases. As a result we must inevitably seek to increase customers' bills. We did not agree with Ofwat on the scope and cost of the necessary work. Therefore it became necessary to refer this matter to the Competition Commission ("CC") for a re-determination.

The rejection of Ofwat's Final Determination was based on the following principal points:

- it was not considered to be in the best interests of customers;
- there was a high risk that the service obligations placed upon us by the Final Determination could not be delivered for the funding allowed; and
- we did not believe the Final Determination would enable investment grade credit ratings to be maintained.

Bristol Water plc rejected Ofwat's Final Determination in January 2010. As required by the relevant legislation, Ofwat has referred the company's rejection to the CC. The CC's Provisional Findings suggested a rise in Ofwat's Final Determination tariff increase of 1.7% p/a average to 2.3% p/a average. The CC is expected to publish its Final Determination by 6 August 2010.

Operational performance

We are now at the end of the current regulatory period 2005-10 and have completed the delivery of the required outputs and efficiency targets assumed by Ofwat in its previous determination. During the year we invested £24.4m in capital projects. The major projects were largely completed earlier in the regulatory period 2005-10. Total capital expenditure over the regulatory period 2005-10 is approximately £180m (in 2009/10 prices before grants and contributions), which is broadly in line with Ofwat's assumptions.

We have also met the leakage target set by Ofwat despite the severe winter, which led to more bursts than in a normal year. The water quality compliance results were the best ever.

Our customer service performance remains at a high level with customer surveys consistently showing high satisfaction. As a result, Bristol Water took first position in the last DG9 annual survey.

Our continued focus on environmental performance has led to the company attaining the Carbon Trust Standard for its work to minimise its carbon footprint. In addition, all the Sites of Special Scientific Interest (SSSI) owned and managed by the company have retained their top rating as assessed by Natural England, giving Bristol Water the best performance assessment in the water industry.

Bristol Water's contribution to innovation in the water industry has been recognised for its development of 'Ice Pigging' technology for cleaning water mains, in conjunction with the University of Bristol.

CHAIRMAN'S STATEMENT (continued)

Financial performance

Turnover increased by £3m to £99.7m, however operating profit decreased by £1.2m to £27.9m during the year. The decrease in operating profit was driven by increases in power (+£1.6m), bad debt costs (+£1.4m) and costs related to the rejection of Ofwat's price determination. These adverse effects have offset the benefits of determined efforts to achieve operating efficiencies.

Net interest charges, excluding those related to retirement benefits and the preference share dividend, decreased by £7.3m to £3.1m. This mainly reflects the decrease in the inflationary element of the charge related to our index-linked debt. The net interest charge related to retirement benefits was £0.8m compared to £0.2m last year.

Profit before tax increased by £5.7m to £23.1m. The tax charge of £4.5m represents an effective tax rate of 19% (2009: 30%).

Net debt, excluding irredeemable preference shares, decreased to £191.5m (31 March 2009: £201.8m) and represents approximately 70% of Regulatory Capital Value at 31 March 2010 (31 March 2009: 76%), in line with our projections.

Prospects

The key risks to the company are regulatory requirements and developments, operational and performance problems, and financial factors which are unpredictable due to the present financial market turmoil. The company is well placed to face the near future events but it is not immune from the severe financial market uncertainties in the medium term, which have the potential to impact its ability to obtain appropriate financing to deliver the future capital programme in the next regulatory period.

Clearly the CC's re-determination in August 2010 of future tariffs and service obligations will play a significant role in the future of the company. In addition to that, we expect that the results for the year ending 31 March 2011 may include the following material effects:

- an increase in the proportion of customers who are metered and an approximate 0.9% increase in prices due to RPI and 'K' factor;
- an increase in chemical costs;
- a further increase in bad debts; and
- an increase in interest charges related to our index-linked debt with the projected increase in RPI.

Dividends

A final dividend of £3.6m in respect of the 2009 financial year was approved at the Annual General Meeting (AGM) in August 2009 and paid in September 2009.

During the year the following interim dividends have been paid in respect of the 2010 financial year:

- first interim for the inter-company loan interest element of £1.5m paid in September 2009
- second interim in respect of the base level dividend of £3.7m paid in November 2009
- third interim for the inter-company loan interest element of £1.4m paid in March 2010.

The Board has not proposed a final dividend in respect of the year ended 31 March 2010 (31 March 2009: 60.02p per share totalling £3.6m) due to underlying uncertainties arising from the pending price determination by CC.

Dividends payable on the 8.75% irredeemable preference shares are treated as interest under the appropriate accounting rules.

CHAIRMAN'S STATEMENT (continued)

Board membership

In November 2009 Stefano Pellegrini left his executive director position in the company and is now a non-executive director.

We welcome Miquel Anglada who was appointed as Finance Director on 1 December 2009.

Thanks

I would also take this opportunity to pass on to all staff the Board's thanks and appreciation of their commitment and effort during a most challenging year. The contribution from all areas of the company has led to an excellent overall performance.

Moger Woolley
Chairman
26 July 2010

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 March 2010.

PRINCIPAL ACTIVITIES

The principal activities of the company comprise supply of water and related services to a population of over 1.1 million people and businesses in an area of almost 2,400 square kilometres centred on Bristol.

BUSINESS STRATEGY AND OBJECTIVES

The company's objective is **'to provide a highly reliable supply of water of excellent quality, delivered in a sustainable and affordable way'**.

To achieve this objective the company's key tasks are to:

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

The company is a regulated business and subject to economic regulation by the Water Services Regulation Authority (Ofwat) through a price cap mechanism, whereby the prices the company can charge for the majority of its services are limited to increases in inflation plus or minus a K factor (RPI+/-K). Price limits, the 'K' factors, are currently reviewed every five years. The result of the last review, covering the five years 2010-15, was announced in November 2009 and was rejected by the company, primarily on the grounds that price limits were too low for the outputs required. As required by the relevant legislation, Ofwat has referred the company's rejection to the Competition Commission ("CC"). The CC's Provisional Findings suggested a rise in Ofwat's Final Determination tariff increase of 1.7% p/a average to 2.3% p/a average. The CC is expected to publish its Final Determination by 6 August 2010.

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

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

BUSINESS REVIEW

We are now at the end of the current regulatory period 2005-10 and have completed the delivery of the required outputs and efficiency targets assumed by Ofwat in its determination of price limits in the 2004 periodic review.

Financial performance

The company continues to report under UK GAAP.

Financial performance during the year was broadly in line with expectations. The turnover increased by £3m to £99.7m, however the operating profit decreased by £1.2m to £27.9m during the year. The decrease in operating profit was driven by increases in power (+£1.6m), bad debt costs (+£1.4m) and costs related to the rejection of Ofwat's price determination, and offset by reduction in cost in other areas to a certain extent. Profit before tax was higher compared to 2009, mainly due to the favourable impact of inflation adjustments on index-linked debt.

DIRECTORS' REPORT (continued)

BUSINESS REVIEW (continued)

Financial performance (continued)

	2010	2009
	£m	£m
Turnover	99.7	96.7
Operating profit	27.9	29.1
Profit on sale of assets	0.2	-
Net finance costs	(5.0)	(11.7)
Profit before tax	23.1	17.4
Taxation	(4.5)	(5.3)
Profit after tax	18.6	12.1
Capital investment before grants & contributions	24.4	31.3
Net debt (excluding 8.75% irredeemable cumulative preference shares) at 31 March	191.5	201.8
Ratio of net debt (excluding 8.75% irredeemable cumulative preference shares): Regulatory Capital Value (RCV)	70%	76%

The profit before and after tax results benefited significantly from a credit of £1.8m (2009: cost of £5m) in respect of the indexation and amortisation of fees and premium related to the index-linked debt.

The level of capital investment and the ratio of net debt to RCV have followed previously projected trends.

The tax charge of £4.5m represents an effective tax rate of 19% (2009: 30%). The principal reason for the low effective tax rate is the effect of beneficial change in discount rates being used for calculation of deferred tax compared to 2009.

Treasury

Net cash inflow from operating activities was £48.0m (2009: £47.5m). The outflow from financing activities was £2.2m (2009: £1.9m). Net cash used in investing activities was £20.5m (2009: £29.0m). Net cash outflow from investment returns and servicing finance was £6.1m (2009: £6.6m).

Net interest charges and indexation in the year totalled £5.0m (2009: £11.7m) and were covered 5.6 times (2009: 2.5 times) by operating profit; an abnormal position due to RPI reductions on index-linked debt.

At 31 March 2010 gross debt excluding the 8.75% irredeemable cumulative preference shares was £218.3m (2009: £222.4m). Approximately 48% of this debt is index-linked and 34% is at fixed rates; the index-linked element is hedged by the company's largely index-linked revenue base.

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

The company maintains cash balances and committed credit facilities to meet foreseeable cash flow requirements.

Net debt including the 8.75% irredeemable cumulative preference shares decreased to £204.0m from £214.3m at 31 March 2009. This decrease mainly reflects an increase in short-term deposits, which is due to net cash inflow during the year, and a decrease in index-linked debt due to a decrease in RPI.

DIRECTORS' REPORT (continued)

BUSINESS REVIEW (continued)

Treasury (continued)

At the year-end net debt excluding the 8.75% irredeemable cumulative preference shares was £191.5m (2009: £201.8m), representing approximately 70% (2009: 76%) of Regulatory Capital Value. This is in line with the company's projections. This is a key ratio, which is effectively replicated within the company's banking covenants. The range that the company expects to operate within provides a headroom margin to meet adverse impacts from risks and uncertainties.

Pensions

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

At 31 March 2010 the gross surplus before tax under FRS17 of the company's section of WCPS was £8.8m. This represents a recognised £0.1m increase from the £8.7m surplus at 31 March 2009. The company has previously agreed to make an additional contribution of £0.9m in 2010/11.

The most recent triennial valuation of the pension scheme was completed at 1 April 2008. An updated estimate of the scheme's funding deficit at 31 December 2009 indicated a funding deficit of approximately £14.0m. The company has kept the minimum level of regular contributions at 21% of pensionable salary in recognition of the additional contributions being made. The actuary has indicated an expectation that contributions rates will need to increase to 27% after the next review in March 2011.

Dividends

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

- A base level reflecting the cost of capital allowed by Ofwat in the 5-year determination of price limits, adjusted to reflect actual gearing levels and where appropriate actual performance relative to Ofwat's assumptions.
- An amount equal to the post-tax interest receivable from Agbar UK Ltd (the ultimate UK parent company, formerly known as Bristol Water Group Ltd) in respect of inter-company loans.

A final dividend of £3.6m in respect of the 2009 financial year was approved at the Annual General Meeting (AGM) in August 2009 and paid in September 2009.

During the year the following interim dividends have been paid in respect of the 2010 financial year:

- First interim for the inter-company loan interest element of £1.5m paid in September 2009
- Second interim in respect of the base level dividend of £3.7m paid in November 2009
- Third interim for the inter-company loan interest element of £1.4m paid in March 2010.

The Board has not proposed a final dividend in respect of the year ended 31 March 2010 (31 March 2009: 60.02p per share totalling £3.6m) due to underlying uncertainties arising from the pending price determination by the CC.

In addition, dividends of £1.1m (2009: £1.1m) have been paid during the year on the irredeemable preference shares which are required to be shown as debt in the balance sheet.

DIRECTORS' REPORT (continued)

BUSINESS REVIEW (continued)

Capital structure

Details of the issued share capital are shown in notes 13 and 18. The company has one class of ordinary shares, which carry no right to fixed income. Each ordinary share carries the right to one vote at general meetings of the company.

There are no specific restrictions on the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the company's shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the company's share capital and all issued shares are fully paid. The Articles of Association themselves may be amended by special resolution of the shareholders.

Under its Articles of Association and the Companies Acts, the company has in issue 5,998,025 ordinary shares as disclosed in note 18. All the ordinary shares are owned by Bristol Water Core Holdings Ltd, which is itself a wholly owned subsidiary within Agbar UK group. In addition, the company has in issue 12,500,000 8.75% irredeemable cumulative preference shares, details of which are disclosed in note 13.

Non-financial performance

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

Years to 31 March	2009	2008
Performance measures		
Ofwat overall performance assessment (OPA):		
OPA score (out of 288)	279	283
OPA ranking (out of 22 companies)	10th	3 rd
Customer satisfaction survey	84%	87%

The 2010 rankings will be published by Ofwat later this year.

DIRECTORS' REPORT (continued)

BUSINESS REVIEW (continued)

Non-financial performance (continued)

The English and Welsh water companies operate to very high quality and service levels and relatively small differences in performance can have a significant impact on the Ofwat performance measures.

	Units	Notes	2010	2009
Environment				
Excavated materials sent to recycling facilities	Tonnes		24,903	19,207
Average energy used to supply 1ML of water	KwH	1	767	719
Emission of greenhouse gases in total to supply 1 ML of water	Tonnes of CO ₂ e	1, 2, 3	0.410	0.404
Compliance with EA abstraction licences			100%	100%
Status of SSSIs – percentage favourable			100%	100%
Social				
Security of supply index			100%	100%
Water quality compliance		4, 5	99.98%	99.97%
Employees				
Turnover rate			3.0%	2.6%
Accidents reportable to HSE	No.	4	6	3
Assets				
Percentage of properties with interruptions to supply greater than six hours			0.37%	0.50%
Loss of water from supply network	MLD	6	52.8	54.0

- Notes:
- 1 ML = mega litres (1 mega litre = 1000 cubic metres).
 - 2 The "emission factor" used to calculate CO₂ emissions associated with mains electricity has been changed several times in the last few years, which accounts for part of this increase. Most of the rest of the increase arises as a result of an increase in electricity consumption due to climatic and operating conditions requiring a different balancing of sources used.
 - 3 CO₂e refers to "CO₂ equivalent" meaning that all emissions have been accounted for in a standard format.
 - 4 Based on 12 months to 31 December ending in the relevant accounting period.
 - 5 Water quality is based on mean zonal compliance data.
 - 6 MLD = mega litres per day.

GOING CONCERN

In November 2009 Ofwat set final determinations of price limits and regulatory output requirements for the five years ended March 2015 for all water companies in England and Wales. Bristol Water plc rejected Ofwat's Final Determination, primarily on the grounds that price limits were too low for the outputs required. As required by the relevant legislation, Ofwat has referred the company's rejection to the Competition Commission ("CC").

On 18 June the CC issued its Provisional Findings broadly suggesting an increase in maintenance expenditure, capital expenditure, operating expenditure and taxation compared to Ofwat's Final Determination. However the CC has suggested a reduction in the cost of capital relative to Ofwat's Final Determination. The net effect of the Provisional Findings suggests an increase in charges to customers of approximately 2.3% p.a average. The CC is expected to publish its Final Determination by 6 August 2010.

DIRECTORS' REPORT (continued)

GOING CONCERN (continued)

The issue of financeability of the company's operations for the regulatory period 2010-15 has not yet been fully resolved, however, the directors consider that the provisional increases in expenditure mentioned above are significant improvements relative to Ofwat's Final Determination. The directors are in the process of providing a response to the CC's Provisional Findings, and, noting the legal obligations placed on the CC to ensure that regulatory settlements can be funded appropriately, they expect further improvements in the CC's Final Determination relative to its Provisional Findings. The uncertainty about the financeability of the company's operations for the regulatory period 2010-15 has been further discussed in the 'Risk and Uncertainty' section below.

In considering the going concern basis, the directors have considered a range of possible scenarios, both favourable and unfavourable, which may arise after the CC's Final Determination. If the outcome of the CC's price determination is less favourable to the company relative to the company's final 'Statement of Case', the directors will implement measures to reduce capital and operating expenditure with a view to minimising expenditure in the short-term, and with a view to achieving stability in the long term.

After considering these matters, the existing cash resources and, as highlighted in note 13, an unutilised committed borrowing facility of £30m, the directors of the company continue to adopt the going concern basis for preparing the accounts.

RISK AND UNCERTAINTY

The key risks and uncertainties that the company faces include:

Operational:

- contamination or interruption of water resources and/or supplies,
- failure of key assets to maintain expected outputs, adversely affecting the ability to maintain supplies to customers,
- climate/weather pattern change affecting resource availability and/or customer demand
- retention and recruitment of key staff, and
- serious health and safety related incidents.

Regulatory:

- failure to meet existing regulatory requirements which could result in penalties or enforcement action by Ofwat, the EA or the DWI,
- increased costs of meeting regulatory requirements,
- impact of legislative changes including those related to environmental or drinking water quality requirements,
- significant development of competition within the water sector, and
- impact of future periodic and/or interim determinations of price limits by the Competition Commission; their assessment of Ofwat's determination will set prices for April 2011 onward for the 5 year period 2010-2015.

Financial:

- as mentioned in 'Going Concern' section above, the issue of financeability of the company's operations for the regulatory period 2010-15 cannot be fully resolved until the CC provides its Final Determination in August 2010. The directors consider that they have a range of financing options available to them, which includes the possibility of issuing additional share capital or sub-ordinated debt, if necessary, either to its parent group or to third parties in the later part of the regulatory period 2010-15,
- loss of major customers as a result of closure of their facilities,
- pensions – the company is a member of the Water Companies' Pension Scheme (WCPS) via a separate section of the scheme. Defined benefits are provided based on final pensionable pay. The section was closed to new employees a number of years ago but remains open to future benefit accrual for existing members. At 31 March 2010 the scheme had a recognised surplus before taxation of £8.8m on a FRS17 basis (although a deficit in actuarial terms). The funding requirements of the scheme are subject to a range of factors including longevity assumptions, investment allocation and investment returns. Additionally changes in pension regulations could have a significant impact on future company contributions,

DIRECTORS' REPORT (continued)

RISK AND UNCERTAINTY (continued)

- worsening debt collection experience, particularly in relation to household debt; giving rise to increasing levels of bad debts,
- inflation or deflation – operating costs, the capital investment programme and the company's £105.5m of index-linked debt is subject to inflation; potential adverse impacts of high inflation or deflation are partially mitigated by the index-linking of the majority of revenues through the RPI +/- K price limits,
- increases in energy prices, although the company has already fixed prices for the majority of its 2010/11 requirements,
- changes in the taxation regime applicable to the company,
- failure to meet banking covenants, and
- financial market turmoil, which could impact the company's ability to raise additional future finance.

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

Financial risk management policies are further discussed in note 15 to the financial statements.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were:

J M Woolley, *Chairman*
L García, *Chief Executive*
A Parsons, *Managing Director*
M Anglada, *Finance Director from 1 December 2009*
S Pellegrí, *Finance Director until 30 November 2009, now a Non-Executive*
P McIlwraith, *Non-Executive*
C J Curling, *Non-Executive*
R Davis, *Non-Executive*
J A Guijarro, *Non-Executive*
C Rozman, *Non-Executive*
M Navarro, *Non-Executive*
M Cermerón, *Non-Executive*
A J Harding, *Non-Executive*

Mr J M Woolley, Mr A Parsons, Mr C J Curling, Mr C Rozman and Mr A J Harding will offer themselves for re-election and Mr M Anglada will stand for election at the Annual General Meeting.

Service contracts and fees

All current executive directors have service contracts with 12-month notice periods except for Mr Anglada who is on a secondment arrangement from the Agbar group.

Other interests

At no time during the year has any director had a material interest in any contract of significance with any company in the Agbar group of companies other than his service contract.

The interests in shares and other contracts of Mr M Navarro, Mr L García, Mr J Guijarro, Mr C Rozman, Mr M Cermerón, Mr S Pellegrí and Mr M Anglada with other companies within the Agbar group are not disclosed within this report.

Mr J M Woolley and Mr A Parsons have interests and beneficial interests in the company's 8.75% irredeemable cumulative preference shares of £28,000 (2009: £28,000) and £266,000 (2009: £266,000) respectively.

DIRECTORS' REPORT (continued)

CORPORATE SOCIAL RESPONSIBILITY

The company is committed to acting in a responsible and sustainable manner, and seeks to be a leading example of good environmental management in the Agbar Group.

Environment

The water industry has several impacts on the environment; effective management of these is essential for the industry to be sustainable in the long term. By reference to a range of sustainability measures developed by Water UK (the trade body for water companies in England and Wales), the company performs well compared with its peer group.

We:

- meet, and in many cases exceed, all our legal obligations to the environment
- have achieved the Carbon Trust Standard for the work we have done to manage and reduce our carbon footprint
- manage our landholdings with biodiversity in mind. Our Sites of Special Scientific Interest are all in "favourable" status as measured by the regulator. This is the top rating in the water industry
- have top-level commitment to sustainable management of the business. Our Environmental Management Group includes the Chief Executive, Managing Director, Executive and Non-Executive Directors and all senior operational managers in the company
- assess the potential environmental impact of our work so that risks to the environment are managed properly.

Social and community

We:

- deliver high quality reliable supplies of water to over 1.1 million people and businesses
- promote the efficient use of water
- provide the best possible public access to our reservoir sites whilst maintaining a balance between wildlife and recreational demands. Our reservoirs in the Mendip hills have an international reputation for angling and bird life, and are also used by walkers, sailors and casual visitors for recreation
- undertake a structured programme of educational support including open days, access to visitor centres and school visits
- make charitable donations, sponsorships and grants to local organisations and individuals to promote good causes

Employees

Our employees are vital to the success of the company.

We:

- are committed to employee involvement, communication, training and sound relationships with trade unions
- are an equal opportunity employer providing employment and appropriate facilities for disabled people and for those who have become disabled while employed by the company
- have high standards for health and safety
- operate bonus schemes for all employees linked to financial and service level performance targets
- make continued efforts to improve the work environment.

Key performance indicators

The company uses a series of KPIs to monitor environmental performance. These are reported monthly to the Board; some key measures are included in the non-financial performance section on page 9.

Annual Environment & Sustainability Reports and further details of the company's environmental, conservation and recreation policies are available on our website www.bristolwater.co.uk.

DIRECTORS' REPORT (continued)

OUTLOOK

The main drivers of future profitability will be:

- increases in charges to customers in line with the RPI+/-K price limits. The 'K' factor allowed by Ofwat and now subject to review for next year is 0.6%;
- changes in operating costs - further efficiencies will be obtained by the company, offset by the cost of new obligations and inflation;
- inflation or deflation – operating costs, the capital investment programme and the company's £105.5m of index-linked debt are subject to inflation; potential adverse impacts of high inflation or deflation are mitigated by the index-linking of the majority of revenues through the RPI +/- K price limits;
- energy costs are significant for the company; power costs are constantly changing in line with crude oil markets. Total energy costs for 2010 increased by 32% compared to 2009. This increase was due to a significant increase in energy prices, as well as an increase in demand over the unusually low consumption of 2009. We currently anticipate that energy costs for 2011 will stay broadly at the same levels as 2010. We expect energy costs to remain volatile in the future;
- price determination by CC, as the company rejected Ofwat's Final Determination for regulatory period 2010-15; and
- changes in pension funding assumptions.

ULTIMATE PARENT COMPANY

Until 30 September 2009 the ultimate parent company was considered by the Directors to be Sociedad General de Aguas de Barcelona S.A. (Agbar), a company incorporated in Spain.

In October 2009 Suez Environnement (partly owned by the French group GDF Suez) announced their plan to take 75% control of Agbar, and on 8 June 2010 the final step in the take over of Agbar was completed.

The takeover of Agbar by Suez Environnement may change the identity of Bristol Water plc's ultimate holding company for the purposes of Condition P of the company's Instrument of Appointment. Ofwat is being kept informed of material developments.

Full disclosure of the affairs of the Agbar UK group of companies is made in the annual report of Agbar. Copies of its consolidated annual report are available from Torre Agbar, Avda. Diagonal, 211, Planta 20-08018, Barcelona, Spain.

LAND AND BUILDINGS

In the opinion of the directors there is no material difference between the book value and the current open market value of land and buildings expected to be disposed of within the next twelve months. The company keeps its holdings of land and buildings under continuous review, and there may be disposals beyond that period that may generate significant surpluses. The company continues to consider a rationalisation of certain of its operational properties. The investment in any new properties is expected to be funded primarily by proceeds on disposal of properties that subsequently become surplus to requirements.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

It is company policy to comply with the terms of payment agreed with a supplier. Where payment terms are not negotiated, the company endeavours to adhere to the supplier's standard terms. The company pays creditors in accordance with agreed payment terms on receipt of valid invoices. At the end of the year, trade creditors represented the equivalent of 35 days purchases (2009: 33 days).

RESEARCH AND DEVELOPMENT

The company undertakes research and development projects in relation to its business. Expenditure during the year amounted to £0.1m (2009: £0.1m).

DIRECTORS' REPORT (continued)

INSTRUMENT OF APPOINTMENT AND REGULATORY ACCOUNTS

In accordance with its Instrument of Appointment made under the Water Industry Act 1991 as amended, the directors are of the opinion that the company is in compliance with paragraph 3.1 of Condition K of that Instrument, which relates to the control of the assets of the Appointed Business. Copies of the Regulatory Accounts required under the Instrument of Appointment will be available from the Company Secretary.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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

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

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

DIRECTORS' REPORT (continued)

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by order of the Board, and signed on its behalf by:

Moger Woolley
Chairman
26 July 2010

DIRECTORS

John Moger Woolley DL Age 75
Non-Executive Chairman, Member of Nomination Committee

Mr Woolley was appointed to the Board in 2005. He has been a director of Bristol Water Group Ltd (BWG) since 1990, becoming Chairman in 1998. He is Pro-Chancellor of the University of Bristol. He was the High Sheriff of Gloucestershire in 2002 and was formerly the Chief Executive of DRG plc.

Luis García Age 45
Chief Executive, Member of Nomination Committee

Mr García was appointed to the Board in January 2009 initially as a Non-Executive director. He joined Agbar in 1989 and has held a number of senior positions. He was appointed Chief Executive of the company on 1 April 2009.

Alan Parsons Age 61
Managing Director, Member of Nomination Committee

Mr Parsons was appointed to the Board in 1991 and appointed as Chief Executive in 2000. He became Managing Director in June 2006. He is also a director of Water UK.

Miquel Anglada Age 36
Finance Director

Mr Anglada was appointed to the board in October 2009 and was appointed Finance Director on 1 December 2009. Prior to moving to the UK he was Group Financial Controller at Agbar in Barcelona.

Stefano Pellegri Age 37
Former Finance Director, now Non-Executive

Mr Pellegri was appointed to the Board in November 2007. Prior to joining the Agbar group he held a number of senior financial roles in the Lear Corporation.

Peter McIlwraith Age 62
Non-Executive, Senior Independent Director, Chairman of Audit Committee and Member of Nomination and Remuneration Committees

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

Chris Curling Age 60
Non-Executive, Member of Nomination and Audit Committees, Chairman of Remuneration Committee

Mr Curling was appointed to the Board in 2004. He was a director of BWG from 2005 until June 2006. He has two non-executive directorships and a number of appointments in the voluntary sector. Formerly he was Senior Partner with the legal firm Osborne Clarke.

Robert Davis Age 62
Non-Executive, Member of Audit, Nomination and Remuneration Committees

Mr Davis was appointed to the Board in November 2008. With a mechanical engineering background, he worked with Rolls Royce before moving to the packaging industry leading to Managing Director roles in both the UK and the USA.

Juan Antonio Guijarro Age 45
Non-Executive

Mr Guijarro was appointed to the Board in June 2006. He is General Manager of Agbar and has been with Agbar since 1989. He is also a director of Agbar UK Ltd (formerly known as BWG).

Ciril Rozman Age 45
Non-Executive

Mr Rozman was appointed to the Board in May 2007. He is General Manager of Sociedad General de Aguas de Barcelona (covering the Barcelona Metropolitan area) and has been with Agbar since 1995.

Manuel Navarro Age 53
Non-Executive

Mr Navarro was appointed to the Board as Chief Executive in June 2006, from which position he stepped down in March 2009. He has held a range of senior positions with Agbar since 1983. He was also Chief Executive of BWG.

DIRECTORS (continued)

Manuel Cermerón Age 40

Non-Executive

Mr Cermerón was appointed to the Board in June 2006 as an executive director until he resigned from that role on 31 July 2008. He has held a range of senior positions with Agbar since 2000 and is now responsible for Human Resources within Agbar.

Tony Harding Age 61

Non-Executive

Mr Harding was appointed to the Board in September 2007. He is the former Chairman of United Water, a subsidiary of Suez Environnement, which provides water and waste water services to around 7 million people in several US states. He is a Chartered Engineer and was previously Managing Director of Northumbrian Water and Essex & Suffolk Water.

Note:

References to Bristol Water Group Ltd (now known as Agbar UK Limited) above include predecessor companies where appropriate.

CORPORATE GOVERNANCE REPORT

DIRECTORS' STATEMENT

The Board is committed to ensuring that high standards of corporate governance are maintained by the company. In doing so it endorses the main and supporting principles and provisions set out in the Combined Code on Corporate Governance of the Financial Reporting Council (the Code) as revised in June 2008. For the year ended 31 March 2010 up to the date of approving the accounts the Board has applied the principles and complied with the provisions of Section 1 of the Code.

GOING CONCERN

In November 2009 Ofwat set final determinations of price limits and regulatory output requirements for the five years ended March 2015 for all water companies in England and Wales. Bristol Water plc rejected Ofwat's Final Determination, primarily on the grounds that price limits were too low for the outputs required. As required by the relevant legislation, Ofwat has referred the company's rejection to the Competition Commission ("CC").

On 18 June the CC issued its Provisional Findings broadly suggesting an increase in maintenance expenditure, capital expenditure, operating expenditure and taxation compared to Ofwat's Final Determination. However the CC has suggested a reduction in the cost of capital relative to Ofwat's Final Determination. The net effect of the Provisional Findings suggests an increase in charges to customers of approximately 2.3% p.a average. The CC is expected to publish its Final Determination by 6 August 2010.

The issue of financeability of the company's operations for the regulatory period 2010-15 has not yet been fully resolved, however, the directors consider that the provisional increases in expenditure mentioned above are significant improvements relative to Ofwat's Final Determination. The directors are in the process of providing a response to the CC's Provisional Findings, and, noting the legal obligations placed on the CC to ensure that regulatory settlements can be funded appropriately, they expect further improvements in the CC's Final Determination relative to its Provisional Findings. The uncertainty about the financeability of the company's operations for the regulatory period 2010-15 has been further discussed in the 'Risk and Uncertainty' section of the 'Directors' Report'.

In considering the going concern basis, the directors have considered a range of possible scenarios, both favourable and unfavourable, which may arise after the CC's Final Determination. If the outcome of the CC's price determination is less favourable to the company relative to the company's final 'Statement of Case', the directors will implement measures to reduce capital and operating expenditure with a view to minimising expenditure in the short-term, and with a view to achieving stability in the long term.

After considering these matters, the existing cash resources and, as highlighted in note 13, an unutilised committed borrowing facility of £30m, the directors of the company continue to adopt the going concern basis for preparing the accounts.

Board and Board Committees

At 31 March 2010 the Board of Bristol Water plc (the "Board") comprised the Chairman (a non-executive director), three executive directors and nine other non-executive directors. Three of the non-executive directors are, in the opinion of the Board, independent. This assessment has been made by the Board based on its views of their performance on the Board and taking into account their experience, character and period served.

CORPORATE GOVERNANCE REPORT (continued)

Board and Board Committees (continued)

The following table sets out the attendance of directors at Board and committee meetings during the financial year 2009/10:

		Board meetings (maximum 6)	Number of meetings attended Percentage attendance during period of appointment	Audit Committee meetings (maximum 4)	Remuneration Committee meetings (maximum 3)
Chairman	J M Woolley	6	100%		
Chief Executive	L Garcia	5	83%		
Managing Director	A Parsons	5	83%		
Finance Director (from 1 December 2009)	M Anglada	3	100%		
Non-Executive director (formerly Finance Director until 30 November 2009)	S Pellegri	6	100%		
Independent Non-Executive director*	P Mcllwraith	6	100%	4	3
Independent Non-Executive director*	C Curling	6	100%	4	3
Independent Non-Executive director	R Davis	6	100%	4	3
Non-Executive director	J A Guijarro	2	33%		
Non-Executive director	C Rozman	-	0%		
Non-Executive director	M Navarro	3	50%		
Non-Executive director	M Cermerón	6	100%		
Non-Executive director	A J Harding	5	83%		

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

The Board considers that it is functioning well and that there was no benefit in carrying out a formal performance evaluation process. The Board recognises that the company is a subsidiary of Agbar and that Agbar carries out its own detailed process of evaluation of its senior staff.

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

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

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

CORPORATE GOVERNANCE REPORT (continued)

Audit Committee

The Audit Committee's terms of reference include the points recommended by the Combined Code. Its duties include monitoring internal controls, approving the accounting policies and reviewing the interim and annual financial statements before submission to the Board. The Committee is chaired by Mr P McIlwraith and currently comprises two other non-executive directors Mr C Curling and Mr R Davis. The external auditors attended all meetings in the year and the internal auditors report to this Committee on a regular basis.

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

External auditors

The Audit Committee is responsible for the development, implementation and monitoring of the company's policy on external audit. The policy assigns oversight responsibility for monitoring the independence, objectivity and compliance with ethical and regulatory requirements to the Audit Committee, and day-to-day responsibility to the Finance Director. It states that the external auditors are jointly responsible to the board and the Audit Committee and that the Audit Committee is the primary contact. The policy also sets out the categories of non-audit services which the external auditors will and will not be allowed to provide to the company, subject to de minimis levels.

To fulfil its responsibility regarding the independence of the external auditors, the audit committee reviewed:

- the external auditors' plan for the current year, noting the role of the senior statutory audit partner, who signs the audit report;
- the arrangement for day-to-day management of the audit relationship;
- a report from the external auditors describing their arrangements to identify, report and manage any conflicts of interest; and
- the overall extent of non-audit services provided by the external auditors, in addition to its case by case approval of the provision of non-audit services by the external auditors.

To assess the effectiveness of the external auditors, the Audit Committee reviewed:

- the arrangements for ensuring the external auditors' independence and objectivity;
- the external auditors' fulfilment of the agreed audit plan and any variations from the plan; and
- the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements.

Internal auditors

The Audit Committee is required to assist the board to fulfil its responsibilities relating to the adequacy of the plans relating to the internal auditors. To fulfil these duties the Committee reviewed:

- Internal Audit's terms of reference and access to Audit Committee and all members of the board;
- Internal Audit's plans and its achievement of the planned activity; and
- the results of key audits and other significant findings, the activity of management's response and the timeliness of resolution.

Remuneration Committee

The role and composition of the Remuneration Committee is set out in the 'Remuneration Committee Report' on page 22.

CORPORATE GOVERNANCE REPORT (continued)

Internal Controls

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

The Board has overall responsibility for the system of internal control, and for reviewing its effectiveness, whilst the role of management is to implement Board policies on risk and control. The system of internal control is designed to manage risks to appropriate minima rather than eliminate any risk of failure in achieving business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

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

The executive directors:

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

The company operates through a formal board structure, which:

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

The Audit Committee:

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

The Board:

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

The Board undertook formal assessments of risk management and control arrangements on 26 January 2010 and 2 June 2010 in order to form a view on the overall effectiveness of the system of internal control. This review included an assessment of the effectiveness of internal controls within the group's joint venture, Bristol Wessex Billing Services Limited.

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

By order of the Board
S C Robson, Secretary
26 July 2010

REMUNERATION COMMITTEE REPORT

This report has been prepared in accordance with Schedule 8 to the Accounting Regulations under the Companies Act 2006.

Unaudited element of the Remuneration Committee Report

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

The Report will be put to shareholders for approval at the Annual General Meeting.

Role and Composition of the Remuneration Committee

The Remuneration Committee makes recommendations to the Board on the remuneration and other employment conditions of the executive directors and senior executives of Bristol Water plc. It consists solely of independent non-executive directors. The membership of the Committee during the year comprised Mr C Curling (Chairman), Mr R Davis and Mr P McIlwraith. Attendances at committee meetings are set out on page 19.

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

In deciding appropriate levels of executive remuneration, the Committee uses external research from independent remuneration consultants when appropriate to obtain up-to-date information on a comparator group of companies. This year the Committee made no adjustments to the directors' existing remuneration arrangements other than the same inflationary pay award made to all staff.

During the year Mr L García (Chief Executive), Mr A Parsons (Managing Director) and Mr S C Robson (Company Secretary) also provided material advice and services to the Committee. No director played a part in any discussions about his own remuneration. None of the Committee has any personal financial interest or conflict of interest arising from cross-directorships or from day-to-day involvement in running the business.

Remuneration Policy

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

One new executive director was appointed in this period and his arrangements were arrived at in conjunction with the group's parent company, Agbar. The arrangements were designed to fit within the existing structure of the pay arrangements of the company, reflecting the skill, experience and expected contribution of the new director.

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

Basic annual salary - factors taken into account when determining basic annual salary levels are objective research based on independent salary reviews; the individual executive director's performance during the year; and pay and conditions throughout the company. Basic annual salary is reviewed each year but no adjustments save for cost of living increases have been made in the last year.

Annual bonus - based on the achievement of water quality, customer service, leakage, a range of financial targets and the overall performance of the Agbar water division, together with an assessment of personal performance, and is restricted in 2010 to a maximum (save in exceptional circumstances) of either 30% or 50% of basic salary.

REMUNERATION COMMITTEE REPORT (continued)

Remuneration Policy (continued)

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

Some expatriate benefits provided to Messrs García, Anglada and Pellegrini are not borne by the regulated water business but are borne by Agbar UK Ltd (formerly known as Bristol Water Group Ltd). These include their company cars, free furnished accommodation, utilities, tax advice and private school/nursery fees where appropriate.

Annual Bonus Scheme

Annual bonus awards for the bonus year 2010 (accrued and approved but not paid as at 31 March 2010) are shown in the sections headed 'Details of Directors' Remuneration and Pension Benefits'.

Share Options and Long-Term Incentive Schemes

There are currently no Share Options or Long-term Incentive schemes in place.

Service Contracts

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

	Contract date	Notice period	Unexpired term
L García (appointed 1 April 2009)	23 April 2009	1 year	rolling 1 year
A Parsons	13 July 2004	1 year	rolling 1 year
M Anglada (appointed on 12 October 2009)*	N/A	N/A	N/A
S Pellegrini (resigned 30 November 2009)	26 November 2007	N/A	N/A

* All current executive directors have service contracts with 12-month notice periods except for Mr Anglada who is on a secondment arrangement from the Agbar group.

Mr S Pellegrini resigned as an executive director but remains as a non-executive director of the Board. Mr Pellegrini has moved to a senior post within the Agbar group in accordance with the special notice arrangement in his service contract for intra-group transfers.

Mr Parsons has a provision in his service contract for the enhancement of his Water Companies' Pension Scheme pensionable service by a maximum of 6½ years in the event of redundancy and under the normal rules of the Water Companies' Pension Scheme is entitled to a non-actuarially reduced pension if his service contract was terminated in certain circumstances.

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

Directors' Pension Arrangements

Mr A Parsons is the only director eligible to be a contributory member of the Water Companies' Pension Scheme, a defined benefits final salary scheme. Under the terms of that scheme the only elements of remuneration other than basic salary, which are pensionable, relate to the taxable benefits associated with company car provision. Since April 2001 a notional figure, indexed annually, has been used for this purpose based on the value of the taxable benefit as at 6 April 2001.

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

REMUNERATION COMMITTEE REPORT (continued)

Details of Directors' Remuneration and Pensions Benefits (continued)

(b) Accrued pension scheme benefits earned by directors

	A Parsons £000
Listing Rules disclosure	
Increase in accrued pension during 2009/10 in excess of inflation	4
Increase in accrued lump sum during 2009/10 in excess of inflation	11
Accumulated pension per annum at 31 March 2010	59
Accumulated lump sum at 31 March 2010	177
Transfer value of increase in pension benefits	101
Transfer value of increase less director's contributions	84
Schedule 8 disclosure	
Increase in accrued pension during 2009/10	4
Increase in accrued lump sum during 2009/10	11
Accumulated pension per annum at 31 March 2010	59
Accumulated lump sum at 31 March 2010	177
Transfer value	
As at 31 March 2009	1,549
As at 31 March 2010	1,503
Decrease in transfer value	(45)
Decrease in transfer value less director's contributions	(62)

Mr Parsons accrued retirement benefits under the Bristol Water plc section of WCPS, and his benefits include personally purchased Additional Voluntary Contributions (AVCs).

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

Mr Parsons passed his normal retirement age during the year, consequently, his transfer value at 31 March 2010 has been calculated on the Section's transfer value basis for pensioner member (as opposed to the non-pensioner basis used as at 31 March 2009). This change in basis explains the decrease in Mr Parsons' transfer value over the year.

Messrs García, Anglada and Pellegri have not joined the company designated stakeholder pension plan and the company is not making any contribution to any private pension scheme on their behalf.

This report was approved by the Board of Directors on 26 July 2010 and signed on its behalf by:

Chris Curling
Chairman of Remuneration Committee
26 July 2010

PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2010

		2010	2009
	Note	£m	£m
Turnover	2	99.7	96.7
Operating costs	3	(71.8)	(67.6)
Operating profit		27.9	29.1
Profit on sale of tangible fixed assets		0.2	-
Other net interest payable and similar charges	4	(3.1)	(10.4)
Dividends on 8.75% irredeemable cumulative preference shares	4	(1.1)	(1.1)
Interest in respect of retirement benefit scheme	4	(0.8)	(0.2)
Net interest payable and similar charges		(5.0)	(11.7)
Profit on ordinary activities before taxation		23.1	17.4
Taxation on profit on ordinary activities	5	(4.5)	(5.3)
Profit on ordinary activities after taxation		18.6	12.1
Earnings per ordinary share	6	310.0p	201.7p
Dividends per ordinary share	20		
- declared or proposed in respect of the period		170.12p	206.80p
- paid during the period		170.12p	146.78p

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

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

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 March 2010

		2010	2009
	Note	£m	£m
Profit attributable to Bristol Water plc shareholders		18.6	12.1
Actuarial losses recognised in respect of retirement benefit obligations	22	(0.4)	(5.8)
Attributable deferred taxation	17	0.1	1.6
Change in the fair value of the interest rate swap	16	0.1	(1.2)
Attributable deferred taxation	17	-	0.3
Total recognised gains for the year		18.4	7.0

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

BALANCE SHEET

at 31 March 2010

		2010	2009
	Note	£m	£m
Fixed assets	7	251.2	251.7
Other investments - Loans to ultimate UK holding company	8	68.5	68.5
Current assets			
Stocks	9	1.0	1.1
Debtors	10	23.1	21.6
Investments	13	25.0	19.4
Cash at bank and in hand	13	1.8	1.2
		<u>50.9</u>	43.3
Creditors: amounts falling due within one year			
Short-term borrowings	11	(2.5)	(2.2)
Other creditors	12	(28.7)	(25.0)
		<u>(31.2)</u>	(27.2)
Net current assets		<u>19.7</u>	16.1
Total assets less current liabilities		<u>339.4</u>	336.3
Creditors: amounts falling due after more than one year			
Borrowings and derivatives	13	(215.8)	(220.2)
Other creditors	12	-	(0.2)
		<u>(215.8)</u>	(220.4)
8.75% irredeemable cumulative preference shares	13	(12.5)	(12.5)
Deferred income	14	(10.3)	(10.2)
Provisions for liabilities	17	(22.2)	(22.8)
Retirement benefit surplus	22	6.3	6.3
Net assets		<u>84.9</u>	76.7
Capital and reserves			
Called-up share capital	18	6.0	6.0
Share premium account	19	4.4	4.4
Other reserves	19	5.0	4.9
Profit and loss account	19	69.5	61.4
Shareholders' funds	19	<u>84.9</u>	76.7

The financial statements of Bristol Water plc, registered number 2662226, were approved by the board of directors and authorised for issue on 26 July 2010.

A Parsons, Director

M Anglada, Director

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

CASH FLOW STATEMENT

for the year ended 31 March 2010

		2010	2009
	Note	£m	£m
Net cash inflow from operating activities	23(a)	48.0	47.5
Returns on investments and servicing of finance			
Interest received		4.2	5.1
Interest paid on term loans and debentures		(8.3)	(9.7)
Interest paid on finance leases		(0.9)	(0.9)
Dividends paid on 8.75% irredeemable cumulative preference shares		(1.1)	(1.1)
		<u>(6.1)</u>	<u>(6.6)</u>
Taxation			
Corporation tax paid		<u>(2.8)</u>	<u>(2.1)</u>
Capital expenditure and investing activities			
Purchase of tangible fixed assets		(24.6)	(32.6)
Contributions received		3.9	3.6
Proceeds from disposal of tangible fixed assets		0.2	-
		<u>(20.5)</u>	<u>(29.0)</u>
Equity dividends paid	20	<u>(10.2)</u>	<u>(8.8)</u>
Cash inflow before management of liquid resources and financing		8.4	1.0
Management of liquid resources being (increase)/decrease in short-term deposits		<u>(5.6)</u>	<u>1.9</u>
Financing			
New term loans		-	15.0
Capital element of lease repayments		(2.2)	(1.9)
Loan repayments		-	(15.0)
		<u>(2.2)</u>	<u>(1.9)</u>
Increase in cash in the year	23(b)	0.6	1.0
Cash, beginning of year		1.2	0.2
Cash, end of year		<u>1.8</u>	<u>1.2</u>

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

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the accounts, which have been applied consistently, are set out below.

(a) Accounting convention

The accounts of the company are prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom (UK GAAP) and with the provisions of the Companies Act 2006, except for the treatment of certain capital contributions as explained in sub-note (e) below.

The company has not adopted IFRS for its financial statements for the year ended 31 March 2010, and has no current plans to do so until UK GAAP and IFRS are fully harmonised.

(b) Going concern

In November 2009 Ofwat set final determinations of price limits and regulatory output requirements for the five years ended March 2015 for all water companies in England and Wales. Bristol Water plc rejected Ofwat's Final Determination, primarily on the grounds that price limits were too low for the outputs required. As required by the relevant legislation, Ofwat has referred the company's rejection to the Competition Commission ("CC").

On 18 June the CC issued its Provisional Findings broadly suggesting an increase in maintenance expenditure, capital expenditure, operating expenditure and taxation compared to Ofwat's Final Determination. However the CC has suggested a reduction in the cost of capital relative to Ofwat's Final Determination. The net effect of the Provisional Findings suggests an increase in charges to customers of approximately 2.3% p.a average. The CC is expected to publish its Final Determination by 6 August 2010.

The issue of financeability of the company's operations for the regulatory period 2010-15 has not yet been fully resolved, however, the directors consider that the provisional increases in expenditure mentioned above are significant improvements relative to Ofwat's Final Determination. The directors are in the process of providing a response to the CC's Provisional Findings, and, noting the legal obligations placed on the CC to ensure that regulatory settlements can be funded appropriately, they expect further improvements in the CC's Final Determination relative to its Provisional Findings. The uncertainty about the financeability of the company's operations for the regulatory period 2010-15 has been further discussed in the 'Risk and Uncertainty' section of the 'Directors' Report'.

In considering the going concern basis, the directors have considered a range of possible scenarios, both favourable and unfavourable, which may arise after the CC's Final Determination. If the outcome of the CC's price determination is less favourable to the company relative to the company's final 'Statement of Case', the directors will implement measures to reduce capital and operating expenditure with a view to minimising expenditure in the short-term, and with a view to achieving stability in the long term.

After considering these matters, the existing cash resources and, as highlighted in note 13, an unutilised committed borrowing facility of £30m, the directors of the company continue to adopt the going concern basis for preparing the accounts.

1. ACCOUNTING POLICIES (continued)

(c) Turnover

Turnover comprises charges to and accrued income from customers for water and other services, exclusive of VAT. Turnover is recognised upon delivery of water or completion of other services.

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

(d) Tangible fixed assets and depreciation

Tangible fixed assets comprise infrastructure assets and other assets:

Infrastructure assets

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

Other assets

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

Depreciation

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

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

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

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

Assets under construction are not depreciated.

Impairment

The values of fixed assets are reviewed regularly to determine whether their carrying amounts exceed their fair values in use. Where such an excess is believed to exist it is treated as an impairment loss and charged to the profit and loss account.

1. ACCOUNTING POLICIES (continued)

(e) **Grants and contributions**

Contributions received in respect of tangible assets, other than those received in respect of infrastructure assets, are treated as deferred income and amortised in the profit and loss account over the expected useful lives of the related assets. Contributions received in respect of enhancing the infrastructure network are not shown as deferred income but are deducted from the cost of the related fixed assets. This treatment is permitted by Statement of Standard Accounting Practice Number 4 but is a departure from the Companies Act 2006 which requires that such contributions be shown as deferred income.

In the directors' opinion, 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.

(f) **Leased assets**

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

Operating lease rental payments are charged to the profit and loss account as incurred over the term of the lease.

(g) **Pension costs**

The company operates both defined benefit and defined contribution pension arrangements. Defined benefit pension arrangements are provided through the company's membership of the Water Companies' Pension Scheme via a separate section.

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

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

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

(h) **Research and development**

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

1. ACCOUNTING POLICIES (continued)

(i) **Taxation**

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a discounted basis to reflect the time value of money over the period between the balance sheet date and the dates on which it is estimated that the underlying timing differences will reverse. The discount rates used reflect the post-tax yields to maturity that can be obtained on government bonds with similar maturity dates and currencies to those of the deferred tax assets or liabilities.

(j) **Distributions to shareholders**

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

(k) **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.

(l) **Financial instruments**

The company has entered into an interest rate swap effective from 22 October 2008 which is measured in accordance with FRS26 'Financial instruments: Recognition and Measurement'. The swap is deemed to be an effective cash flow hedge and therefore fair value adjustments are recognised in equity.

The net costs of issue of loans (being expenses incurred less premiums received) where material are amortised over the lives of the respective loans and disclosed within net borrowings. Immaterial amounts are written off as incurred. Index-linked loans are considered to be effective economic hedges and are valued at cost plus accrued indexation.

1. ACCOUNTING POLICIES (continued)

(m) Fair value hedge accounting

The company has designated its interest rate swap as a cash flow hedge and at inception the company has documented the relationship between the hedging instrument and the hedged item, along with its risk management objectives and strategy. Furthermore, at the inception and on an ongoing basis, the company documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

The effective portion of changes in the fair value of the swap that are designated and qualify as cash flow hedges are deferred through the statement of total recognised gains and losses. Should there be any ineffectiveness, the gain or loss relating to the ineffective portion would be recognised immediately in the profit and loss account and included in other net interest payable and similar charges.

Amounts deferred in the statement of total recognised gains and losses are recycled in the profit and loss account in the periods when the hedged item is recognised in the profit and loss account, in the same line as the recognised hedged item.

Hedge accounting is discontinued when the company revokes the hedging relationship, the hedging instrument expires, is terminated or exercised, or no longer qualifies for hedge accounting.

2. TURNOVER

Turnover is wholly derived from water supply and related activities in the United Kingdom. The maximum level of prices the company may levy for the majority of water charges is controlled by the Water Services Regulation Authority (Ofwat) through the RPI +/- K price formula.

3. OPERATING COSTS

(a) Operating costs comprise -

	2010 £m	2009 £m
Wages, salaries and severance costs	13.8	13.5
Social security costs	1.1	1.1
Defined benefit scheme pension costs (note 22(b))	1.6	2.2
Total payroll cost	<u>16.5</u>	<u>16.8</u>
Less capitalised as fixed assets	(3.8)	(3.7)
Net payroll cost	<u>12.7</u>	<u>13.1</u>
Other operating costs		
Operating lease rentals on plant and machinery	-	0.1
Research and development expenditure	0.1	0.1
Auditors' remuneration (note 3(d))	0.1	0.1
Raw materials, consumables, bad debts and other charges less recoveries	37.9	33.9
Total other operating costs	<u>38.1</u>	<u>34.2</u>
Depreciation of tangible fixed assets (note 7)		
On owned assets	20.2	19.5
On leased assets	1.3	1.3
Amortisation of related deferred income (note 14)	(0.5)	(0.5)
Net depreciation	<u>21.0</u>	<u>20.3</u>
Total operating costs	<u>71.8</u>	<u>67.6</u>

(b) Employee details -

The average number of employees (full-time equivalents) during the year was as follows:

	2010	2009
Water treatment and distribution	269	262
Support services	82	91
Administration	46	38
Non-appointed activities	49	50
	<u>446</u>	<u>441</u>

(c) Directors' emoluments -

	2010 £m	2009 £m
Aggregate emoluments of directors, being remuneration, bonus and benefits in kind	0.8	0.8
Payments to approved pension schemes, all in respect of executive directors	<u>0.1</u>	<u>0.1</u>

Full details of directors' remuneration are disclosed in the Remuneration Committee Report.

3. OPERATING COSTS (continued)

(d) Auditors' remuneration

	2010 £000's	2009 £000's
The analysis of auditors' remuneration is as follows:		
Fees payable to the company's auditors for the audit of the company's annual accounts	<u>53</u>	<u>53</u>
Services pursuant to legislation, principally related to regulatory returns	40	45
Tax services	13	13
Other services	19	7
Total non-audit fees	<u>72</u>	<u>65</u>

4. NET INTEREST PAYABLE AND SIMILAR CHARGES

	2010		2009	
	£m	£m	£m	£m
Other net interest payable and similar charges relate to -				
Bank borrowings		1.1		2.3
Term loans and debentures		7.3		7.2
				5.0
		(1.8)		0.9
Finance leases		0.6		0.9
		<u>7.2</u>		<u>15.4</u>
Less:				
Loan to Agbar UK Ltd (formerly known as Bristol Water Group Ltd) – interest receivable	(4.0)		(4.0)	
Other external investments and deposits	(0.1)		(1.0)	
		<u>(4.1)</u>		<u>(5.0)</u>
Total other net interest payable and similar charges		<u>3.1</u>		<u>10.4</u>
Dividends on 8.75% irredeemable cumulative preference shares		1.1		1.1
Net Interest charge in respect of retirement benefit scheme		0.8		0.2
		<u>5.0</u>		<u>11.7</u>

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

5. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2010 £m	2009 £m
(a) Analysis of charge for the year, all arising in the United Kingdom:		
Current tax:		
Corporation tax at 28%	4.9	2.5
Adjustment to prior periods	-	(0.1)
	<u>4.9</u>	<u>2.4</u>
Deferred tax:		
Current year movement	1.8	2.7
Adjustment to prior periods	-	0.1
	<u>1.8</u>	<u>2.8</u>
Effect of discounting	<u>(2.2)</u>	0.1
	<u>(0.4)</u>	<u>2.9</u>
Tax on profit on ordinary activities	<u>4.5</u>	<u>5.3</u>

The charge for corporation tax includes amounts that may be paid in consideration of group relief surrendered by other group companies.

Discount rates have increased during the current year (2009: decreased during the year). Within the effect of discounting in 2010, an increase in the beneficial effect of discounting of £1.4m (2009: decrease of £1.6m) has been recognised in respect of the restatement of the opening balance at the new rates, decreasing (2009: increasing) the overall deferred tax charge.

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 £3.9m (2009: £3.9m) of unrecognised ACT carried forward at 31 March 2010.

The company also holds £2.9m (2009: £3.0m) of unrecognised capital losses, which are available to offset against any future capital gains.

(b) Reconciliation of the current tax charge

The current tax rate for the year is lower (2009: lower) than the standard rate of Corporation Tax in the United Kingdom of 28% (2009: 28%). The differences are explained below:

	2010 £m	2009 £m
Profit on ordinary activities before tax	<u>23.1</u>	<u>17.4</u>
Profit on ordinary activities multiplied by standard rate of Corporation Tax in the United Kingdom at 28%	6.5	4.9
Effects of:		
Expenses including 8.75% irredeemable cumulative preference share dividends not deductible for tax	0.3	0.3
Capital allowances in excess of depreciation	(1.7)	(2.0)
Additional retirement benefit contributions	(0.1)	(0.6)
Other net charges	<u>(0.1)</u>	<u>(0.1)</u>
	4.9	2.5
Adjustment to tax in respect of prior periods	-	(0.1)
Total current tax charge	<u>4.9</u>	<u>2.4</u>

6. EARNINGS PER ORDINARY SHARE

	2010 m	2009 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	£18.6	£12.1
Weighted average number of ordinary shares	<u>6.0</u>	<u>6.0</u>

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

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 2009	209.1	37.3	224.5	11.6	482.5
Additions	-	-	8.5	15.9	24.4
Capitalisation of completed assets	10.5	4.7	4.4	(19.6)	-
Disposals	(1.5)	(1.3)	-	-	(2.8)
Grants and contributions	-	-	(3.3)	-	(3.3)
At 31 March 2010	<u>218.1</u>	<u>40.7</u>	<u>234.1</u>	<u>7.9</u>	<u>500.8</u>
Depreciation					
At 1 April 2009	82.5	27.3	121.0	-	230.8
Charge for year	7.7	3.3	10.5	-	21.5
Disposals	(1.4)	(1.3)	-	-	(2.7)
At 31 March 2010	<u>88.8</u>	<u>29.3</u>	<u>131.5</u>	<u>-</u>	<u>249.6</u>
Net book value at 31 March 2010	<u>129.3</u>	<u>11.4</u>	<u>102.6</u>	<u>7.9</u>	<u>251.2</u>
At 31 March 2009	<u>126.6</u>	<u>10.0</u>	<u>103.5</u>	<u>11.6</u>	<u>251.7</u>

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

(b) Included above at 31 March 2010 is freehold land, not subjected to depreciation in the year, of £1.6m (2009: £1.5m).

7. TANGIBLE FIXED ASSETS (continued)

(c) Included above at 31 March 2010 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 2010				
Cost	37.5	6.1	1.2	44.8
Depreciation	(24.1)	(6.1)	-	(30.2)
Net book value	13.4	-	1.2	14.6
At 31 March 2009				
Cost	37.6	6.3	1.2	45.1
Depreciation	(22.9)	(6.3)	-	(29.2)
Net book value	14.7	-	1.2	15.9

For the purpose of this table no apportionment has been made of the infrastructure renewals charge included within depreciation in note 7(a) above.

(d) The net book value of infrastructure assets is stated after the deduction of contributions of £54.4m (2009: £53.5m) as explained in note 1(e).

8. OTHER INVESTMENTS

	2010 £m	2009 £m
At 1 April 2009 and at 31 March 2010	68.5	68.5

Other investments comprise loans to the UK parent company. The loans were advanced to Agbar UK Ltd (formerly known as Bristol Water Group Ltd), and details are as follows:

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

9. STOCKS

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

10. DEBTORS

Debtors comprise -	2010	2009
	£m	£m
Trade debtors	10.6	10.6
Due from group and associated companies	2.2	1.8
Other debtors	0.8	0.6
Prepayments and accrued income	9.5	8.6
	23.1	21.6

The sum of £0.4m (2009: £0.4m) is included within the heading "Due from group and associated companies" in respect of amounts advanced to Bristol Wessex Billing Services Limited, a joint venture company within the Agbar UK Group, to fund the purchase of fixed assets. This amount has no fixed repayment date.

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

	2010	2009
	£m	£m
Finance leases	2.5	2.2
	2.5	2.2

All short-term borrowings are secured as described in note 13.

12. CREDITORS - OTHER CREDITORS DUE WITHIN ONE YEAR

Other creditors due within one year comprise:	2010	2009
	£m	£m
Receipts in advance	9.5	8.8
Trade creditors	5.6	5.5
Due to group and associated companies	0.9	0.6
Tax, social security and payroll deductions	0.8	0.7
Corporation tax payable	4.1	2.0
Accruals and deposits received	7.8	7.4
	28.7	25.0
Other creditors due after one year comprise:		
Accruals and deposits received	-	0.2

13. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR – BORROWINGS AND DERIVATIVES

	2010	2009
	£m	£m
Bank and other term loans – all secured	198.0	199.6
Debentures	1.6	1.6
Finance leases	10.9	13.4
Net unamortised premiums arising on issue of term loans	4.2	4.4
Total excluding 8.75% irredeemable cumulative preference shares and interest rate swap	214.7	219.0
Interest rate swap	1.1	1.2
	215.8	220.2
8.75% irredeemable cumulative preference shares	12.5	12.5
Total	228.3	232.7

The 8.75% irredeemable cumulative preference shares, which do not normally carry any voting rights, were issued in 1992 at £1 per share. Shareholders are entitled to receive dividends at 8.75% per annum on the par value of these shares on a cumulative basis; these dividends are payable half yearly on 1 April and 1 October. On winding up, the preference shareholders rank ahead of ordinary shareholders and are entitled to receive £1 per share and any dividends accrued but unpaid in respect of their shares. In the event that dividends on the preference shares are in arrears for six months or more, holders of the preference shares become entitled to vote at general meetings of members. In accordance with FRS25 the shares are classified as long-term debt.

The authorised preference share capital consists of 14,000,000 8.75% irredeemable cumulative preference shares of £1 each. Of these, 12,500,000 have been issued and are fully paid (31 March 2009: 12,500,000).

The movements in net unamortised premiums were as follows:

	2010	2009
	£m	£m
Net unamortised premiums at 1 April 2009	4.4	4.6
Amortised during the year	(0.2)	(0.2)
Net unamortised premiums at 31 March 2010	4.2	4.4

13. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR – BORROWINGS AND DERIVATIVES (continued)

The net premiums on issue of new loans are amortised over the terms of the respective loans at £0.2m credit per annum. Amortisation credits due in future years are as follows:

	2010 £m	2009 £m
Within one year	0.2	0.2
Between one and two years	0.2	0.2
Between two and five years	0.6	0.6
After five years	3.2	3.4
	4.2	4.4

Security for borrowings

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

In respect of the company:

- by way of first fixed charges over any of its freehold or leasehold property belonging to it now or acquired in the future (other than protected land under the Water Industry Act 1991), its present and future goodwill, all rights and claims in relation to charged bank accounts, all book debts, all insurances, all rights, title and interest to all investments and all plant and machinery, and
- a floating charge over the whole of its undertaking.

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

In respect of Bristol Water Core Holdings Ltd (the immediate parent of Bristol Water plc), as security for the obligations of the company:

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

13. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR – BORROWINGS AND DERIVATIVES (continued)

Net borrowings and maturities

At 31 March 2010 net borrowings comprise -

	Term loans less cash	Finance leases	Debentures and irredeemable preference shares	Interest rate swap	Total 2010	Total 2009
	£m	£m	£m	£m	£m	£m
Repayment due:						
Between one and two years	-	2.8	-	-	2.8	2.5
Between two and five years – secured, repayable 2012, variable interest at three month LIBOR plus a margin	15.0	5.6	-	-	20.6	23.2
Interest rate swap, exchanging six month LIBOR for a fixed rate of 5.025%	-	-	-	1.1	1.1	1.2
After five years:						
Other than by instalment – term loans						
Secured, repayable 2017, variable interest at three month LIBOR plus a margin	20.0	-	-	-	20.0	20.0
Secured, repayable 2032, principal index-linked to RPI, fixed interest at 3.635%* on the indexed principal	105.5	-	-	-	105.5	107.1
Secured, repayable 2033, fixed interest at 6.01%*	57.5	-	-	-	57.5	57.5
By instalments						
Finance leases	-	2.5	-	-	2.5	2.7
Net unamortised premiums	4.2	-	-	-	4.2	4.4
Debentures (listed on the London Stock Exchange) -						
4.00% Consolidated irredeemable 4.25%, 4.00% and 3.50% perpetual irredeemable debentures (in total, each under £0.1m individually)	-	-	1.4	-	1.4	1.4
	-	-	0.2	-	0.2	0.2
Total borrowings due after one year excluding 8.75% irredeemable cumulative preference shares	202.2	10.9	1.6	1.1	215.8	220.2
Current portion of debt	-	2.5	-	-	2.5	2.2
	202.2	13.4	1.6	1.1	218.3	222.4
Cash balances and investments	(26.8)	-	-	-	(26.8)	(20.6)
Net borrowings excluding 8.75% irredeemable cumulative preference shares	175.4	13.4	1.6	1.1	191.5	201.8
8.75% irredeemable cumulative preference shares	-	-	12.5	-	12.5	12.5
Net borrowings including 8.75% irredeemable cumulative preference shares	175.4	13.4	14.1	1.1	204.0	214.3

*Coupons as specified in loan documentation. At the time of pricing of these loans, premiums/discounts were determined to reflect prevailing market conditions. The net premiums are included in net unamortised premiums as set out above.

13. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR – BORROWINGS AND DERIVATIVES (continued)

Borrowing facilities

Unutilised borrowing facilities are as follows:

	2010	2009
	£m	£m
Expiring in more than two years	30.0	30.0

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

Minimum lease payments under finance leases

Amounts fall due as follows:

	2010	2009
	£m	£m
Within one year	2.5	2.2
Between one and two years	2.8	2.5
Between two and five years	5.6	8.2
After five years	2.5	2.7
	13.4	15.6

14. DEFERRED INCOME

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

	2010	2009
	£m	£m
At 1 April 2009	10.2	10.0
Contributions received	0.6	0.7
Less amortised	(0.5)	(0.5)
At 31 March 2010	10.3	10.2

15. FINANCIAL RISK MANAGEMENT

Financial risk factors

The company's main financial instruments comprise:

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

The company has also entered into gilt locks and an interest rate swap to manage the interest rate risk arising from its operations and sources of finance. It is the company's policy not to trade in financial instruments.

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

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

(a) Foreign exchange risk

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

(b) Interest rate risk of financial assets

The financial assets include cash at bank and short-term deposits which are all denominated in sterling. Cash and short-term deposits have been placed with banks (and formerly with building societies) on a rolling basis of up to three months earning interest based on LIBID equivalents. There are also interest-bearing fixed rate loans totalling £68.5m (2009: £68.5m) to Agbar UK Ltd (formerly known as Bristol Water Group Ltd).

(c) Interest rate risk of financial liabilities

The financial liabilities consist of interest-bearing loans, debentures, finance leases and 8.75% irredeemable cumulative preference shares. The company uses interest-rate swaps as a cash flow hedge of future interest payments, which has the effect of increasing the proportion of fixed interest debt.

The company's policy is to maintain the majority of its net debt on a fixed or index-linked interest basis. At the year-end 34% (2009: 33%) of the company's gross financial liabilities, excluding the 8.75% irredeemable cumulative preference shares, were at fixed rates, and 82% (2009: 81%) of the company's gross financial liabilities, excluding the 8.75% irredeemable cumulative preference shares, were at fixed or indexed rates. The residue were at floating rates.

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

(d) Credit risk

The company is required by the Water Industry Act 1991 to supply water to all potential customers. In the event of non-payment by commercial customers, but not domestic customers, the company has a right of disconnection. For all customers the company has implemented policies and procedures designed to assess the risk of further non-payment and recoup debts.

Short-term deposits are placed with banks with 'Moody's' P-1 and 'Standard & Poors' A-1 credit ratings in accordance with the minimum credit rating criteria required by the terms of the Artesian loan agreements.

15. FINANCIAL RISK MANAGEMENT (continued)

(e) Liquidity risk

It is company policy to maintain continuity of funding. At the year-end 88% (2009: 88%) of its financial liabilities, including 8.75% irredeemable cumulative preference shares, mature after five years or are irredeemable.

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

The company has a £30m committed undrawn borrowing facility with an expiry date of May 2013. The facility is floating rate and incurs non-utilisation fees at market rates.

Under the terms of the Artesian loan agreements the company is required to maintain a specified sum in nominated accounts to cover estimated debt service payments arising during the following year. These funds, currently amounting to approximately £5.5m (2009: £5.5m), are therefore not available for other operational use or distribution to shareholders.

(f) Price risk

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

(g) Covenant compliance risk

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

Derivative financial instruments and hedge accounting

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

In accordance with the provisions of FRS25, 'Financial Instruments: Presentation', and FRS26, 'Financial Instruments: Recognition and Measurement', the company values its interest-rate swap on the balance sheet. The effective portion of the swap is deferred through the statement of total recognised gains and losses. Should there be any ineffectiveness, any gain or loss relating to the ineffective portion would be recognised immediately in the profit and loss account within finance charges. All other financial instruments are stated at cost, indexed cost or amortised cost.

16. FINANCIAL INSTRUMENTS

Fair value estimation

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

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

The fair value of the company's debentures has been calculated by discounting the expected cash flows at prevailing market rates including an estimated margin over gilts. 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.

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

The long-term loans to Agbar UK Ltd (formerly known as Bristol Water Group Ltd) have been discounted by reference to the UK Government fixed rate gilt 2032 plus an estimated margin.

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

Interest-rate swap

At 31 March 2010, the company was party to one interest rate swap which was entered into on 4 March 2008, became effective on 22 October 2008 and will expire on 7 December 2017. The swap is designated against a £10m variable rate bank loan drawn in October 2008. The swap exchanges LIBOR rates on a six monthly basis for a fixed rate of 5.025%. In accordance with FRS26, the liability arising under the swap agreement was recognised in these financial statements, as follows:

Liability:	2010 £m	2009 £m
Due within one year	-	-
Due after one year	1.1	1.2
	<u>1.1</u>	<u>1.2</u>

In accordance with FRS26 "Financial Instruments: Recognition and Measurement" the company has reviewed all material contracts for embedded derivatives that are required to be separately accounted for if they do not meet the requirements set out in the standard. As a result of this review no embedded derivatives were identified.

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

16. FINANCIAL INSTRUMENTS (continued)

Fair values of financial assets and financial liabilities

Although the company does not intend to trade in any financial instruments, the following tables provides a comparison, by category, of the carrying amounts and the fair value of the company's financial assets and financial liabilities. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest rates.

Fair values of non-current borrowings

	31 March 2010		31 March 2009	
	Book value	Fair value	Book value	Fair value
	£m	£m	£m	£m
Primary financial instruments issued to finance the company				
Long-term borrowings	(214.7)	(223.4)	(219.0)	(195.5)
8.75% irredeemable cumulative preference shares	(12.5)	(16.4)	(12.5)	(17.0)
Primary financial instruments issued to finance Agbar UK Ltd (formerly known as Bristol Water Group Ltd)				
Long-term loans	68.5	63.5	68.5	56.9
Derivative financial instruments held to manage the interest rate profile:				
Interest rate swap	-	(1.1)	-	(1.2)
	(158.7)	(177.4)	(163.0)	(156.8)

The movement in the comparison of the fair value of the long-term borrowings to book value is due to fluctuations in long-term interest rates.

Fair values of other financial assets and liabilities

	31 March 2010		31 March 2009	
	Book value	Fair value	Book value	Fair value
	£m	£m	£m	£m
Primary financial instruments held or issued to finance the company's operations:				
Cash at bank and short-term deposits	26.8	26.8	20.6	20.6
Short-term borrowings	(2.5)	(2.5)	(2.2)	(2.2)
	24.3	24.3	18.4	18.4

17. PROVISIONS FOR LIABILITIES

	2010 £m	2009 £m
Provision for deferred tax comprises -		
Accelerated capital allowances and capital element of finance leases	41.1	39.4
Deferred income	(1.6)	(1.6)
Short-term timing differences	(0.3)	(0.2)
Retirement benefit obligations	2.5	2.4
Interest rate swap	(0.3)	(0.3)
	<u>41.4</u>	<u>39.7</u>
Effect of discounting	(16.7)	(14.5)
Net provision, including deferred tax on retirement benefit obligations	24.7	25.2
Less, attributable to retirement benefit obligations	(2.5)	(2.4)
Net provision, excluding deferred tax on retirement benefit obligations	<u>22.2</u>	<u>22.8</u>

Deferred tax movement:	2010 £m	2009 £m
Provision at 1 April	25.2	24.2
(Credit)/charge to Profit and Loss Account (note 5)	(0.4)	2.9
Credit to Statement of Total Recognised Gains and Losses in respect of:		
Retirement benefit obligations	(0.1)	(1.6)
Interest rate swap	-	(0.3)
Provision at 31 March	<u>24.7</u>	<u>25.2</u>

18. CALLED-UP ORDINARY SHARE CAPITAL

The issued ordinary share capital of the company is -

	Issued and fully paid	
	2010 £m	2009 £m
5,998,025 ordinary shares of £1 each	<u>6.0</u>	<u>6.0</u>

19. MOVEMENT IN SHAREHOLDERS' FUNDS

	Share capital	Share Premium Account	Capital redemption reserve	Hedging reserve	Profit and loss	Total 2010	Total 2009
	£m	£m	£m	£m	£m	£m	£m
At 1 April	6.0	4.4	5.8	(0.9)	61.4	76.7	78.5
Profit for the financial year	-	-	-	-	18.6	18.6	12.1
Actuarial (losses)/gains recognised in respect of retirement benefit obligations	-	-	-	-	(0.4)	(0.4)	(5.8)
Attributable deferred taxation	-	-	-	-	0.1	0.1	1.6
Fair value of interest rate swap	-	-	-	0.1	-	0.1	(1.2)
Attributable deferred taxation	-	-	-	-	-	-	0.3
Dividends	-	-	-	-	(10.2)	(10.2)	(8.8)
At 31 March	6.0	4.4	5.8	(0.8)	69.5	84.9	76.7

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

20. DIVIDENDS IN RESPECT OF ORDINARY SHARES

	2010 £m	2009 £m
Dividends paid		
• Dividend in respect of 2008: Final dividend of 53.35 pence per share, approved by the Board on 4 August 2008	-	3.2
• Dividend in respect of 2009: First interim dividend of 24.27 pence per share, approved by the Board on 26 September 2008	-	1.5
Second interim dividend of 45.02 pence per share, approved by the Board on 24 November 2008	-	2.7
Third interim dividend of 24.14 pence per share, approved by the Board on 30 March 2009	-	1.4
Final dividend of 60.02 pence per share, approved by the Board on 3 August 2009	3.6	-
• Dividend in respect of 2010: First interim dividend of 24.27 pence per share, approved by the Board on 6 September 2009	1.5	-
Second interim dividend of 61.69 pence per share, approved by the Board on 11 November 2009	3.7	-
Third interim dividend of 24.14 pence per share, approved by the Board on 22 March 2010	1.4	-
	10.2	8.8

The Board has not proposed a final dividend in respect of the year ended 31 March 2010 (31 March 2009: 60.02p per share totalling £3.6m).

21. COMMITMENTS AND CONTINGENCIES

- (a) Capital commitments at 31 March 2010 contracted for but not provided were £2.0m (2009: £1.9m).
- (b) Contingencies - The company is a member of a VAT group and is jointly liable for the VAT liabilities of Agbar UK Ltd (formerly known as Bristol Water Group Ltd) and certain other companies within the Agbar UK Ltd (formerly known as Bristol Water Group Ltd) group. Other than as shown in these accounts the directors are not aware of any other contingent liabilities that require disclosure.

22. RETIREMENT BENEFIT OBLIGATIONS

(a) Pension arrangements

Defined contribution schemes

The company operates defined contribution retirement benefit schemes for a number of employees. The total cost charged to income of £0.4m (2009: £0.2m) represents contributions payable to the scheme. As at 31 March 2010 and 31 March 2009, all contributions due have been paid over to the scheme.

Defined benefit schemes

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

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

The financial position of the section is determined by an independent actuary (Lane, Clark & Peacock LLP). The most recent triennial valuation of the scheme was carried out at 1 April 2008 by Lane, Clark & Peacock LLP.

In 2005/06 the company made a one-off contribution to WCPS of £7.0m. The company also agreed to make additional contributions of £1m in each of the four years beginning 1 April 2006 and a further £0.9m in 2010/11. The amounts are in addition to the normal pension contributions required by the WCPS trustees.

The most recent triennial valuation of the pension scheme was completed at 1 April 2008. An updated estimate of the scheme's funding deficit at 31 December 2009 indicated a funding deficit of approximately £14.0m. The company has kept the minimum level of regular contributions at 21% of pensionable salary in recognition of the additional contributions being made. The actuary has indicated an expectation that contributions rates will need to increase to 27% after the next review in March 2011.

22. RETIREMENT BENEFIT OBLIGATIONS (continued)

(b) Accounting under FRS17 "Retirement Benefits"

Basis of valuation

The formal actuarial valuation of the Bristol Water plc section of the Water Companies' Pension Scheme as at 1 April 2008 was updated to 31 March 2010, by Lane, Clark & Peacock LLP, using the following major assumptions in accordance with FRS17:

	2010	2009	2008
Assumptions:			
RPI Inflation	3.9%	3.1%	3.7%
Pension increases in payment (RPI)	3.9%	3.1%	3.7%
Pension increases in payment (LPI)	3.7%	3.1%	3.6%
Salary increases	5.4%	4.6%	5.2%
Discount rate	5.5%	6.4%	6.1%

Asset distribution and expected return

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

	Expected long-term rate of return			Market values of section assets		
	2010	2009	2008	2010 £m	2009 £m	2008 £m
Equities	8.0%	8.0%	7.7%	34.5	26.9	41.1
Bonds	4.1%	4.1%	4.4%	108.4	96.8	97.2
Cash	2.0%	1.9%	3.9%	0.2	0.1	0.2
Market value of section assets				143.1	123.8	138.5
Present value of liabilities				(134.3)	(106.2)	(121.9)
Surplus on FRS17 basis				8.8	17.6	16.6
Amount not recognised due to asset recognition limit				-	(8.9)	(2.6)
Surplus in the section				8.8	8.7	14.0
Deferred taxation at 28% (2009: 28%)				(2.5)	(2.4)	(3.9)
Net pension asset on FRS17 basis				6.3	6.3	10.1

Demographic assumptions

The mortality assumptions have been drawn from actuarial table PNA00 with a 110% adjustment to mortality rates and with future improvements in line with medium cohort projections (2009: table PNA00 with a 110% adjustment to mortality rates and with future improvements in line with medium cohort projections, 2008: tables PMA92 and PFA92 with future improvements in line with the medium cohort projections). These tables assume that the average life expectancy for a male pensioner currently aged 60 is 26.4 years (2009: 26.3 years) and for a female pensioner currently aged 60 is 29 years (2009: 28.9 years).

The allowance made for future improvements in longevity is such that a male member retiring at age 60 in 2035 (i.e. in 25 years' time) is assumed to have an increased average life expectancy from retirement of 29.0 years, whilst that for a female retiring at age 60 in 2035 is assumed to have increased to 31.5 years.

22. RETIREMENT BENEFIT OBLIGATIONS (continued)

Sensitivity

The assets and liabilities of the section are subject to volatility as the assets are linked to gilt and equity markets and the liabilities are linked to yields on AA-rated corporate bonds.

As an indication all other things being equal:

- an increase in the discount rate of 0.1% would lead to a reduction in the value placed on the liabilities of the Section of approximately £2.0m; and
- a 5% rise in equity values would increase the surplus (before the consideration of any balance sheet limitation that might apply) by about £1.7m.

Contributions

Contributions paid in the year to the section including those from Bristol Wessex Billing Services Ltd were £2.9m (2009: £2.9m). Contributions paid in the year include £1.9m of regular employer contributions and £1.0m of additional contribution as described previously. For normal employer contributions, during the year the company was required to contribute at the rates of 21% (2009: 21%) of relevant payroll costs for the main sub section and 10% (2009: 10%) for the alternative benefits sub section.

As described in note 22(a), the company has agreed to make further additional contributions to the scheme.

Analysis of charges to Profit and Loss Account:

	2010 £m	2009 £m
Analysis of the amount charged to operating profit		
Current service cost under FRS 17	1.6	2.2
Total operating charge	1.6	2.2
	2010 £m	2009 £m
Analysis of the amount charged to other finance cost		
Expected return on pension section assets	5.9	7.1
Interest on post-retirement liabilities	(6.7)	(7.3)
Net return – charge to other finance cost	(0.8)	(0.2)
	2010 £m	2009 £m
Analysis of amount recognised in the Statement of Total Recognised Gains and Losses (STRGL)		
Actual return less expected return on pension section assets	16.1	(19.6)
Experience gains arising on section liabilities	3.0	0.9
Changes in assumptions underlying the present value of section liabilities	(28.4)	19.2
Gain/(loss) due to asset recognition limit	8.9	(6.3)
Actuarial loss recognised in STRGL	(0.4)	(5.8)

22. RETIREMENT BENEFIT OBLIGATIONS (continued)

	2010 £m	2009 £m
Movement in section pre-tax financial position during the year		
Surplus in section at 1 April	17.6	16.6
Movement in year:		
Current service cost (employee and employer)	(1.6)	(2.2)
Aggregate regular contributions (employee and employer)	1.9	1.9
Additional contributions	1.0	1.0
Charge to other finance cost	(0.8)	(0.2)
Actuarial (loss)/gain recognised in STRGL	(9.3)	0.5
Surplus in section at 31 March, before deducting amount not recognised due to asset recognition limit	8.8	17.6

The history of experience gains and losses is:

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Market value of section assets	143.1	123.8	138.5	131.3	125.8
Present value of liabilities	(134.3)	(106.2)	(121.9)	(120.0)	(121.4)
Surplus in the section	8.8	17.6	16.6	11.3	4.4
	2010	2009	2008	2007	2006
Experience adjustments on scheme liabilities – Amount (£m)	3.0	0.9	0.2	0.7	2.1
Percentage of scheme liabilities	2%	1%	0%	1%	2%
Experience adjustments on scheme assets – Amount (£m)	16.2	(19.6)	1.6	(0.2)	15.2
Percentage of scheme assets	11%	(16%)	1%	0%	12%

23. SUPPLEMENTARY CASH FLOW INFORMATION

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

	2010 £m	2009 £m
Operating profit	27.9	29.1
Depreciation, net of amortisation of deferred income	21.0	20.3
Difference between pension charges and normal contributions	(0.3)	0.2
Cash flow from operations	48.6	49.6
Working capital movements -		
Stocks	0.1	(0.2)
Debtors	(1.5)	(0.7)
Creditors and provisions	1.8	(0.2)
Additional contributions to pension scheme	(1.0)	(1.0)
Net cash inflow from operating activities	48.0	47.5

23. SUPPLEMENTARY CASH FLOW INFORMATION (continued)

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

	2010	2009
	£m	£m
Increase in cash in the year	0.6	1.0
Cash used to repay borrowings	2.2	16.9
Cash from new borrowings	-	(15.0)
Cash from increase/(decrease) in short-term deposits	5.6	(1.9)
	8.4	1.0
Indexation of debt and amortisation of fees and premium not affecting cash flow	1.8	(5.0)
Fair value of interest rate swap not affecting cash flow	0.1	(1.2)
Net borrowings at 1 April including 8.75% irredeemable cumulative preference shares	(214.3)	(209.1)
Net borrowings at 31 March including 8.75% irredeemable cumulative preference shares	(204.0)	(214.3)

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

	Opening net borrowings	Cash flows in the year	Maturity profile	Adjustments to debt not affecting cash flow*	Closing net borrowings
	£m	£m	£m	£m	£m
Cash at bank and in hand	1.2	0.6	-	-	1.8
Short-term deposits	19.4	5.6	-	-	25.0
Cash at bank including overnight deposits	20.6	6.2	-	-	26.8
Borrowings due within one year	(2.2)	2.2	(2.5)	-	(2.5)
Borrowings due after one year, including 8.75% irredeemable cumulative preference shares and net unamortised premiums in respect of loans	(231.5)	-	2.5	1.8	(227.2)
Change in fair value of the interest rate swap	(1.2)	-	-	0.1	(1.1)
Net borrowings including 8.75% irredeemable cumulative preference shares	(214.3)	8.4	-	1.9	(204.0)

* Represents indexation of term loans less amortisation of net premia on borrowings, and the change in fair value of the interest rate swap.

24. RELATED PARTY TRANSACTIONS

Related parties include members and joint ventures of the Agbar UK (AUK) group of companies, members of the Agbar group of companies and key management personnel. The principal related parties are:

Agbar UK Ltd (formerly known as Bristol Water Group Ltd), registered in England and Wales, whose year-end is 31 December, is the ultimate UK holding company of Bristol Water plc and is a subsidiary of Agbar.

Bristol Wessex Billing Services Limited (BWBSL), registered in England and Wales, whose year-end is 31 March. The joint venture interest is held by Agbar Solutions Ltd, a fellow subsidiary and intermediate holding company within the AUK group, which owns 100 class 'B' shares in the company, representing a holding of 50% of the voting and equity rights of the company. Prior to 25 March 2010 the shares currently owned by Agbar Solutions Limited were owned by Bristol Water Holdings Limited, another subsidiary company in the Agbar UK group. BWBSL has contracted to provide billing and customer services to both Bristol Water plc and Wessex Water Services Limited, under a cost sharing arrangement. Costs are shared in proportion to business activity.

Agbar Serco Technology Solutions Limited (ASTS), registered in England and Wales, whose year-end is 31 December. The joint venture company is owned 50% by Agbar Solutions Ltd, a fellow subsidiary and intermediate holding company within the AUK group, and 50% by Serco UK Limited. Prior to 28 February 2010 the shares currently owned by Agbar Solutions Limited were owned by Aquagest Services Company S.A. (formerly known as Agbar Serveis Compartits S.A.) a 100% owned subsidiary of the ultimate holding company Agbar. Following a competitive tendering process, ASTS was contracted to provide IT maintenance and development services to the company from 1 November 2008.

Agbar Environment Limited (AEL), registered in England and Wales, whose year-end is 31 December. This company is a fellow subsidiary within the AUK group and is engaged principally in providing flushing services relating to cleaning pipes, evacuating materials from pipes or separating materials within pipes, in each case by means of pumping a mass of crushed ice through such pipes. During the year Bristol Water plc has provided resources to AEL to enable it to engage in its principal activities and recharged the costs accordingly.

Trading transactions

During the year the company entered into the following trading transactions with related parties -

	Sales of goods and services		Purchases of goods and services	
	2010	2009	2010	2009
	£m	£m	£m	£m
Members of the AUK group				
Agbar UK Ltd (formerly known as Bristol Water Group Ltd) management charges	0.4	0.7	0.1	0.1
Agbar Environment Limited	0.2	-	-	-
Joint ventures of the AUK group				
BWBSL				
- management charges	-	-	2.3	2.2
- capital expenditure	-	-	0.1	0.5
- other recharges	-	-	0.3	0.3
ASTS				
- management charges	-	-	1.3	0.5
- capital expenditure	-	-	0.6	0.3
- other	-	-	0.3	-
	0.6	0.7	5.0	3.9

24. RELATED PARTY TRANSACTIONS (continued)

	Amounts due from		Amounts due to	
	2010 £m	2009 £m	2010 £m	2009 £m
Members of the AUK group				
Agbar Environment Limited	0.1	-	-	-
Joint ventures of the AUK group				
BWBSL	2.0	1.8	0.6	0.6
ASTS	-	-	0.3	0.4
	2.1	1.8	0.9	1.0

Bristol Water plc paid Wessex Water plc £0.1m (2009: £0.5m) for a share of other assets used operationally by BWBSL but capitalised by Bristol Water plc.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made, or are considered necessary, for doubtful debts in respect of the amounts due from related parties.

Remuneration of key management personnel

Information about the remuneration of individual directors is provided in the audited part of the Remuneration Committee Report and in Note 3.

25. CONTINGENT LIABILITY

In preparing these financial statements Directors have considered whether a contingent liability will arise for costs incurred by Ofwat and the CC in relation to the Bristol Water plc's rejection of Ofwat's Final Determination and appeal to the CC for re-determination.

The terms of the referral to the CC are that Bristol Water plc will become liable for the costs incurred by Ofwat and the CC in the event that it is found that it was inappropriate for Bristol Water to have referred the case. Conversely, under the same terms Bristol Water may recover the costs it has incurred in bringing the case through future tariff increases in the event that the CC finds that Bristol Water was justified in making the referral. However current accounting conventions preclude the recognition of any such recovery.

Following the CC's Provisional Findings on 18 June, the directors consider that the CC has clearly recognised a need for certain expenditure not allowed by Ofwat in its Final Determination. Therefore it is considered that the company's rejection of Ofwat's Final Determination and the appeal to the CC for re-determination were appropriate.

Based on this the Directors consider it is unlikely that the company will be required to compensate Ofwat and the CC for their costs, therefore no provision for such costs has been made in these financial statements.

26. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

Until 30 September 2009 the ultimate parent company was considered by the Directors to be Sociedad General de Aguas de Barcelona S.A. (Agbar), a company incorporated in Spain.

In October 2009 Suez Environnement (partly owned by the French group GDF Suez) announced their plan to take 75% control of Agbar, and on 8 June 2010 the final step in the take over of Agbar was completed.

The takeover of Agbar by Suez Environnement may change the identity of Bristol Water plc's ultimate holding company for the purposes of Condition P of the company's Instrument of Appointment. Ofwat is being kept informed of material developments.

Full disclosure of the affairs of the Agbar UK group of companies is made in the annual report of Agbar. Copies of its consolidated annual report are available from Torre Agbar, Avda. Diagonal, 211, Planta 20-08018, Barcelona, Spain.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BRISTOL WATER plc

We have audited the financial statements of Bristol Water plc for the year ended 31 March 2010, which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Report, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BRISTOL WATER plc (continued)

Under the Listing Rules we are required to review:

- the directors' statement contained within Directors' Report in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

.....
Stuart Woodward (Senior Statutory Auditor)
for and on behalf of

Deloitte LLP
Chartered Accountants and Statutory Auditors
Bristol, United Kingdom
26 July 2010

FINANCIAL HISTORY

PROFIT AND LOSS ACCOUNTS	2010	2009	2008	2007	2006
Years ended 31 March	£m	£m	£m	£m	£m
Turnover	99.7	96.7	91.0	86.3	81.9
Operating profit	27.9	29.1	26.3	25.2	24.9
Interest and irredeemable preference share dividends	(4.2)	(11.5)	(9.5)	(7.8)	(7.4)
Net finance (expense)/income on retirement benefit obligations	(0.8)	(0.2)	1.1	1.5	0.9
Profit on sale of tangible fixed assets	0.2	-	-	-	-
Profit before taxation	23.1	17.4	17.9	18.9	18.4
Taxation	(4.5)	(5.3)	(3.4)	(2.5)	(6.8)
Profit after taxation	18.6	12.1	14.5	16.4	11.6
Dividends paid	10.2	8.8	11.9	6.3	10.2
BALANCE SHEETS	2010	2009	2008	2007	2006
At 31 March	£m	£m	£m	£m	£m
Fixed assets	251.2	251.7	244.1	218.7	197.0
Other investments	68.5	68.5	68.5	68.5	68.5
Net current assets	19.7	16.1	0.2	26.1	38.6
Total assets less current liabilities	339.4	336.3	312.8	313.3	304.1
Debt due after one year, excluding irredeemable preference shares	(215.8)	(220.2)	(201.2)	(204.6)	(204.2)
Irredeemable preference shares	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)
Other creditors due after one year	-	(0.2)	(0.4)	(0.3)	-
Deferred income	(10.3)	(10.2)	(10.0)	(9.4)	(9.6)
Provisions	(22.2)	(22.8)	(20.3)	(19.7)	(18.8)
Retirement benefit asset	6.3	6.3	10.1	8.3	3.1
Net operating assets	84.9	76.7	78.5	75.1	62.1
CASH FLOW	2010	2009	2008	2007	2006
Years ended 31 March	£m	£m	£m	£m	£m
Cash flow from operations	48.0	47.5	49.4	42.6	35.1
Net interest and irredeemable preference share dividends paid	(6.1)	(6.6)	(5.7)	(4.8)	(6.5)
Tax paid	(2.8)	(2.1)	(2.1)	(1.0)	(1.7)
Capital expenditure net of contributions	(20.5)	(29.0)	(46.5)	(37.7)	(19.4)
Loan to Agbar UK Ltd (formerly known as Bristol Water Group Ltd)	-	-	-	-	(21.5)
Dividends paid on equity shares	(10.2)	(8.8)	(11.9)	(6.3)	(10.2)
Cash flow before management of liquid resources and financing	8.4	1.0	(16.8)	(7.2)	(24.2)
Management of liquid resources	(5.6)	1.9	6.7	11.5	(29.1)
Net (decrease)/increase in financing	(2.2)	(1.9)	7.5	(2.5)	52.7
Increase/(decrease) in cash	0.6	1.0	(2.6)	1.8	(0.6)

Notes: All comparative data has been restated where necessary, and possible, to conform to current accounting practices except as indicated in accounting policy note 1(a). All data includes exceptional items where relevant.

