

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

YEAR ENDED 31 MARCH 2013

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS for the year ended 31 March 2013

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 regulatory accounts 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 particularly in respect of infrastructure renewals accounting.

The statutory annual report contains a suite of reports including an operating and financial review report, which provide comprehensive commentary on the company's activities during the year.

The accompanying Historical Cost and Current Cost Accounting Statements were approved by a Committee of the Board on 11 July 2013.

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BRISTOL WATER plc

**REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2013**

**RECONCILIATION BETWEEN STATUTORY ANNUAL ACCOUNTS AND THE REGULATORY
ACCOUNTS HISTORICAL COST ACCOUNTING STATEMENTS**

**PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2013**

	Statutory accounts	Net rental income	Basis for Infrastructure renewals charge	Regulatory historical cost accounts	Non- appointed activities	Regulatory appointed historical cost accounts
	2013 £m	£m	£m	2013 £m	£m	2013 £m
Turnover	114.2	(0.4)	-	113.8	(1.5)	112.3
Operating costs	(52.5)	0.1	-	(52.4)	1.2	(51.2)
Depreciation	(11.4)	-	-	(11.4)	-	(11.4)
Infrastructure renewals charge	(23.4)	-	0.3	(23.1)	-	(23.1)
Operating profit / (loss)	26.9	(0.3)	0.3	26.9	(0.3)	26.6
Other net income	-	0.3	-	0.3	-	0.3
Net finance costs	(11.5)	-	-	(11.5)	-	(11.5)
Profit / (loss) before tax	15.4	-	0.3	15.7	(0.3)	15.4
Taxation	(2.3)	-	-	(2.3)	0.1	(2.2)
Profit / (loss) after tax	13.1	-	0.3	13.4	(0.2)	13.2

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

In the statutory accounts the Infrastructure Renewals Charge (IRC) calculation was based on the infrastructure renewals expenditure for the current five year regulatory period until 31 March 2011. From 1st April 2011 the calculation was brought in line with the calculation of the charge in the regulatory accounts, and is based on a fifteen year forward looking period. The small difference in the IRC in the Regulatory Accounts compared to the Statutory Accounts arises from the different opening balances as at 1st April 2011 on the infrastructure renewals provision in each set of Accounts.

BRISTOL WATER plc

**REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2013**

**RECONCILIATION BETWEEN STATUTORY ANNUAL ACCOUNTS AND THE REGULATORY
ACCOUNTS HISTORICAL COST ACCOUNTING STATEMENTS**

**BALANCE SHEET
at 31 March 2013**

	Statutory accounts	Infrastructure renewals charge	Infrastructure renewals provision	Regulatory historical cost accounts	Non- appointed activities	Regulatory appointed historical cost accounts 2013
	2013 £m	£m	£m	2013 £m	£m	2013 £m
Tangible fixed assets (net book value)	313.7	(4.4)	2.1	311.4	(1.3)	310.1
Investments-loans to a UK parent company	68.5	-	-	68.5	-	68.5
Net current (liabilities) /assets	(4.9)	-	(2.1)	(7.0)	1.3	(5.7)
Creditors-amounts falling due after more than one year	(250.9)	-	-	(250.9)	-	(250.9)
8.75% Irredeemable preference shares	(12.5)	-	-	(12.5)	-	(12.5)
Deferred Income	(8.8)	-	-	(8.8)	-	(8.8)
Provisions for liabilities	(26.0)	-	-	(26.0)	-	(26.0)
Retirement benefit surplus	10.2	-	-	10.2	-	10.2
Net assets	89.3	(4.4)	-	84.9	-	84.9
Capital and reserves						
Total shareholders' funds	89.3	(4.4)	-	84.9	-	84.9

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 Renewals 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 £4.4m IRC difference on the balance sheet represents the cumulative difference between the IRC in the Statutory Annual Report and the regulatory accounts.

BRISTOL WATER plc

**REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2013**

**RECONCILIATION BETWEEN STATUTORY ANNUAL ACCOUNTS AND THE REGULATORY
ACCOUNTS HISTORICAL COST ACCOUNTING STATEMENTS**

Below is a reconciliation of the fixed assets in the Statutory Annual Report to those in the regulatory appointed historical cost accounts:

**FIXED ASSETS
At 31 March 2013**

	Statutory Accounts	Adjustment to opening balance in respect of infrastructure renewals accounting	Infrastructure renewals expenditure additions in year	Reallocated statutory accounts IRC for year	Regulatory historical cost accounts	Non- appointed activities	Regulatory appointed historical cost accounts
	2013 £m	£m	£m	£m	2013 £m	£m	2013 £m
Cost							
Freehold land and operational structures	259.6	-	-	-	259.6	(1.6)	258.0
Plant & equipment	55.6	-	-	-	55.6	(0.3)	55.3
Infrastructure assets	320.4	(164.2)	(36.1)	-	120.1	-	120.1
Assets under construction	24.6	-	-	-	24.6	-	24.6
Total	660.2	(164.2)	(36.1)	-	459.9	(1.9)	458.0
Depreciation							
Freehold land and operational structures	110.1	-	-	-	110.1	(0.4)	109.7
Plant & equipment	38.4	-	-	-	38.4	(0.2)	38.2
Infrastructure assets	198.0	(174.6)	-	(23.4)	-	-	-
Total	346.5	(174.6)	-	(23.4)	148.5	(0.6)	147.9
Net Book Value							
Freehold land and operational structures	149.5	-	-	-	149.5	(1.3)	148.2
Plant & equipment	17.2	-	-	-	17.2	-	17.2
Infrastructure assets	122.4	10.4	(36.1)	23.4	120.1	-	120.1
Assets under construction	24.6	-	-	-	24.6	-	24.6
Total	313.7	10.4	(36.1)	23.4	311.4	(1.3)	310.1

BRISTOL WATER plc

**REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2013**

**REGULATORY HISTORICAL COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2013**

	Appointed business 2013 £m	Non- appointed 2013 £m	Total 2013 £m	Appointed business 2012 £m	Non- appointed 2012 £m	Total 2012 £m
Turnover	112.3	1.5	113.8	105.3	2.3	107.6
Operating costs	(51.2)	(1.2)	(52.4)	(49.1)	(2.1)	(51.2)
Infrastructure renewals charge	(23.1)	-	(23.1)	(22.2)	-	(22.2)
Historical cost depreciation	(11.4)	-	(11.4)	(9.7)	-	(9.7)
Operating profit	26.6	0.3	26.9	24.3	0.2	24.5
Other income	0.3	-	0.3	0.3	-	0.3
Net interest	(10.4)	-	(10.4)	(12.3)	-	(12.3)
Dividends on 8.75% irredeemable cumulative preference shares	(1.1)	-	(1.1)	(1.1)	-	(1.1)
Profit on ordinary activities before taxation	15.4	0.3	15.7	11.2	0.2	11.4
Taxation - current	(0.7)	(0.1)	(0.8)	(1.2)	-	(1.2)
- deferred	(1.5)	-	(1.5)	(2.7)	-	(2.7)
Profit on ordinary activities after taxation	13.2	0.2	13.4	7.3	0.2	7.5
Dividends on ordinary shares						
- inter-company loan interest Element	(3.0)	-	(3.0)	(3.0)	-	(3.0)
- base dividend	(11.5)	(0.2)	(11.7)	(3.6)	(0.4)	(4.0)
(Loss)/profit retained for the year	(1.3)	-	(1.3)	0.7	(0.2)	0.5

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

BRISTOL WATER plc**REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2013****STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 March 2013**

	Appointed business	Non- appointed	Total	Appointed business	Non- appointed	Total
	2013 £m	2013 £m	2013 £m	2012 £m	2012 £m	2012 £m
Profit attributable to Bristol Water plc shareholders	13.2	0.2	13.4	7.3	0.2	7.5
Actuarial gains on retirement benefit plans	0.6	-	0.6	1.1	-	1.1
Change in the fair value of the interest rate swap	(0.2)	-	(0.2)	(0.7)	-	(0.7)
Total recognised gains for the year	13.6	0.2	13.8	7.7	0.2	7.9

BRISTOL WATER plc

**REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2013**

**REGULATORY HISTORICAL COST BALANCE SHEET
at 31 March 2013**

	Appointed business 2013 £m	Non- appointed 2013 £m	Total 2013 £m	Appointed business 2012 £m	Non- appointed 2012 £m	Total 2012 £m
Fixed assets						
Tangible fixed assets	310.1	1.3	311.4	273.5	1.3	274.8
Investment – loans to ultimate UK holding company	68.5	-	68.5	68.5	-	68.5
Total fixed assets	378.6	1.3	379.9	342.0	1.3	343.3
Infrastructure renewals accrual	(2.0)	-	(2.0)	(15.1)	-	(15.1)
Other current assets	43.2	0.1	43.3	100.9	0.1	101.0
	41.2	0.1	41.3	85.8	0.1	85.9
Creditors: amounts falling due within one year						
Borrowings	(2.2)	-	(2.2)	(18.4)	-	(18.4)
Other creditors	(44.7)	(1.4)	(46.1)	(39.2)	(1.4)	(40.6)
Total creditors: amounts falling due within one year	(46.9)	(1.4)	(48.3)	(57.6)	(1.4)	(59.0)
Net current (liabilities)/assets	(5.7)	(1.3)	(7.0)	28.2	(1.3)	26.9
Total assets less current liabilities	372.9	-	372.9	370.2	-	370.2
Creditors: amounts falling due after more than one year	(250.9)	-	(250.9)	(246.9)	-	(246.9)
Provisions for liabilities and charges	(26.0)	-	(26.0)	(24.7)	-	(24.7)
Preference share capital	(12.5)	-	(12.5)	(12.5)	-	(12.5)
Deferred income	(8.8)	-	(8.8)	(9.3)	-	(9.3)
Retirement benefit scheme surplus	10.2	-	10.2	9.0	-	9.0
Net assets employed	84.9	-	84.9	85.8	-	85.8
Capital and reserves	84.9	-	84.9	85.8	-	85.8

The accounts were approved by a Committee of the Board on 11 July 2013 and signed on its behalf by

L García, Director

M King, Director

BRISTOL WATER plc**REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2013****CURRENT COST PROFIT AND LOSS ACCOUNT FOR THE APPOINTED BUSINESS
for the year ended 31 March 2013**

	Notes	2013 £m	2012 £m
Turnover			
Unmeasured - household		56.0	53.0
- non-household		1.5	1.4
Measured - household		29.2	25.5
- non-household		19.2	18.4
Bulk supplies / inter company payments		0.4	0.6
Other third party services (including non-potable water)		0.6	1.0
Large users and other sources		5.4	5.4
		<hr/> 112.3	105.3
Current cost operating costs - wholesale	C8	(83.9)	(78.2)
Current cost operating costs - retail	C9	(9.9)	(10.9)
Working capital adjustment		0.4	-
Current cost operating profit		<hr/> 18.9	16.2
Other income		0.3	0.3
Net interest		(10.4)	(12.3)
Dividends on 8.75% irredeemable cumulative preference shares		(1.1)	(1.1)
Financing adjustment		4.9	5.1
Current cost profit before taxation		<hr/> 12.6	8.2
Net revenue movement out of tariff basket		0.2	-

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

BRISTOL WATER plc**REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2013****CURRENT COST CASH FLOW STATEMENT
FOR THE APPOINTED BUSINESS
for the year ended 31 March 2013**

	Notes	2013 £m	2012 £m
Current cost operating profit		18.9	16.2
Working capital adjustment	C13	(0.4)	-
Movement in working capital		(1.3)	1.0
Receipts from other income		0.3	0.3
Current cost depreciation		19.5	17.8
Additional contributions to pension scheme		(0.4)	(0.5)
Infrastructure renewals charge		23.1	22.2
Movement in provisions		(0.5)	(1.8)
Net cash inflow from operating activities		59.2	55.2
Returns on investments and servicing of finance		(6.6)	(6.9)
Taxation paid		(0.6)	(1.9)
Capital expenditure and investing activities			
Gross cost of purchase of fixed assets		(47.6)	(25.2)
Receipt of grants and contributions		3.9	3.9
Infrastructure renewals expenditure		(36.1)	(23.4)
Disposal of fixed assets		0.1	0.1
Net cash outflow from investing activities		(79.7)	(44.6)
Equity dividends paid		(14.5)	(6.6)
Net cash flow from management of liquid resources		55.0	12.8
Net cash flow before financing		12.8	8.0
Net cash outflow from financing		(17.2)	(2.6)
(Decrease) / Increase in cash		(4.4)	5.4

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

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 Ofwat 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 2013, and has no current plans to do so before the proposed effective date. 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 2013. This equates to a proxy for depreciated replacement cost of their operating capability.

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

Land and buildings

Non-specialised operational properties were valued on the basis of open market value for existing use at 31 March 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 and amended for additions and disposals. 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 the AMP. A continuing process of refinement of asset records is expected to produce adjustments to existing values when periodic reviews of the AMP take 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 and amended for additions and disposals.

**REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2013**

C1. Current cost accounting policies (continued)

Other fixed assets

All other fixed assets are valued periodically at depreciated replacement cost. The last valuation included was at 31 March 2008. Between periodic reviews, values are restated for inflation as measured by changes in the RPI, and amended for additions and disposals.

Surplus land

Surplus land is valued at recoverable amounts taking into account the part of any proceeds which are required 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, and
- retirement benefit scheme surplus net of associated deferred taxation.

(d) Basis of allocation and apportionment of costs and assets

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.

Allocation and apportionment of costs and assets between appointed and non-appointed businesses is maintained in the company's accounting system. Costs are attributed to the appropriate cost centres 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. Assets are specifically identified as appointed or non-appointed.

Operational costs include the costs of day to day collection, storage, treatment and supply of water and any associated 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.

**REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2013**

C1. Current cost accounting policies (continued)

(d) Basis of allocation and apportionment of costs and assets (continued)

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.

Manpower costs include overheads in their allocation to cover national insurance and pension contributions.

(e) Pension costs

The company has adopted FRS 17, as included in note 23 '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. Revenue recognition policy

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

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.

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 unmetered supplies is based on either the rateable value of the property or on an assessed volume of water supplied. Income from metered supplies is based on actual or estimated water consumption.

Measured consumption that has not yet been billed is estimated using a defined and consistently applied methodology based on historic weighted average water consumption by tariff. The difference between closing and opening measured income accrual for the year is recognised within turnover.

Where an invoice has been raised or payment made but water or other services have not been provided, it is treated as billing or payment in advance accordingly and is not recognised as turnover during the year.

Receipts from customers in relation to court costs, solicitors' and debt recovery agency fees are credited to operating costs to offset the charges incurred. They are not recognised within turnover during the year.

**REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2013**

C3. Revenue recognition policy (continued)

Charging policy

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

Charges are payable in full in the following circumstances.

- a) Occupied and furnished
Charges are payable in full from the date of connection or change of customer on all properties which are recorded as occupied and furnished.
- b) Unoccupied and furnished
Water charges are payable in full on unoccupied, furnished premises. In exceptional circumstances, where it is certain that the customer does not need access to water supply at the property, water charges are not payable. Such exceptions include where the customer is:
 - in a care home;
 - in long-term hospitalisation;
 - in prison;
 - overseas long-term; or
 - deceased.
- c) Unoccupied and unfurnished
If any consumption for metered vacant properties is recorded normal charges apply once the occupier details have been established. Normal charges apply to vacant metered non-household agricultural properties.

Only metered standing charges are payable on unoccupied, metered properties which are still connected.

Properties which are unoccupied and unfurnished, or are disconnected are not chargeable therefore no billing is raised and no turnover recognised in respect of these properties.

The occupier is any person who owns a premises or who has agreed to pay for water in respect of the premises. No bills are raised in the name of "the occupier". The property management process is followed to identify whether the property is occupied or not, and if occupied, to identify the chargeable person and raise a bill.

The property management process may comprise some or all of the following:

- physical inspection,
- mailings,
- customer contacts,
- meter readings for metered properties; and
- land registry checks.

C4. Revenue performance

Turnover for the year is £0.4m higher, 0.3%, than that assumed in the Final Determination. This is the net effect of the tariff items being £0.8m lower than assumed in the Final Determination, giving rise to £0.6m being calculated as a revenue correction return to the Company for 2012/13, and non-tariff items being £1.2m higher.

There are no back-billing amounts for the years ending 31 March 2012 or 2013.

**REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2013**

C5. Accounting separation policy

The Ofwat business unit definitions for resources, raw water distribution, treatment and treated water distribution, as given in Regulatory Accounting Guideline 4.04, have been applied to the fixed assets and operating cost elements of the company accounts to provide the accounting separation analyses.

The current cost fixed asset register is held in the company accounting system at a very detailed level. Each asset on it has been reviewed and 97.7% have been attributed directly to a business unit. 2% of assets are allocated to general and support, a category which is then reallocated over the business units, and the remainder are apportioned over the business units. Internal guidelines have been established mapping current cost account classes into which all assets are grouped to the business units. All the company sites have been reviewed and the relevant appropriate business units recorded to ensure consistency when applying business units to new fixed assets. This has been at a granular level, which has negated the need for recharges between business units. All assets are allocated to business units as they are created.

The retail business unit has very few assets attributed to it following the removal of meters from retail to wholesale in the revised guidelines. The remaining assets are computers (mainly the billing system), vehicles and some general equipment. A joint venture company undertakes the billing of customers, in a property which they rent, so there are no land, property or office assets.

The operating cost analysis is based on the company's management accounts which are used to monitor the financial performance of the company by the Board and managers. These are not structured under the business unit headings. They reflect the operational structure of the company. A review of these produced a mapping between the company cost centres and the business units, with 84% of costs being directly allocated to business units, and 16% requiring a method of allocation to be applied. Any operating cost which relates to sites or assets, follows the same business unit as applied to the associated current cost fixed assets, ensuring consistency between the treatment of costs and assets.

There were two major changes during the year. The first was a methodology change following the issue of new guidance from Ofwat, requiring customer meters to be shown as treated water distribution assets instead of retail assets. The second was a change in the level of detail of information available, which enabled more accurate power usage to be recorded within one treatment works site, identifying expenditure as treatment which previously was allocated to resources.

The accounting separation analyses have been drawn up in accordance with the company's accounting separation methodology statement which has been published separately on its website.

C6. Bad debt policy

The company has a policy to make a full bad debt provision for debt which remains uncollected until after five years of billing, for example uncollected debt in relation to financial year 2007/08 and before is fully provided for in financial year 2012/13. A general provision is made for debt outstanding in relation to current and last four financial years. The general provision is primarily based on historic collection rates and further adjusted by judgemental factors to reflect the current economic environment.

**REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2013**

C6. Bad debt policy (continued)

Water debt is written off for one of following four reasons:

1. It is considered or known to be uncollectible.
2. It is considered uneconomic to collect.
3. Older debt is written off by agreement with the customer in return for the receipt of regular monthly payments to pay-off current year debt as part of our "Restart" and "Restart Plus" policies.
4. Write-off is ordered by the County Court. In these cases the court may set payment at a proportion of the outstanding debt. When the required level of payment is reached the court would instruct the rest of the debt to be written-off.

The policies for bad debt provision and debt write-off have been consistently applied.

C7. Capitalisation policy

Definition of a fixed asset

An asset is an item that Bristol Water owns and uses in the course of its business having some long-term economic benefit for the company. A fixed asset is an asset that we retain for more than a year. Capital costs are defined as those costs, which are incurred in providing an additional, or a replacement asset. 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 £1000 in total would be capitalised.

Assets are either infrastructure assets or non-infrastructure assets.

Infrastructure assets

Infrastructure expenditure falls into two categories. Costs in respect of the provision of additional infrastructure capacity or enhancement of the network are capitalised (these include projects such as new water mains, new connections and work on impounding reservoirs) but are not depreciated. Other infrastructure expenditure to do with repair and replacement such as boundary mains replacement, network analyses, lead replacements and high-risk crossings are charged to the profit and loss account in the form of the Infrastructure Renewals Charge.

Types of 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 and enhancements are included at cost.

Other assets

Other assets include land and buildings, operational structures, fixed and mobile plant, equipment and motor vehicles. These are generally categorised as non-infrastructure assets and are included at cost.

The cost of assets is their purchase cost together with incidental expenses of acquisition and commissioning and any directly attributable labour costs, which are incremental to the company.

There have been no changes to the capitalisation policy during the year, nor any changes in judgements, apportionments or adjustments.

REGULATORY ACCOUNTING STATEMENTS
 for the year ended 31 March 2013

C8. Operating cost analysis for the 12 months ended 31 March 2013 - Wholesale					
	Resources	Raw water distribution	Treatment	Treated distribution	Total
	£m	£m	£m	£m	£m
Operating expenditure					
Power	1.5	-	4.0	1.6	7.1
Service charges	2.8	-	-	-	2.8
Bulk supply imports	0.2	-	-	-	0.2
Other operating expenditure	4.0	0.5	12.1	10.3	26.9
Local authority rates	1.2	0.1	0.4	2.8	4.5
Total operating expenditure excluding third party services	9.7	0.6	16.5	14.7	41.5
Capital maintenance					
Infrastructure renewals charge	3.8	0.6	-	18.7	23.1
Current cost depreciation	0.9	0.1	11.2	7.2	19.4
Amortisation of deferred credits	-	-	(0.8)	(0.1)	(0.9)
Total capital maintenance excluding third party services	4.7	0.7	10.4	25.8	41.6
Third party services					
Operating expenditure	0.2	-	0.2	0.2	0.6
Current cost depreciation	-	-	0.2	-	0.2
Total operating costs	14.6	1.3	27.3	40.7	83.9

REGULATORY ACCOUNTING STATEMENTS
 for the year ended 31 March 2013

C9. Operating cost analysis for the 12 months ended 31 March 2013 – Retail business only			
	Household	Non-household	Total
	£m	£m	£m
Operating expenditure			
Customer services	2.4	0.2	2.6
Debt management	0.6	0.1	0.7
Doubtful debts	2.8	0.4	3.2
Meter reading	0.3	0.1	0.4
Services to developers	-	0.1	0.1
Other operating expenditure	1.8	0.1	1.9
Total operating expenditure excluding third party services	7.9	1.0	8.9
Third party services operating expenditure	0.2	0.1	0.3
Total operating expenditure	8.1	1.1	9.2
Capital maintenance			
Current cost depreciation	0.7	-	0.7
Total capital maintenance	0.7	-	0.7
Total operating costs	8.8	1.1	9.9
Debt written off	2.2	0.2	2.4

REGULATORY ACCOUNTING STATEMENTS
 for the year ended 31 March 2013

C10. Current cost analysis of fixed assets - wholesale business					
	Resources £m	Raw water distribution £m	Treatment £m	Treated distribution £m	Total £m
Non-Infrastructure assets					
Gross replacement cost					
At 1 April 2012	49.6	3.3	542.9	281.8	877.6
Reclassification adjustment	(0.4)	(0.1)	1.4	31.2	32.1
RPI adjustment	1.6	0.1	17.9	10.3	29.9
Disposals	-	-	(0.2)	(0.6)	(0.8)
Additions	2.3	0.1	17.9	11.8	32.1
At 31 March 2013	53.1	3.4	579.9	334.5	970.9
Depreciation					
At 1 April 2012	(18.6)	(2.0)	(361.5)	(160.0)	(542.1)
Reclassification adjustment	0.1	0.1	(0.8)	(15.1)	(15.7)
RPI adjustment	(0.6)	(0.1)	(11.9)	(5.7)	(18.3)
Disposals	-	-	0.2	0.6	0.8
Charge for year	(0.9)	(0.1)	(11.9)	(7.0)	(19.9)
At 31 March 2013	(20.0)	(2.1)	(385.9)	(187.2)	(595.2)
Net book amount at 31 March 2013	33.1	1.3	194.0	147.3	375.7
Net book amount at 1 April 2012	31.0	1.3	181.4	121.8	335.5
Infrastructure assets					
Gross replacement cost					
At 1 April 2012	624.2	64.1	-	1,372.0	2,060.3
RPI adjustment	20.5	2.1	-	45.0	67.6
Additions	1.7	-	-	17.1	18.8
At 31 March 2013	646.4	66.2	-	1,434.1	2,146.7

REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2013

C11. Current cost analysis of fixed assets – retail business only			
	Household £m	Non-household £m	Total £m
Non-Infrastructure assets			
Gross replacement cost			
At 1 April 2012	42.0	6.9	48.9
Reclassification adjustment	(26.3)	(5.7)	(32.0)
RPI adjustment	0.5	-	0.5
Disposals	(0.1)	-	(0.1)
Additions	1.3	0.1	1.4
At 31 March 2013	17.4	1.3	18.7
Depreciation			
At 1 April 2012	(23.0)	(4.9)	(27.9)
Reclassification adjustment	11.7	4.1	15.8
RPI adjustment	(0.4)	-	(0.4)
Charge for year	(0.6)	(0.1)	(0.7)
At 31 March 2013	(12.3)	(0.9)	(13.2)
Net book amount at 31 March 2013	5.1	0.4	5.5
Net book amount at 1 April 2012	19.0	2.0	21.0

REGULATORY ACCOUNTING STATEMENTS
 for the year ended 31 March 2013

C12. Analysis of capital expenditure, grants and land sales for the 12 months ended 31 March 2013						
	2013			2012		
	Gross £m	Grants & contributions £m	Net £m	Gross £m	Grants & contributions £m	Net £m
Capital expenditure						
Base						
Infrastructure Renewals Expenditure (IRE)	36.1	-	36.1	23.4	-	23.4
Maintenance non-infrastructure (MNI)	19.1	-	19.1	14.3	-	14.3
Enhancements						
Infrastructure enhancements	18.8	(3.9)	14.9	12.3	(3.9)	8.4
Non-infrastructure enhancements	14.4	-	14.4	10.2	-	10.2
Total capital expenditure	88.4	(3.9)	84.5	60.2	(3.9)	56.3
Grants and contributions						
Developer contributions (i.e. Enhancement requisitions, grants and contributions)		(2.4)			(3.0)	
Infrastructure charge receipts - new connections		(1.4)			(0.9)	
Other Contributions		(0.1)			-	
Total grants and contributions		(3.9)			(3.9)	
Total capital expenditure	88.4	(3.9)	84.5	60.2	(3.9)	56.3

BRISTOL WATER plc

**REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2013**

C13. Working capital

	2013	2012
	£m	£m
Stocks	1.2	1.3
Trade debtors		
- measured household	3.9	4.1
- unmeasured household	4.8	4.6
- measured non-household	2.6	2.5
- unmeasured non-household	0.3	0.4
- other	0.3	0.6
Measured income accrual	12.3	10.0
Prepayments and other debtors	2.6	2.4
Trade creditors	(2.7)	(1.1)
Deferred income – customer receipts in advance	(12.0)	(11.0)
Accruals and other creditors	(9.3)	(11.1)
Total working capital (excluding capital creditors)	4.0	2.7
Capital creditors	(19.8)	(15.3)
Total working capital	(15.8)	(12.6)
Total revenue outstanding		
- household	18.6	17.7
- non-household	2.8	2.8
	21.4	20.5

C14. Analysis of Net debt, gearing and interest cost

	Interest rate risk profile			2013
	Fixed rate	Floating rate	Index linked	Total
	£m	£m	£m	£m
Borrowings (excluding irredeemable preference shares)	72.4	18.0	162.7	253.1
Irredeemable preference share capital				12.5
Total borrowings				265.6
Cash				(3.2)
Short term deposits				(9.5)
Net debt				252.9
Regulatory capital value				389.0
Gearing				65%
Full year equivalent nominal interest cost	4.1	0.3	11.0	15.4
Full year equivalent cash interest payment	4.1	0.3	5.5	9.9
Indicative interest rates				
Indicative weighted average nominal interest rate	5.9%	1.6%	6.8%	6.22%
Indicative weighted average cash interest rate	5.9%	1.6%	3.4%	3.98%
Weighted average years to maturity	18 yrs	4 yrs	21 yrs	19 yrs

BRISTOL WATER plc**REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2013**

Non-financial information for the 12 months ended 31 March 2013		
	2013	2012
Number of properties ('000s)		
Households billed	469	466
Non-households billed	33	33
Household voids	11	11
Non-household voids	2	2
Per capita consumption (excluding supply pipe leakage) l/h/d		
Unmeasured household	154	153
Measured household	117	117

Volume (MI/d)		
Bulk supply export	2.4	5.1
Bulk supply import	0.9	0.6
Distribution input	257.0	265.0

RELATED PARTY TRANSACTIONS

Throughout the year, related parties include members and joint ventures of the Bristol Water Holdings UK Limited group of companies, members of Capstone Infrastructure Corporation Group (Capstone), members of the Agbar Suez Environnement Company S.A group of companies and key management personnel.

The principal related parties are:

CSE Water UK Limited, registered in England and Wales, whose year-end is 31 December, and is the ultimate UK holding company of Bristol Water plc and is a subsidiary of Capstone.

Bristol Water Holdings UK Limited (BWHUK), registered in England and Wales, whose year-end is 31 December. BWHUK is a subsidiary of Capstone.

Bristol Wessex Billing Services Limited (BWBSL), registered in England and Wales, whose year-end is 31 March. The joint venture interest is held by Bristol Water Holdings Limited, an intermediate holding company within the BWHUK group, which owns 100 class 'B' shares in the company, representing a holding of 50% of the voting and equity rights of the company. BWBSL is a joint venture undertaking between Bristol Water Holdings Limited and Wessex Water Services Limited, and provides meter reading, billing, debt recovery and customer contact management services to this company and Wessex Water Services Limited, under a cost sharing arrangement.

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 Aqualogy Solutions Limited, a subsidiary and intermediate holding company within the Agbar group, and 50% by Serco UK Limited. ASTS provides IT consultancy services, and security asset management services. Following a competitive tendering process, ASTS is contracted to provide IT maintenance and development services to the company.

Aqualogy Environment Limited (AEL), registered in England and Wales, whose year-end is 31 December. This company is a subsidiary within the Agbar group and is engaged in providing infrastructure asset management services to the water industry. The principal activities include a patented process called "Ice Pigging" which uses ice to clean pipes. AEL also provides sub-licences to customers for the use of Ice Pigging technology in other countries.

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 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. Apportionments and recharges between appointed and non-appointed elements are approved and agreed at Board level annually.

BRISTOL WATER plc**REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2013****RELATED PARTY TRANSACTIONS (continued)**

Nature of service	Associate	Turnover of associate £m	Terms of supply	Value of service received £m
Management charge	Bristol Water Holdings UK Group of companies	-	No market	0.1
Mains refurbishment patented process	Aqualogy Environment Limited	2.0	Monopoly provider	0.3
Chlorination and sampling	Aqualogy Environment Limited	2.0	Not market tested, multiple low value transactions	0.1
Director services	Aqualogy Solutions and Technologies Limited	0.7	No market	0.2
Smart data logging equipment	Aqualogy Environment Limited	2.0	Bench marking	0.1
Managed billing service	Bristol Wessex Billing Services Limited	12.9	Competitive Tender	2.8
Recharges for costs	Bristol Wessex Billing Services Limited	12.9	Cost pass through	0.5
IT support contract	AgbarSerco Technology Solutions Limited	3.0	Competitive tender	1.4
Maintenance & repair of security equipment	AgbarSerco Technology Solutions Limited	3.0	Competitive tender	0.3
Systems development and upgrade	AgbarSerco Technology Solutions Limited	3.0	Bench marking	1.3

80% of the consultancy services for the systems and development upgrades supplied by ASTS are ultimately provided by Serco UK Limited, an unrelated party.

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 2012/13 is not yet ascertained. The 2011/12 and 2012/13 Bristol Water plc tax computations included group relief surrendered by the non-regulated companies based on their accounts for the year to December 2012 of £5.8m. Further group relief will be surrendered for the period January to March 2013, but the amount of relief for this period is yet to be finalised. Bristol Water plc pays the standard tax rate for the period multiplied by the surrendered losses to each surrendering company. This group relief payment policy ensures that relieving losses around the group has no effect on the current tax charge of Bristol Water plc. The payment for loss relief surrendered for the year ended 31 December 2011 was settled in quarterly payments in line with the dates that that corporation tax would normally be paid

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS for the year ended 31 March 2013

RELATED PARTY TRANSACTIONS (continued)

Borrowing/lending with associated companies and related facilities

A loan of £47m was made to Bristol Water Holdings UK Limited (formerly 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 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 2012/13.

A further loan of £21.5m was made to Bristol Water Holdings UK Limited (formerly Bristol Water Group Limited) in 2005/06. The unsecured loan was advanced on 13 July 2005, under an agreement dated 10 June 2005, out of proceeds of the 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 2012/13.

There is a provision in both the loans that BWH UK 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

The company's dividend 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, and
- an amount equal to the post-tax interest receivable from Bristol Water Holdings UK Limited, a UK parent company in respect of inter-company loans.

The policy was changed during the year to payments on a quarterly basis.

During the year the following dividends have been paid

- in respect of the 2012 financial year:
 - Final base dividend of £4.8m
- in respect of the 2013 financial year:
 - First interim for the inter-company loan interest element of £1.5m
 - Second interim base dividend of £4.5m
 - Third interim base dividend of £2.4m
 - Fourth interim for the inter-company loan interest element of £1.5m

In addition, annual dividends of £1.1m (2012: £1.1m) continued to be paid on the irredeemable preference shares. The irredeemable preference shares are shown as debt in the balance sheet, and the dividend is therefore shown as a finance cost in the profit and loss account.

The Board has proposed a final dividend of £3.1m in respect of the year ended 31 March 2013.

**REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2013**

DIRECTORS' REMUNERATION

The Annual Report for Bristol Water plc contains a detailed Remuneration Committee report, setting out the basis of Director remuneration and therefore not repeated within the Regulatory Accounting Statements in its entirety.

Annual bonus is based on the achievement of three balanced elements: customer service, financial target and capital programme delivery targets together with an assessment of personal performance. The same targets apply equally to all staff who receive bonuses.

The customer service targets are set around measurable outcomes which we believe are important to customers such as water quality, leakage target compliance, minimising interruptions to supply and the SIM.

The annual bonus in this financial year is restricted to a maximum of 30% of basic salary (save in exceptional circumstances).

In 2012/13 the non-personal element award was determined by the Remuneration Committee for each Director as 91% of the maximum weight. The personal element is factored into the bonus paid by multiplying the non-personal element by a score in the range of 0 to 1.2 depending on personal performance as considered and approved by the Remuneration Committee.

Challenge	Below target	Achieve target	Pro rata element	Notes	Maximum %	Outturn %
Financial results- EBITDA vs budget	Nil if under 95% of target	100%	110% of bonus element, if achieve 105% of budget	Pro rata between 95% and 100% of target and 100% and 105% of target.	35.0%	27.7%
Capex delivery	Nil	Mix of targets for efficiency, Delivery of overall programme in year, and delivery of with specific schemes			35.0%	35.0%
Water quality	Nil	<=20 fails 100% of maximum; <=30 fails 66.7%; and <=40 fails 33.3%			10%	10%
Discoloured water	Nil	0% at 1800,	then pro rata to 100% for 1200 or less		10%	9.6%
Meet leakage target	Nil	Amount is on "all or nothing" basis of meeting the target 50MI/d			7.5%	7.5%
Interruptions to customer supply	Nil	50% at 22 minutes per property per year, then pro rata to 100% at 19.17 minutes per property per year.			7.5%	7.5%
SIM	Nil	2.5% for top 5 ranking; 1.25% for top 10; 2.5% for beating target score			5.0%	3.75%

Actual awards for the period as a director during 2012/13 and in respect of Bristol Water plc service, approved by the Remuneration Committee and paid in June 2013, were:

	£000
L García	58
M Anglada	37
M King	33

BRISTOL WATER plc

**REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2013**

DIRECTORS' REMUNERATION (Continued)

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

The Remuneration Committee reviews the bonus arrangements each year and set these particular arrangements in Summer 2012. The 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 customers experience and what they want the company to achieve. These service standards are based on auditable data compiled by the company that is used for regulatory reporting to Ofwat and the DWI.

**REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2013**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the regulatory 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 prepared 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 or the reasonable expectation of raising further resources as required to continue in operation for the foreseeable future. Therefore they continue to adopt the going concern basis of accounting in preparing these accounts.

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.

BRISTOL WATER plc

**REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2013**

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.

Following the resignation of the former auditors, Ernst & Young LLP, on 22 October 2012 PricewaterhouseCoopers LLP were appointed auditors.

By order of the Board
M King
Director
11 July 2013

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS for the year ended 31 March 2013

INDEPENDENT AUDITORS' REPORT TO THE WATER SERVICES REGULATION AUTHORITY ("THE WSRA") AND DIRECTORS OF BRISTOL WATER plc

We have audited the Regulatory Accounts of Bristol Water plc ("the Company") for the year ended 31 March 2013 on pages 2-29 (the "Regulatory Accounts") 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 cash flow statement and the related notes to the current cost financial statements, including the statement of accounting policies.

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies.

This report is made, on terms that have been agreed, solely to the Company and 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 ("Condition F"). 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 Condition F 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.

Respective responsibilities of the WSRA, the directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 28, the directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts 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 Regulatory Accounts. In addition, we read all the financial and non-financial information in the regulatory accounts to identify material inconsistencies with the audited Regulatory Accounts. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, 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 International Standards on Auditing (UK & Ireland).

**REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2013**

Opinion on Regulatory Accounts

In our opinion, the Regulatory Accounts:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on page 10 (including the accounting separation methodology), the state of the Company's affairs at 31 March 2013 on an historical cost basis and its historical cost and current cost profit and its current cost cash flow for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies (including the accounting separation methodology).

Basis of preparation

Without modifying our opinion, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. Furthermore, the regulatory historical cost accounting statements on pages 5-7 have been drawn up in accordance with Regulatory Accounting Guideline 3.07 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 Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 is given on page 3.

Opinion on other matters prescribed by Condition F

Under the terms of our contract, we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

BRISTOL WATER plc

**REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2013**

Other matters

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 such assessment.

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2013 on which we reported on 11 June 2013, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 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 audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Bristol, United Kingdom

Date: 11 July 2013

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS for the year ended 31 March 2013

REGULATORY CERTIFICATE OF ADEQUACY OF FINANCIAL RESOURCES 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:
 - a) management resources; and
 - b) systems of planning and internal control
which are sufficient to enable it to carry out those functions; and
- (3) That in the opinion of the Directors, any contract entered into with any Associated Company includes all necessary provisions and requirements concerning the standard of service to be supplied to the Appointee to ensure, as appropriate, that it is able to meet 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 2013/14, 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 £12.7m at 31 March 2013
- Unutilised committed term facilities of £50m with the Royal Bank of Scotland and a further unutilised committed term facility of £49m with HSBC as at 31 March 2013

(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.

Approved by the Board on 22 May 2013 and signed on its behalf on 11 July 2013 by:

L García Director

M King Director