

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

YEAR ENDED 31 MARCH 2006

BRISTOL WATER plc
REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2006

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. In particular, as required by Ofwat, they do not correspond with the statutory accounts in respect of infrastructure renewals accounting.

The accompanying Historical Cost and Current Cost Accounting Statements were approved by a Committee of the Board on 13 July 2006.

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BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

HISTORICAL COST ACCOUNTING STATEMENTS
for the year ended 31 March 2006

BRISTOL WATER plc

HISTORICAL COST ACCOUNTING POLICIES

The regulatory accounts are separate from the statutory financial statements of the Company. There are differences between United Kingdom Generally Accepted Accounting Principles (UK GAAP) and the basis of preparation of information provided in the regulatory accounts because the Regulatory Accounting Guidelines (RAGs) specify alternative treatment or disclosure in certain respects. Where the RAGs do not specifically address an accounting issue, then they require UK GAAP to be followed. Financial information, other than that prepared wholly on the basis of UK GAAP, does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 1985.

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

a. Accounting convention

The accounts of the company are prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom and with the provisions of the Companies Act 1985, except for the treatment of certain capital contributions as explained in Note d below, the disclosure of operating costs as explained in note 2 and the application of infrastructure renewals accounting as explained in note 7.

During this year the company has adopted the following new Financial Reporting Standards (FRS) in its financial statements, insofar as they are applicable to the affairs of the company:

FRS17 - Retirement benefits
FRS20 - Share based payments
FRS21 - Events after the balance sheet date
FRS22 - Earnings per share
FRS25 - Financial Instruments: Disclosure and presentation
FRS26 - Financial Instruments: Measurement
FRS28 - Corresponding amounts

All comparative data have been restated accordingly. The main effects of these changes on the reported results of the company are as follows:

FRS17: Full recognition is made in these accounts for the surplus arising in the company's section of the Water Companies' Pension Scheme (WCPS), as further described in note 21. The effect of the change in accounting policy is:

- to increase profit after tax by £0.4m (year ended 31 March 2005: £1.0m)
- to increase total recognised gains and losses for the year by £5.9m (year ended 31 March 2005: £2.2m)
- to increase/(decrease) net assets as at 31 March 2006 by £4.3m (as at 31 March 2005 £(7.0)m)

FRS20: Provision is made for the notional expense arising on the grant of share options under the terms of the Bristol Water Group Savings Related Share Option Scheme. No restatement of the previous year is necessary as the effect on both the current and prior years is not material. The effect of the change in accounting policy is:

- to decrease profit after tax by £0.1m (year ended 31 March 2005: Nil)
- to decrease total recognised gains and losses for the year by £0.1m (year ended 31 March 2005: Nil)
- to increase net assets as at 31 March 2006 by £0.6m (as at 31 March 2005: Nil)

FRS21: 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.

This reduces retained profit for the year ended 31 March 2006 by £1.8m (at 31 March 2005 increased by £0.8m). It also increases net assets at 31 March 2006 by £3.5m (at 31 March 2005 by £5.3m).

FRS25: The company's 8.75% irredeemable cumulative preference shares have been reclassified from equity to long-term creditors. The associated dividends have been reclassified as interest expense. The effect of the change in accounting policy is:

- to decrease profit after tax by £1.1m (year ended 31 March 2005: £1.1m)
- to leave total recognised gains and losses for both years unchanged
- to decrease net assets as at 31 March 2006 by £12.5m (as at 31 March 2005: £12.5m)

FRS26: The company has an interest rate swap, which matures on 26 September 2006, which is now measured at fair value. The effect of the change in accounting policy is:

- to increase profit after tax by £0.3m (year ended 31 March 2005 £0.4m)
- to increase total recognised gains and losses for the year by £0.3m (year ended 31 March 2005 £0.4m)
- to decrease net assets as at 31 March 2006 by £0.2m (31 March 2005 £0.5m).

As outlined in the company's Annual Report and Accounts for the year ended 31 March 2005, the company has not adopted IFRS for its financial statements for the year ended 31 March 2006, and has no current plans to do so until UKGAAP and IFRS are fully harmonised.

b. Turnover

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

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

c. Tangible fixed assets and depreciation

Tangible fixed assets comprise infrastructure assets and other assets.

Infrastructure assets

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

Other assets

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

Depreciation

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

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

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

Operational properties and structures	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 ensure that their carrying amounts do not exceed their fair values in use. Where such an excess is believed to exist it will be treated as an impairment loss and charged in the Profit and Loss account.

d. Grants and contributions

Contributions received in respect of tangible assets other than infrastructure assets are treated as deferred income and amortised to the profit and loss account over the expected useful lives of the related assets. Contributions received in respect of enhancing the infrastructure network are not shown as deferred income but are deducted from the cost of the related fixed assets. This treatment is permitted by SSAP4 but is a departure from the Companies Act 1985 which requires such contributions to be shown as deferred income.

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

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

e. Leased assets

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

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

f. Pension costs

The company operates both defined benefit and defined contribution pension arrangements.

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 schemes 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 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.

g. Research and development

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

h. Taxation

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

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

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

i. 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.

j. 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.

k. Financial instruments

The company has an interest rate swap which is measured at fair value.

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

l. Share Option schemes

The company operates a number of equity settled, share-based compensation plans for employees. The fair value of the employee services received in exchange for the grant is recognised as an expense over the vesting period of the grant.

The fair value of employee services is determined by reference to the fair value of the awards granted calculated using an appropriate pricing model, excluding the impact of any non-market vesting conditions.

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

**HISTORICAL COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2006**

	Notes	Appointed business 2006 £m	Non- appointed 2006 £m	Total 2006 £m	Appointed business 2005 Restated £m	Non- appointed 2005 Restated £m	Total 2005 Restated £m
Turnover	1	79.7	1.7	81.4	68.3	1.9	70.2
Operating costs	2	(56.0)	(1.6)	(57.6)	(50.6)	(1.5)	(52.1)
Exceptional operating costs		-	-	-	(1.3)	-	(1.3)
Total operating costs		(56.0)	(1.6)	(57.6)	(51.9)	(1.5)	(53.4)
Operating income, being profit on disposal of tangible fixed assets		-	-	-	0.1	-	0.1
Operating profit		23.7	0.1	23.8	16.5	0.4	16.9
Other net income, being rents		0.4	-	0.4	0.2	-	0.2
Net interest payable and similar charges	3	(6.3)	-	(6.3)	(6.1)	-	(6.1)
Dividends on 8.75% irredeemable cumulative preference shares	3	(1.1)	-	(1.1)	(1.1)	-	(1.1)
Net finance income in respect of retirement benefit obligations	3	0.9	-	0.9	0.8	-	0.8
Profit on ordinary activities before taxation		17.6	0.1	17.7	10.3	0.4	10.7
Taxation on profit on ordinary activities	4	(6.8)	-	(6.8)	(1.5)	(0.1)	(1.6)
Profit on ordinary activities after taxation		10.8	0.1	10.9	8.8	0.3	9.1
Dividends on ordinary shares	5	(10.1)	(0.1)	(10.2)	(6.2)	(1.1)	(7.3)
Profit/(loss) retained for the year		0.7	-	0.7	2.6	(0.8)	1.8

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

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

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

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 March 2006**

		Appointed Business	Non- Appointed Business	Total	Appointed Business Restated	Non- appointed Business Restated	Total Restated
	Notes	2006 £m	2006 £m	2006 £m	2005 £m	2005 £m	2005 £m
Profit attributable to Bristol Water plc shareholders		10.8	0.1	10.9	8.8	0.3	9.1
Actuarial gains recognised in respect of retirement benefit obligations	21	7.8	-	7.8	1.7	-	1.7
Attributable deferred taxation	17	(2.1)	-	(2.1)	(0.5)	-	(0.5)
Charged against operating profit for equity-settled share- based payment	23	0.2	-	0.2	-	-	-
Attributable deferred taxation	17	0.6	-	0.6	-	-	-
Total recognised gains for the year		17.3	0.1	17.4	10.0	0.3	10.3

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

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

HISTORICAL COST BALANCE SHEET
at 31 March 2006

	Notes	Appointed business 2006 £m	Non- appointed 2006 £m	Total 2006 £m	Appointed business Restated 2006 £m	Non- appointed Restated 2005 £m	Total Restated 2005 £m
Fixed assets							
Tangible fixed assets	6 & 7	196.3	1.3	197.6	195.1	1.4	196.5
Investment – loan to ultimate holding company							
	8	68.5	-	68.5	47.0	-	47.0
Current assets							
Stocks	9	0.6	0.1	0.7	0.6	-	0.6
Debtors	10	19.0	0.1	19.1	18.4	0.1	18.5
Cash at bank and on deposit	13,22	40.5	-	40.5	12.0	-	12.0
		<u>60.1</u>	<u>0.2</u>	60.3	<u>31.0</u>	<u>0.1</u>	<u>31.1</u>
Creditors: amounts falling due within one year							
Short-term borrowings	11	(2.5)	-	(2.5)	(4.2)	-	(4.2)
Other creditors	12	(17.7)	(1.5)	(19.2)	(16.2)	(1.5)	(17.7)
		<u>(20.2)</u>	<u>(1.5)</u>	(21.7)	<u>(20.4)</u>	<u>(1.5)</u>	<u>(21.9)</u>
Net current assets/(liabilities)		39.9	(1.3)	38.6	10.6	(1.4)	9.2
Total assets less current liabilities		304.7	-	304.7	252.7	-	252.7
Creditors: amounts falling due after more than one year							
Long-term borrowings	13	(202.6)	-	(202.6)	(147.0)	-	(147.0)
Irredeemable debenture stocks	13	(1.6)	-	(1.6)	(1.6)	-	(1.6)
		<u>(204.2)</u>	<u>-</u>	(204.2)	<u>(148.6)</u>	<u>-</u>	<u>(148.6)</u>
8.75% irredeemable cumulative preference shares	13	(12.5)	-	(12.5)	(12.5)	-	(12.5)
Deferred income	14	(8.9)	-	(8.9)	(8.6)	-	(8.6)
Provisions for liabilities and charges	17	(20.8)	-	(20.8)	(20.2)	-	(20.2)
Retirement benefit obligations	21	3.1	-	3.1	(8.6)	-	(8.6)
Net assets		<u>61.4</u>	<u>-</u>	61.4	<u>54.2</u>	<u>-</u>	<u>54.2</u>
Capital and reserves							
Called up share capital	18	6.0	-	6.0	6.0	-	6.0
Share premium account	19	4.4	-	4.4	4.4	-	4.4
Share option reserve	19	0.8	-	0.8	-	-	-
Other non-distributable reserves	19	5.8	-	5.8	5.8	-	5.8
Profit and loss account	19	44.4	-	44.4	38.0	-	38.0
Equity shareholders' funds	19	<u>61.4</u>	<u>-</u>	61.4	<u>54.2</u>	<u>-</u>	<u>54.2</u>

The accounts were approved by a Committee of the Board on 13th July 2006 and signed on its behalf by -

A Parsons, Managing Director

A Nield, Finance Director

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

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

**HISTORICAL COST CASH FLOW STATEMENT
for the year ended 31 March 2006**

	Notes	Appointed business 2006 £m	Non- appointed 2006 £m	Total 2006 £m	Appointed business Restated 2005 £m	Non- appointed Restated 2005 £m	Total Restated 2005 £m
Net cash inflow from operating activities	22a	33.1	0.3	33.4	33.7	0.1	33.8
Returns on investments and servicing of finance -							
Other income received		0.4	-	0.4	0.3	-	0.3
Interest received		5.3	-	5.3	3.6	-	3.6
Interest paid on term loans and debentures		(8.4)	-	(8.4)	(7.2)	-	(7.2)
Interest paid on finance leases		(1.2)	-	(1.2)	(1.1)	-	(1.1)
Dividends paid on 8.75% irredeemable cumulative preference shares		(1.1)	-	(1.1)	(1.7)	-	(1.7)
Net cost of issue of new loans		(1.1)	-	(1.1)	-	-	-
		<u>(6.1)</u>	<u>-</u>	<u>(6.1)</u>	<u>(6.1)</u>	<u>-</u>	<u>(6.1)</u>
Taxation -							
Corporation tax paid		(1.6)	(0.1)	(1.7)	(1.8)	(0.1)	(1.9)
Capital Expenditure and investing activities -							
Purchase of tangible fixed assets		(13.7)	(0.1)	(13.8)	(12.3)	-	(12.3)
Less contributions received		4.2	-	4.2	3.7	-	3.7
Infrastructure renewals expenditure		(8.7)	-	(8.7)	(7.8)	-	(7.8)
Proceeds on disposal of tangible fixed assets		0.2	-	0.2	-	-	-
Loan advanced to ultimate holding company		(21.5)	-	(21.5)	-	-	-
		<u>(39.5)</u>	<u>(0.1)</u>	<u>(39.6)</u>	<u>(16.4)</u>	<u>-</u>	<u>(16.4)</u>
Dividends paid on equity shares		<u>(10.1)</u>	<u>(0.1)</u>	<u>(10.2)</u>	<u>(7.3)</u>	<u>-</u>	<u>(7.3)</u>
Net cash inflow/(outflow) before management of liquid resources and financing		(24.2)	-	(24.2)	2.1	-	2.1
Management of liquid resources being (increase)/decrease in short-term deposits		(29.1)	-	(29.1)	5.4	-	5.4
Financing -							
New term loans		57.0	-	57.0	-	-	-
Capital element of lease repayments		(1.9)	-	(1.9)	(1.6)	-	(1.6)
Loan repayments		(1.8)	-	(1.8)	(5.3)	-	(5.3)
Payments in respect of swap liability		(0.6)	-	(0.6)	(0.6)	-	(0.6)
Net cash (outflow)/inflow from financing		<u>52.7</u>	<u>-</u>	<u>52.7</u>	<u>(7.5)</u>	<u>-</u>	<u>(7.5)</u>
Decrease in cash	22c	(0.6)	-	(0.6)	-	-	-
Cash, beginning of year		1.6	-	1.6	1.6	-	1.6
Cash, end of year		<u>1.0</u>	<u>-</u>	<u>1.0</u>	<u>1.6</u>	<u>-</u>	<u>1.6</u>

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

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

NOTES TO THE HISTORICAL COST ACCOUNTS

1. TURNOVER

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

2. OPERATING COSTS

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

(a) Operating costs comprise -

	Operating costs 2006 £m	Operating costs before exceptional items 2005 £m	Exceptional operating costs* 2005 £m	Operating costs after exceptional items 2005 £m
Wages, salaries and severance costs	11.3	10.8	0.4	11.2
Social security costs	0.9	0.9	-	0.9
Pension costs (note 21(b))	1.9	2.0	0.7	2.7
Equity-settled share-based payments	0.2	-	-	-
Total payroll cost	14.3	13.7	1.1	14.8
less charged to fixed assets	(2.8)	(2.6)	-	(2.6)
Net payroll cost	11.5	11.1	1.1	12.2
Other operating costs				
Operating lease rentals on plant and machinery	0.2	0.2	-	0.2
Research and development expenditure	0.1	0.1	-	0.1
Auditors' remuneration **	0.1	0.1	-	0.1
Raw materials, consumables, bad debts and other charges less recoveries	27.1	26.0	0.2	26.2
Total other operating costs	27.5	26.4	0.2	26.6
Depreciation of tangible fixed assets (note 7)				
On owned assets	7.3	5.8	-	5.8
On leased assets	1.8	1.8	-	1.8
Amortisation of related deferred Income (note 14)	(0.3)	(0.3)	-	(0.3)
Net depreciation	8.8	7.3	-	7.3
Infrastructure renewals charge	9.8	7.3	-	7.3
Total operating costs	57.6	52.1	1.3	53.4

*Exceptional operating costs - Restructuring

During the year ended 31 March 2005 the Board instigated a restructuring programme to improve the operating efficiency of the company. This involved a number of redundancies and related pension funding payments, asset write-downs and incidental expenses. Accordingly the restructuring costs were recognised in the profit and loss account for the year ended 31 March 2005. There were no exceptional operating costs in 2006.

**Auditors' remuneration includes £39,000 (2005 - £42,000) in respect of statutory audit fees. Other audit services including audit of regulatory returns totalled £20,000 (2005 - £45,000).

The company has calculated the Infrastructure Renewals Charge, for regulatory accounting purposes only, over a fifteen year period. This is to achieve a suitably long term view, as required by the Regulator. In the statutory accounts, the infrastructure renewals charge included in depreciation, continues to be calculated over a five year period, creating a difference with the operating costs in the regulatory accounts.

During the year there has been a change in the accounting treatment of revenue deficit grants in the statutory accounts, which has not been adopted for the regulatory accounts. The change credits the revenue deficit grants to deferred income, and amortises them over three years, instead of crediting them against fixed assets. This creates a difference between the operating costs in the regulatory accounts and the operating costs in the statutory accounts, equivalent to the amount amortised during the year.

	2006	2005
	£m	£m
Total operating costs per regulatory accounts	57.6	53.4
Property maintenance	0.1	0.1
Statutory Infrastructure Renewals Charge	9.5	
Regulatory Infrastructure Renewals Charge	<u>(9.8)</u>	
	(0.3)	-
Section 41 revenue deficit grants	(0.4)	-
Total operating costs per statutory accounts	<u>57.0</u>	<u>53.5</u>

- (b) Employee details -
The average number of employees (full time equivalents) during the year was 399 (2005 – 403).

- (c) Directors' emoluments -

	2006	2005
	£m	£m
Aggregate emoluments of directors, being remuneration, bonus and benefits in kind	1.0	0.7
Payments to approved pension schemes, all in respect of executive directors	0.1	0.1

Full details of directors' remuneration are disclosed in the report of the Remuneration Committee on pages 18 - 21 of the statutory accounts.

- (d) Depreciation
The depreciation charge for the year is stated after charging £1.0m accelerated depreciation in respect of plant planned to be taken out of service before it is fully depreciated as part of a capital project to meet quality obligations and streamlining of treatment processes (2005 - £Nil).

3. NET INTEREST PAYABLE AND SIMILAR CHARGES

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

	2006 £m	2005 £m
Bank borrowings	1.7	1.5
Term loans and debentures	6.8	5.7
- interest charges		
- indexation	2.1	1.3
Finance leases	1.1	1.1
	11.7	9.6
Less: interest receivable from		
Loan to Bristol Water Group plc	(3.7)	(2.8)
Other external investments and deposits	(1.9)	(0.7)
	(5.6)	(3.5)
	6.1	6.1
Fair value adjustment to swap liability	0.2	-
	6.3	6.1
Dividends on 8.75% irredeemable cumulative preference shares	1.1	1.1
Net finance income in respect of FRS 17 retirement benefit obligation	(0.9)	(0.8)
	6.5	6.4

Dividends on the 8.75% irredeemable cumulative preference shares are payable at the fixed rate of 4.375% on 1st April and 1st 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.

4. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2006 £m	2005 Restated £m
(a) Analysis of charge for the year, all arising in the United Kingdom:		
Current tax:		
Corporation tax at 30% (2005 - 30%)	2.1	1.0
Advance Corporation Tax written back	-	(1.5)
Adjustment to prior periods	(0.1)	1.6
Receipts in respect of group relief	1.3	1.0
	3.3	2.1
Deferred tax:		
Current year movement	2.8	1.4
Adjustment to prior periods	0.1	(1.8)
Effect of discounting	0.6	(0.1)
	3.5	(0.5)
Tax on profit on ordinary activities	6.8	1.6

The adjustment to prior periods in 2005 primarily relates to the effect of the company reducing its capital allowance claim for the year ended 31 March 2003. This amendment enabled the company to write back Advance Corporation Tax (ACT) to be utilised against the resulting increased taxable profits.

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

Factors that may affect future tax charges

ACT is recognised as an asset to the extent that it is foreseen to be recoverable in the next 12 months. There is a further £3.4m (2005 - £3.4m) of unrecognised ACT carried forward at 31 March 2006.

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

The current tax for the year is higher (2005 - lower) than the standard rate of Corporation Tax in the United Kingdom (30%). The differences are explained below:

	2006	2005
	£m	Restated £m
Profit on ordinary activities before tax	<u>17.7</u>	10.7
Profit on ordinary activities multiplied by standard rate of Corporation Tax in the United Kingdom at 30% (2005 - 30%)	5.3	3.2
Effects of:		
Expenses including 8.75% irredeemable cumulative preference share dividends not deductible for tax	0.4	0.5
Capital allowances in excess of depreciation	(0.7)	(1.6)
Additional retirement benefit contributions	(1.2)	-
Other net charges	(0.4)	(0.1)
	<u>3.4</u>	2.0
Adjustment to tax in respect of prior periods	(0.1)	1.6
Adjustment in respect of Advance Corporation Tax for prior years	-	(1.5)
Total current tax charge	<u>3.3</u>	<u>2.1</u>

5. DIVIDENDS

	2006	2005
	£m	Restated £m
Ordinary Shares		
• Dividend in respect of 2003/04: Final dividend of 74.27 pence per share, approved at the Annual General Meeting on 19 July 2004	-	4.5
• Dividend in respect of 2004/05: Interim dividend of 47.15 pence per share, approved by the Board on 7 December 2004 Final dividend of 88.00 pence per share, approved at the Annual General Meeting on 18 July 2005	- 5.3	2.8 -
• Dividend in respect of 2005/06: First interim dividend of 19.62 pence per share, approved by the Board on 29 September 2005 Second interim dividend of 38.68 pence per share, approved by the Board on 8 December 2005 Third interim dividend of 23.53 pence per share, approved by the Board on 28 March 2006	1.2 2.3 1.4	- - -
	<u>10.2</u>	<u>7.3</u>

On 16 May 2006 the Board declared a fourth interim dividend of 58.02 pence per share, totalling £3.5m, in respect of the year ended 31 March 2006. In accordance with FRS21 this dividend is not recognised in these accounts as a liability. The Board does not propose a final dividend.

6. 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 2005	157.7	25.9	85.6	2.1	271.3
Additions	-	-	-	13.9	13.9
Capitalisation of completed assets	4.1	3.6	3.5	(11.2)	-
Disposals	-	(0.9)	-	-	(0.9)
Grants and contributions	(0.3)	-	(3.2)	-	(3.5)
At 31 March 2006	161.5	28.6	85.9	4.8	280.8
Depreciation					
At 1 April 2005	58.2	16.6	-	-	74.8
Charge for year	6.2	2.9	-	-	9.1
Disposals	-	(0.7)	-	-	(0.7)
At 31 March 2006	64.4	18.8	-	-	83.2
Net book value at 31 March 2006	97.1	9.8	85.9	4.8	197.6
At 31 March 2005	99.5	9.3	85.6	2.1	196.5

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 2006 is freehold land, not subjected to depreciation in the year, of £1.3m (2005 - £1.3m).
- (c) Included above at 31 March 2006 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 2006				
Cost	38.0	7.7	1.2	46.9
Depreciation	(18.0)	(7.2)	-	(25.2)
Net book value	20.0	0.5	1.2	21.7
At 31 March 2005				
Cost	38.0	7.9	1.2	47.1
Depreciation	(16.4)	(7.1)	-	(23.5)
Net book value	21.6	0.8	1.2	23.6

- (d) The net book value of infrastructure assets is stated after the deduction of contributions of £44.7m (2005 - £40.8m) as explained in Accounting Policy d.

7. RECONCILIATION OF FIXED ASSETS IN REGULATORY ACCOUNTS TO STATUTORY 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. 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. A reconciliation to the balance sheet shown in the statutory accounts is set out below:

	Infrastructure Assets £m	Assets under construction £m
Cost		
Cost at 31 March 2006 per Regulatory Accounts	85.9	4.8
Adjustment to opening balance	81.4	-
Additions	-	8.7
Infrastructure renewals expenditure capitalised in the year	8.7	(8.7)
Section 41 revenue deficit grants	1.1	-
Disposals	(1.9)	-
Cost at 31 March 2006 per Statutory Accounts	175.2	4.8
Depreciation		
At 31 March 2006 per Regulatory Accounts	-	-
Adjustment to opening balance	82.3	-
Statutory Accounting Depreciation charge for Infrastructure		
Renewals Expenditure	9.5	-
Disposals	(1.9)	-
At 31 March 2006 per Statutory Accounts	89.9	-
Net book value		
At 31 March 2006 per Regulatory Accounts	85.9	4.8
Adjustment for infrastructure renewals accounting	(1.7)	-
Adjustment for treatment of Section 41 revenue deficit grants	1.1	-
At 31 March 2006 per Statutory Accounts	85.3	4.8

Revenue deficit grants are treated as deferred income in the statutory accounts, whereas they are credited to fixed assets in the regulatory accounts (see note 2 (a)).

8. INVESTMENT - LOANS TO BRISTOL WATER GROUP PLC

	2006 £m	2005 £m
At 1 April 2005	47.0	47.0
Advanced during year	21.5	-
At 31 March 2006	<u>68.5</u>	<u>47.0</u>

The loans were advanced to Bristol Water Group plc 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 -	2006 £m	2005 £m
Trade debtors	8.2	9.3
Due from group and associated companies	2.0	1.8
Other debtors	1.2	0.7
Prepayments and accrued income	7.7	6.7
	<u>19.1</u>	<u>18.5</u>

The sum of £0.4m (2005 - £0.3m) 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 BWG 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

	2006 £m	2005 £m
Debentures	-	1.8
Finance leases	2.2	1.9
Financial derivative - swap liability	0.3	0.5
	<u>2.5</u>	<u>4.2</u>

All borrowings due within one year are unsecured. Debentures amounting to £1.8m were repaid in full on 31 December 2005

12. OTHER CREDITORS DUE WITHIN ONE YEAR

Other creditors due within one year comprise -	2006	2005 Restated
	£m	£m
Receipts in advance	7.2	7.6
Trade creditors	3.5	2.9
Due to group and associated companies	1.7	1.2
Tax, social security and payroll deductions	0.6	0.6
Corporation tax payable	0.4	0.3
Accruals and deposits received	5.8	5.1
	19.2	17.7

13. CREDITORS – AMOUNTS FALLING DUE AFTER ONE YEAR

	2006	2005 Restated
	£m	£m
Bank and other term loans – all secured	177.5	125.2
Finance leases	20.1	22.2
Financial derivative - swap liability	-	0.2
Net premiums (net expenses) arising on issue of term loans, not yet amortised	5.0	(0.6)
	202.6	147.0
Irredeemable debenture stocks	1.6	1.6
8.75% irredeemable cumulative preference shares	12.5	12.5
Total	216.7	161.1

The 8.75% irredeemable cumulative preference shares, which do not carry any voting rights, were issued in 1992 at £1 per share. Shareholders are entitled to receive dividends at 8.75% per annum on the par value of these shares on a cumulative basis; these dividends are payable half yearly on 1 April and 1 October. On winding up, the preference shareholders rank 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 2005: 12,500,000).

New borrowings

During the year the company raised a nominal £51.0m of long-term index-linked debt through the Artesian programme arranged by The Royal Bank of Scotland. The new loan is index-linked to RPI, and bears fixed interest of 3.635% on the indexed principal. The repayment date is 30 September 2032. In order to reflect changes in market conditions since the Artesian programme was initiated, the actual cash received in respect of the new loan was £57.0m, the excess being treated as a premium and amortised on a straight-line basis over the life of the loan. The effective rate of interest on the loan is therefore approximately 3.25%.

The movements in unamortised debt issue costs were as follows:

	2006	2005
	£m	£m
Professional fees and expenses	(0.5)	-
Payment to bank under terms of gilt locks entered into prior to and in connection with loans raised	(0.6)	-
Net premiums on receipt of new loans	6.8	-
	<hr/>	<hr/>
Net premiums/costs of issue arising in the year	5.7	-
Unamortised issue costs beginning of the year	(0.6)	(0.6)
Amortised during the year	(0.1)	-
	<hr/>	<hr/>
Unamortised net premiums/costs of issue at end of the year	5.0	(0.6)

The net premiums/costs of issue of new loans are amortised over the terms of the respective loans at £213,000 credit (pre-existing loans - £22,000 charge) per annum. Amortisation credits (charges) due in future years are as follows:

	2006	2005
	£m	£m
Within one year	0.2	-
Between one and two years	0.2	-
Between two and five years	0.6	(0.1)
After five years	4.0	(0.5)
	<hr/>	<hr/>
	5.0	(0.6)

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), 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 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.

Net borrowings and maturities

At 31 March 2006 net borrowings comprise -

	Term loans less cash	Finance leases	Debentures and irredeemable preference shares	Swap Liability	Total 2006	Total 2005
	£m	£m	£m	£m	£m	Restated £m
Repayment due:						
Between one and two years	-	2.5	-	-	2.5	2.4
Between two and five years	25.0	6.6	-	-	31.6	31.6
After five years:						
Other than by instalment	152.5	-	-	-	152.5	100.2
By instalment	-	11.0	-	-	11.0	13.4
Net premia (costs) of issue of loans, not yet amortised	5.0	-	-	-	5.0	(0.6)
Irredeemable debentures	-	-	1.6	-	1.6	1.6
Total borrowings due after one year excluding 8.75% irredeemable cumulative preference shares	182.5	20.1	1.6	-	204.2	148.6
Current portion of debt	-	2.2	-	-	2.2	3.7
Current portion of swap liability	-	-	-	0.3	0.3	0.5
	182.5	22.3	1.6	0.3	206.7	152.8
Cash balances and short-term deposits	(40.5)	-	-	-	(40.5)	(12.0)
Net borrowings excluding 8.75% irredeemable cumulative preference shares	142.0	22.3	1.6	0.3	166.2	140.8
8.75% irredeemable cumulative preference shares	-	-	12.5	-	12.5	12.5
Net borrowings including 8.75% irredeemable cumulative preference shares	142.0	22.3	14.1	0.3	178.7	153.3

Details of borrowings repayable after five years (excluding 8.75% irredeemable cumulative preference shares) -

	2006 £m	2005 £m
Debentures (listed on the London Stock Exchange) -		
4.00% Consolidated irredeemable	1.4	1.4
4.25%, 4.00% and 3.50% perpetual irredeemable debentures (in total, each under £0.1m individually)	0.2	0.2
	1.6	1.6
Finance leases	11.0	13.5
Other term loans -		
Secured, repayable 2032, principal index-linked to RPI, fixed interest at 3.635%* on the indexed principal	95.0	42.7
Secured, repayable 2033, fixed interest at 6.01%*	57.5	57.5
Total	165.1	115.3

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

Borrowing facilities

Unutilised borrowing facilities as at 31 March are as follows:

	2006	2005
	£m	£m
Expiring in more than two years	30.0	20.0

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

Minimum lease payments under finance leases

Amounts fall due as follows:

	2006	2005
	£m	£m
Within one year	2.2	1.9
Between one and two years	2.5	2.2
Between two and five years	6.6	6.6
After five years	11.0	13.5
	22.3	24.2

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.

	2006	2005
	£m	£m
Beginning of year	8.6	8.5
Contributions received	0.6	0.4
Less amortised	(0.3)	(0.3)
End of year regulatory accounts	8.9	8.6
Reconciliation to statutory accounts:		
End of year regulatory accounts	8.9	8.6
Section 41 revenue deficit grants received	1.1	-
Section 41 revenue deficit grants amortised	(0.4)	-
End of year statutory accounts	9.6	8.6

15. FINANCIAL RISK MANAGEMENT

Full disclosure is given in note 15 "Financial Risk Management" of the Statutory Accounts. The non-appointed element of the company is not significant in respect of this note.

16. FINANCIAL INSTRUMENTS

Full disclosure is given in note 16 "Financial Instruments" of the Statutory Accounts. The non-appointed element of the company is not significant in respect of this note.

17. PROVISIONS FOR LIABILITIES AND CHARGES

	2006	2005
	£m	Restated £m
(a) Restructuring costs (see note 2)	-	0.9
Deferred tax (excluding deferred tax on retirement benefit obligations) – note 17 (b)	18.8	18.4
Infrastructure accrual – note 17 (c)	2.0	0.9
	20.8	20.2
(b) Provision for deferred tax comprises -		
Accelerated capital allowances and capital element of finance leases	36.7	35.3
Deferred income	(2.5)	(2.6)
Short term timing differences	(1.7)	(0.5)
Arising on equity-settled share based payments	(0.6)	-
Retirement benefit obligations	1.3	(3.6)
	33.2	28.6
Effect of discounting:		
Retirement benefit obligations	-	0.3
Other	(13.1)	(13.8)
	(13.1)	(13.5)
Net provision, including deferred tax on retirement benefit obligations	20.1	15.1
Less, attributable to retirement benefit obligations	(1.3)	3.3
Net provision, excluding deferred tax on retirement benefit obligations	18.8	18.4
Deferred tax movement:	2006	2005
	£m	Restated £m
Beginning of year as previously reported	15.1	17.8
Effect of adoption of FRS17	-	(2.9)
Effect of adoption of FRS26	-	0.2
Beginning of year as now restated	15.1	15.1
Charge/(credit) to Profit and Loss Account (note 4)	3.5	(0.5)
Charge to Statement of Total Recognised Gains and Losses in respect of pension actuarial gains in the year	2.1	0.5
Credit to share options reserve	(0.6)	-
Provision carried forward at 31 March	20.1	15.1
(c) Infrastructure accrual		
The movement on the infrastructure renewals account is as follows:		
	2006	2005
	£m	£m
Beginning of year	0.9	1.4
Charge for the year	9.8	7.3
Expenditure	(8.7)	(7.8)
End of year	2.0	0.9

18. CALLED UP ORDINARY SHARE CAPITAL

The authorised and issued ordinary share capital of the company is -

	Authorised		Issued and fully paid	
	2006	2005	2006	2005
	£m	£m	£m	£m
5,998,025 ordinary shares of £1 each	6.0	6.0	6.0	6.0

19. MOVEMENT IN SHAREHOLDERS' FUNDS

	Share capital	Share premium account	Share option reserve	Capital redemption reserve	Profit and loss	Total 2006	Total 2005 Restated
	£m	£m	£m	£m	£m	£m	£m
Beginning of year as previously reported	18.5	4.4	-	5.8	40.2	68.9	69.3
Effect of adoption of FRS17	-	-	-	-	(7.0)	(7.0)	(9.2)
Effect of adoption of FRS21	-	-	-	-	5.3	5.3	4.5
Effect of adoption of FRS25	(12.5)	-	-	-	-	(12.5)	(12.5)
Effect of adoption of FRS26	-	-	-	-	(0.5)	(0.5)	(0.9)
At beginning of year as restated	6.0	4.4	-	5.8	38.0	54.2	51.2
Regulatory profit for year	-	-	-	-	10.9	10.9	9.1
Actuarial gains recognised in respect of retirement benefit obligations	-	-	-	-	7.8	7.8	1.7
Attributable deferred taxation	-	-	-	-	(2.1)	(2.1)	(0.5)
Charged against operating profit for equity-settled share based payment	-	-	0.2	-	-	0.2	-
Attributable deferred taxation	-	-	0.6	-	-	0.6	-
Dividends	-	-	-	-	(10.2)	(10.2)	(7.3)
Shareholders funds per regulatory accounts	6.0	4.4	0.8	5.8	44.4	61.4	54.2
Statutory accounts adjustment for infrastructure renewals charge	-	-	-	-	0.3	0.3	-
Statutory accounts adjustment for section 41 revenue deficit grants	-	-	-	-	0.4	0.4	-
End of year statutory accounts	6.0	4.4	0.8	5.8	45.1	62.1	54.2

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

20. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments at 31 March 2006 contracted for but not provided were £7.7m (2005 - £0.9m). The increase is due to the large number of new capital projects commenced in the first year of the new regulatory period.

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

	2006	2005
	£m	£m
Operating leases expiring -		
Within one to two years	0.1	0.1
Within two to five years	0.1	0.1
	0.2	0.2

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

21. RETIREMENT BENEFIT OBLIGATIONS

Full disclosure is given in note 21 "Retirement Benefit Obligations" of the Statutory Accounts. The non-appointed element of the company is not significant in respect of this note.

22. ADDITIONAL INFORMATION TO THE CASH FLOW STATEMENT

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

	2006	2005
	£m	Restated £m
Operating profit	23.8	16.9
Depreciation, net	8.8	7.3
Deduct profit on sale of fixed assets	-	(0.1)
Difference between pension charges and normal contributions	0.6	0.6
Equity-settled share based payments	0.2	-
Infrastructure Renewals Charge	9.8	7.3
	<hr/> 43.2	32.0
Cash flow from operations		
Working capital movements -		
Stocks	(0.1)	0.1
Debtors	(0.5)	1.2
Creditors and provisions	(0.7)	0.5
Additional contributions to pension scheme, including payments in respect of restructuring	(8.5)	-
	<hr/> 33.4	33.8
Net cash inflow from operating activities		

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

	2006	2005
	£m	Restated £m
Decrease in net cash in year	(0.6)	-
Cash used to repay borrowings	4.3	7.5
Cash from new borrowings	(57.0)	-
Net costs of issue of loans	1.1	-
Cash from increase/(decrease) in short term deposits	29.1	(5.4)
	<hr/> (23.1)	2.1
New debt increase not affecting cash flow	(2.3)	(1.3)
Net borrowings at beginning of year including 8.75% irredeemable cumulative preference shares	(153.3)	(154.1)
	<hr/> (178.7)	(153.3)
Net borrowings at end of year including 8.75% irredeemable cumulative preference shares		

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

	Opening net borrowings £m	Cash flows in year £m	Maturity profile £m	New debt not affecting cash flow* £m	Closing net Borrowings £m
Cash at bank	1.6	(0.6)	-	-	1.0
Short term deposits	10.4	29.1	-	-	39.5
<hr/>					
Cash at bank including overnight deposits	12.0	28.5	-	-	40.5
Swap liability due within one year	(0.5)	0.6	(0.2)	(0.2)	(0.3)
Swap liability due after one year	(0.2)	-	0.2	-	-
Borrowings due within one year	(3.7)	3.7	(2.2)	-	(2.2)
Borrowings due after one year, including 8.75% irredeemable cumulative preference shares, net of issue costs of new loans	(160.9)	(55.9)	2.2	(2.1)	(216.7)
<hr/>					
Net borrowings including 8.75% irredeemable cumulative preference shares	(153.3)	(23.1)	-	(2.3)	(178.7)

* Represents indexation of term loans and fair value adjustments to swaps

23. SHARE-BASED PAYMENTS

Full disclosure is given in note 23 "Share-Based Payments" of the Statutory Accounts. The non-appointed element of the company is not significant in respect of this note.

24. POST BALANCE SHEET EVENTS

On 22 April 2006 a recommended cash offer was made by Sociedad General de Aguas de Barcelona S.A. (Agbar) for Bristol Water Group plc (BWG), the then ultimate parent company. Agbar has now acquired more than 90% of the shares of BWG and has taken steps to acquire the remaining shares. BWG has subsequently been delisted.

25. ULTIMATE PARENT COMPANY AND RELATED PARTY TRANSACTIONS

At 31 March 2006 the ultimate parent and controlling company was Bristol Water Group plc, which is the only entity to consolidate these accounts. The subsequent change in ownership of Bristol Water Group plc is disclosed in note 24. Copies of its consolidated accounts will be available from PO Box 218, Bridgwater Road, Bristol BS99 7AU.

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

BRISTOL WATER plc

DIRECTORS' RESPONSIBILITIES FOR THE PREPARATION OF REGULATORY ACCOUNTING STATEMENTS

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

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

In preparing the regulatory accounting statements the directors are required to select and apply consistently suitable accounting policies framed by reference to reasonable and prudent judgements and estimates. Applicable accounting standards also have to be followed and a statement made to that effect in the regulatory accounting statements, subject to any material departures being disclosed and explained in the notes to the regulatory accounting statements. The directors are required to prepare the regulatory accounting statements on a going concern basis unless it is inappropriate to presume the company will continue in business. Directors are responsible for ensuring proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure the regulatory accounting statements comply with the Companies Act 1985, except for the financial information which is not prepared on the basis of UK GAAP. They are also responsible for taking reasonable steps to safeguard the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

**S C Robson
Secretary
13 July 2006**

BRISTOL WATER plc
APPOINTED BUSINESS

REGULATORY ACCOUNTING STATEMENTS

CURRENT COST ACCOUNTING STATEMENTS
for the year ended 31 March 2006

BRISTOL WATER plc**REGULATORY ACCOUNTING STATEMENTS****CURRENT COST PROFIT AND LOSS ACCOUNT FOR THE APPOINTED BUSINESS
for the year ended 31 March 2006**

	Notes	2006 £m	2005 Restated £m
Turnover	C3	79.7	68.3
Current cost operating costs		(61.8)	(55.4)
Exceptional operating costs		-	(1.3)
Total current cost operating costs	C4	(61.8)	(56.7)
Working capital adjustment		-	-
Current cost operating profit		17.9	11.6
Other income		0.4	0.2
Net interest payable and similar charges		(6.3)	(6.1)
Dividends on 8.75% irredeemable cumulative preference shares		(1.1)	(1.1)
Net finance income in respect of retirement benefit obligations		0.9	0.8
Financing adjustment		3.2	4.4
Current cost profit before taxation		15.0	9.8
Taxation			
Current tax		(3.3)	(2.1)
Deferred tax		(3.5)	0.6
Current cost profit on ordinary activities		8.2	8.3
Dividends on ordinary shares		(10.1)	(6.2)
Current cost (loss)/profit retained		(1.9)	2.1

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

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

**CURRENT COST STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 March 2006**

	2006	2005
	£m	Restated £m
Current cost profit on ordinary activities	8.2	8.3
Actuarial gains recognised in respect of retirement benefit obligations	7.8	1.7
Attributable deferred taxation	(2.1)	(0.5)
Charged against operating profit for equity-settled share-based payment	0.2	-
Attributable deferred taxation	0.6	-
Total current cost recognised gains for the year	14.7	9.5

BRISTOL WATER plc**REGULATORY ACCOUNTING STATEMENTS****CURRENT COST BALANCE SHEET
FOR THE APPOINTED BUSINESS
at 31 March 2006**

	Notes	2006 £m	2005 Restated £m
Fixed assets			
Tangible fixed assets	C5	1,628.9	1,591.7
Third party contributions since 1 April 1990		(65.6)	(60.3)
Working capital	C6	0.1	2.5
Net operating assets		1,563.4	1,533.9
Cash		40.5	12.0
Investments - Intragroup loan		68.5	47.0
Non-trade debtors		1.1	0.7
Non-trade creditors due within one year		(3.9)	(5.5)
Creditors due after one year		(204.2)	(148.6)
8.75% irredeemable cumulative preference shares		(12.5)	(12.5)
Provision for liabilities and charges		(18.8)	(19.3)
Retirement benefit obligations net of associated deferred taxation		3.1	(8.6)
Net assets employed		1,437.2	1,399.1
Capital and reserves			
Called up share capital		6.0	6.0
Share premium account		4.4	4.4
Share option reserve		0.8	-
Other reserves		5.8	5.8
Profit and loss account		10.6	6.9
Current cost reserve	C7	1,409.6	1,376.0
	C15	1,437.2	1,399.1

The accounts were approved by a Committee of the Board on 13th July 2006 and signed on its behalf by -

A Parsons, Managing Director

A Nield, Finance Director

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

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

**CURRENT COST CASH FLOW STATEMENT
FOR THE APPOINTED BUSINESS
for the year ended 31 March 2006**

	Notes	2006 £m	2005 Restated £m
Net cash inflow from operating activities	C8	33.1	33.7
Returns on investments and servicing of finance -			
Other income received		0.4	0.3
Interest received		5.3	3.6
Interest paid		(8.4)	(7.2)
Interest paid on finance leases		(1.2)	(1.1)
Dividends paid on 8.75% irredeemable cumulative preference shares		(1.1)	(1.7)
Net costs of issue of new loans		(1.1)	-
		<u>(6.1)</u>	<u>(6.1)</u>
Taxation -			
Corporation tax paid		(1.6)	(1.8)
Capital expenditure and investing activities -			
Purchase of fixed assets		(13.7)	(12.3)
less contributions received		4.2	3.7
Infrastructure renewals expenditure		(8.7)	(7.8)
Proceeds on disposal of fixed assets		0.2	-
Loan advanced to ultimate holding company		(21.5)	-
		<u>(39.5)</u>	<u>(16.4)</u>
Dividends paid on equity shares		(10.1)	(7.3)
Net cash (outflow)/inflow before management of liquid resources and financing		(24.2)	2.1
Management of liquid resources			
being (increase)/decrease in short-term deposits		(29.1)	5.4
Financing -			
New term loans		57.0	-
Capital element of lease repayments		(1.9)	(1.6)
Loan repayments		(1.8)	(5.3)
Payments in respect of swap liability		(0.6)	(0.6)
Net cash inflow/(outflow) from financing		52.7	(7.5)
Decrease in cash	C9	(0.6)	-
Cash, beginning of year		1.6	1.6
Cash, end of year		1.0	1.6

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

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

NOTES TO THE CURRENT COST ACCOUNTS FOR THE APPOINTED BUSINESS

C1. Current cost accounting policies

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

The company has not adopted International Financial Reporting Standards (IFRS) for its financial statements for the year ended 31 March 2006, and has no 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, including the adoption of new Financial Reporting Standards, except as set out below:

(a) Tangible fixed assets

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

Land and buildings

Non-specialised operational properties were valued on the basis of open market value for existing use at 31 March 1998 and have been expressed in real terms by indexing using the Retail Price Index ("RPI") since that date.

Specialised operational properties at 31 March 1998 were valued at the lower of depreciated replacement cost and recoverable amount and have been restated by adjusting for inflation as measured by changes in the RPI. The unamortised portion of third party contributions received since 31 March 1990 is deducted in arriving at net operating assets (as described below).

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

Infrastructure assets

Mains, impounding and pumped raw water storage reservoirs and dams are valued at replacement cost determined principally on the basis of data provided by the Asset Management Plan ("AMP"). A process of continuing refinement of asset records is expected to produce adjustments to existing values when periodic reviews of the AMP takes place, in conjunction with the determination of price limits by Ofwat at 5 yearly intervals. In the intervening years, values are restated to take account of changes in the general level of inflation as measured by changes in the RPI over the year.

Other fixed assets

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

Surplus land

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

(b) Grants and other third party contributions

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

(c) Real financial capital maintenance adjustments

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

Working capital adjustment

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

Financing adjustment

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

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

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

(e) Pension costs

The company has adopted FRS17 during the year, as included in note 21 to the Historical Cost Accounts and note 21 '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

	2006	2005
	£m	£m
Measured	27.8	23.2
Unmeasured	45.9	39.7
Large user revenues	4.1	3.0
Other sources	0.4	0.8
Third party services - rechargeables	0.5	0.6
- specific agreements	1.0	1.0
Total turnover	79.7	68.3

Turnover was higher than 2004/05 mainly due to the effect of the average allowed price increase of 17.3%, incorporating a K of 13.8%.

C4. (Continued) Analysis of operating costs of the Appointed Business for 2005/6

£m	Service analysis -			Business analysis -		
	Resources & treatment	Distri- bution	Sub-total	Customer services	Scientific services	Cost of Regulation
Direct costs -						
Employment costs	1.9	2.3	4.2			
Power	2.0	1.7	3.7			
Hired and contracted services	2.3	1.8	4.1			
Materials and consumables	1.7	0.3	2.0			
Service charges Environment						
Agency	2.4	-	2.4			
Bulk supply imports	0.1	-	0.1			
Other direct costs	0.7	0.4	1.1			
Total direct costs	11.1	6.5	17.6	2.0	1.2	0.4
General & support costs	4.3	3.9	8.2	0.7	0.9	0.2
Functional expenditure *	15.4	10.4	25.8	2.7	2.1	0.6
Total functional and business activity expenditure						31.2
Rates						3.6
Bad and doubtful debts						1.6
Total operating expenditure before third party costs						36.4
Third party operating expenditure						1.2
Total operating expenditure						37.6
Capital costs -						
Infrastructure renewals -						
Expenditure	1.2	7.5	8.7			
Movement in						
Infrastructure renewal	(0.1)	1.2	1.1			
Current cost depreciation	10.0	4.7	14.7			
Amortisation of deferred						
Credits			(0.3)			
Total capital maintenance			24.2			24.2
Total operating costs						61.8
*included within these costs is £2.9m in respect of reactive maintenance to infrastructure assets, planned maintenance is included within the infrastructure renewals expenditure. Also included is £2.1m in respect of planned and reactive maintenance to non-infrastructure assets.						
Current cost Modern						
Equivalent Asset values -						
Service activities						
and water supply total	583.4	1,030.8	1,614.2			
Services for third parties	1.8	12.9	14.7			
Total	585.2	1,043.7	1,628.9			

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

£m	Service analysis -			Business analysis -		
	Resources & treatment	Distri- bution	Sub-total	Customer services	Scientific services	Cost of regulation
Direct costs -						
Employment costs	1.5	2.8	4.3			
Power	1.7	1.4	3.1			
Hired & contracted services	2.5	0.8	3.3			
Associated companies	-	1.1	1.1			
Materials and consumables	1.5	0.3	1.8			
Service charges						
Environment Agency	2.3	-	2.3			
Bulk supply imports	0.1	-	0.1			
Other direct costs	0.7	0.5	1.2			
Total direct costs	10.3	6.9	17.2	1.8	1.3	0.5
General & support costs	3.9	3.5	7.4	0.5	0.9	0.2
Functional expenditure *	14.2	10.4	24.6	2.3	2.2	0.7
Total functional and business activity expenditure						29.8
Rates						3.2
Bad and doubtful debts						1.7
Exceptional items						1.3
Total operating expenditure before third party costs						36.0
Third party operating expenditure						1.3
Total operating expenditure						37.3
Capital costs -						
Infrastructure renewals -						
Expenditure	1.9	5.9	7.8			
Movement in infrastructure renewal	(1.2)	0.7	(0.5)			
Current cost depreciation	8.4	4.0	12.4			
Amortisation of deferred Credits			(0.3)			
Total capital maintenance						19.4
Total operating costs						56.7
*included within these costs is £2.1m in respect of reactive maintenance to infrastructure assets, planned maintenance is included within the infrastructure renewals expenditure. Also included is £1.8m in respect of planned and reactive maintenance to non-infrastructure assets.						
Current cost Modern Equivalent						
Asset values -						
Service activities and water supply total	576.9	1,000.4	1,577.3			
Services for third parties	1.8	12.6	14.4			
Total	578.7	1,013.0	1,591.7			

C4. Commentary on 2005/06 operating costs

Cost Allocation

Costs are allocated in the following way:

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

All costs are directly attributed to appropriate cost centres in the accounting system which are allocated as above. Manpower costs include an appropriate proportion of overheads in their allocation.

Variances from 2004/05

Operating expenditure increased in the year. After allowing for the impact of inflation and the exceptional item there was a net increase of £0.5m from the previous year. Key factors in the net movement are:

	£m
Operating expenditure 2004/05 restated, including exceptional item	37.3
Less exceptional item	<u>(1.3)</u>
Operating expenditure 2004/05 restated, excluding exceptional item	36.0
Inflation	<u>1.1</u>
	37.1
Real price increase in power costs	0.5
Real price increase in chemical and material costs	0.2
Real price increase in rates	0.3
Additional operating costs relating to new Quality & Supply/Demand requirements	0.3
Abortive capital expenditure	0.4
Efficiency and other net changes	(1.2)
Operating expenditure 2005/06	<u>37.6</u>

Charitable Donations

All charitable donations were made through the former ultimate parent company, and then recharged to the appointed business.

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 2005	532.0	16.5	1,371.2	2.7	1,922.4
RPI Adjustment	12.8	0.4	32.9	-	46.1
Disposals	(0.6)	-	-	(0.3)	(0.9)
Additions	6.6	0.1	6.3	0.8	13.8
Balance 31 March 2006	550.8	17.0	1,410.4	3.2	1,981.4
Depreciation -					
Balance 1 April 2005	327.4	1.1	-	2.2	330.7
RPI Adjustment	7.8	-	-	-	7.8
Disposals	(0.4)	-	-	(0.3)	(0.7)
Charge for year	14.2	0.2	-	0.3	14.7
Balance 31 March 2006	349.0	1.3	-	2.2	352.5
Net Book Value at 31 March 2006	201.8	15.7	1,410.4	1.0	1,628.9
Net Book Value at 1 April 2005	204.6	15.4	1,371.2	0.5	1,591.7

C6. Working capital

	2006 £m	2005 Restated £m
Stocks	0.6	0.6
Trade debtors	8.2	9.1
Net Group trade debtors	0.3	0.6
Prepayments and accrued income	7.6	6.7
Trade creditors	(1.2)	(0.7)
Short-term capital creditors	(2.3)	(2.2)
Infrastructure renewals accrual	(2.0)	(0.9)
Other trade accruals	(3.3)	(2.5)
Receipts in advance	(7.2)	(7.6)
Tax and social security	(0.6)	(0.6)
	0.1	2.5

C7. Movement on current cost reserve

	2006 £m	2005 Restated £m
Balance at 1 April	1,376.0	1,332.8
RPI adjustments -		
Fixed assets	38.3	49.3
Working capital	-	-
Financing	(3.2)	(4.4)
Grants and contributions	(1.5)	(1.7)
Balance at 31 March	1,409.6	1,376.0

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

	2006	2005
	£m	Restated £m
Operating profit	17.9	11.6
Depreciation charges, net of amortisation of deferred credits	14.4	12.1
Difference between pension charges and normal contributions	0.6	0.6
Infrastructure renewals charge	9.8	7.3
Equity settled share based payments	0.2	-
Cashflow from operations	42.9	31.6
Working capital requirements -		
Debtors	(0.8)	1.2
Creditors	(0.5)	0.9
Additional contributions to pension scheme, including payments in respect of early retirements	(8.5)	-
Net cash inflow from operating activities	33.1	33.7

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

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

	2006	2005
	£m	Restated £m
Decrease in net cash in year	(0.6)	-
Cash used to repay borrowings	4.3	7.5
Cash from new borrowings	(57.0)	-
Net costs of issue of loans	1.1	-
Cash from increase/(decrease) in liquid resources	29.1	(5.4)
(Increase)/decrease in net debt	(23.1)	2.1
Net debt not affecting cash flow	(2.3)	(1.3)
Net borrowings at beginning of year including 8.75% Irredeemable	(153.3)	(154.1)
Net borrowings at end of year	(178.7)	(153.3)

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

	Opening net borrowings £m	Cash flows in year £m	Debt maturities £m	New debt not affecting cash flow* £m	Closing net Borrowings £m
Cash at bank	1.6	(0.6)	-	-	1.0
Short term deposits	10.4	29.1	-	-	39.5
Cash at bank including overnight deposits	12.0	28.5	-	-	40.5
Swap liability due within one year	(0.5)	0.6	(0.2)	(0.2)	(0.3)
Swap liability due after one year	(0.2)	-	0.2	-	-
Borrowings due within one year	(3.7)	3.7	(2.2)	-	(2.2)
Borrowings due after one year, excluding 8.75% irredeemable cumulative preference shares, net of issue costs of new loans	(148.4)	(55.9)	2.2	(2.1)	(204.2)
Net borrowings excluding 8.75% irredeemable cumulative preference shares	(140.8)	(23.1)	-	(2.3)	(166.2)
8.75% irredeemable cumulative preference shares	(12.5)	-	-	-	(12.5)
Net borrowings including 8.75% irredeemable cumulative preference shares	(153.3)	(23.1)	-	(2.3)	(178.7)

* Represents indexation of term loans and fair value adjustments to interest rate swap

C10. Regulatory Capital Value (RCV) at 2005/06 Prices

	£m
Closing RCV for 2004/05	225.0
Indexation to 2005/06 year end price base	5.3
	<u>230.3</u>
Capital expenditure	21.4
Infrastructure renewals expenditure	10.1
Infrastructure renewals charge	(9.9)
Grants and contributions	(3.1)
Depreciation	(13.9)
Outperformance of regulatory assumptions in previous periods	(0.4)
Closing RCV carried forward at 31 March 2006 at year end price base	<u>234.5</u>
Average regulatory capital value for 2005/6 at average 2005/06 price base	<u>230.1</u>

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 07/05 inflated to 2005/06 prices.

The reconciliation of the opening and closing RCVs uses year end RPI to index from 2002/03 prices to 2005/06 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 2005/06 prices. The average RCV cannot therefore be calculated as the simple average of the opening and closing RCVs.

C11. Summary of current cost profit and loss accounts (restated at 2005/06 prices) for the Appointed Business

Years ended 31 March -	2006	2005	2004	2003	2002
	£m	Restated £m	Restated £m	Restated £m	Restated £m
Turnover	79.7	70.1	72.8	73.8	73.3
Current cost operating costs	(37.3)	(36.7)	(36.8)	(38.4)	(38.6)
Exceptional operating costs	-	(1.3)	-	-	-
Current cost depreciation	(14.7)	(12.7)	(12.8)	(13.5)	(13.3)
Infrastructure renewals charge	(9.8)	(7.5)	(7.6)	(7.5)	(7.6)
Total operating costs	(61.8)	(58.2)	(57.2)	(59.4)	(59.5)
Operating (expense)/income	-	-	(0.1)	0.2	0.5
Working capital adjustment	-	(0.1)	-	0.1	0.1
Current cost operating profit	17.9	11.8	15.5	14.7	14.4
Other income	0.4	0.3	0.2	0.3	0.2
Net interest	(6.3)	(6.3)	(5.4)	(6.4)	(4.6)
8.75% irredeemable preference share dividends	(1.1)	(1.1)	(1.2)	(1.2)	(1.2)
Net finance income /(expense) on retirement benefit obligations	0.9	0.8	(0.2)	2.5	-
Financing adjustment	3.2	4.5	3.4	3.1	1.3
Current cost profit before taxation	15.0	10.0	12.3	13.0	10.1
Taxation	(6.8)	(1.5)	(2.5)	(8.3)	(4.1)
Current cost profit on ordinary activities	8.2	8.5	9.8	4.7	6.0
Dividends	(10.1)	(6.4)	(16.8)	(6.1)	(5.7)
Current cost profit/(loss) retained	(1.9)	2.1	(7.0)	(1.4)	0.3

The figures for 2002 to 2005 have been restated into 2005/06 values by applying RPI indexation using the change in average inflation rates over the financial years.

Operating costs, excluding the exceptional charge in 2005 and depreciation, have reduced in real terms by £1.3m over the five year period as a result of efficiency improvements offset by additional costs such as increased pension, insurance and bad debt charges. The £1.3m exceptional operating cost in 2005 related to restructuring costs.

Net interest costs have increased in line with additional borrowings used mainly to finance the capital investment programme together with £68.5m used to provide intercompany loans to the former ultimate parent company, offset by interest receivable on the intercompany loans.

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

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

In 2004 dividends included a special interim ordinary dividend of £10m.

C12. Summary of current cost balance sheets (restated at 2005/06 prices) for the Appointed Business

Years ended 31 March -	2006	2005	2004	2003	2002
	£m	Restated £m	Restated £m	Restated £m	Restated £m
Tangible fixed assets	1,628.9	1,630.0	1,630.0	1,620.8	1,616.4
Third party contributions since 1 April 1990	(65.6)	(61.8)	(58.0)	(54.3)	(50.5)
Working capital	0.1	1.5	2.0	(0.4)	(3.4)
Net operating assets	1,563.4	1,569.7	1,574.0	1,566.1	1,562.5
Cash	40.5	12.3	18.4	10.5	16.4
Investments – Intragroup loans	68.5	48.1	49.7	-	-
Non-trade debtors	1.1	0.7	1.8	1.2	1.2
Non-trade creditors due within one year	(3.9)	(5.6)	(10.9)	(11.0)	(8.2)
Creditors due after one year	(204.2)	(152.1)	(160.1)	(85.9)	(93.7)
8.75% irredeemable cumulative preference shares	(12.5)	(12.8)	(13.2)	(13.6)	(14.0)
Provisions for liabilities & charges	(18.8)	(18.8)	(19.8)	(20.3)	(16.5)
Retirement benefit obligations	3.1	(8.9)	(10.6)	(14.9)	11.8
Net assets employed	1,437.2	1,432.6	1,429.3	1,432.1	1,459.5
Called up share capital	6.0	6.1	6.3	6.5	6.7
Share premium account	4.4	4.5	4.7	4.8	4.9
Share option reserve	0.8	-	-	-	-
Other reserves	5.8	5.9	6.1	6.3	6.5
Profit and loss account	10.6	7.0	3.8	6.7	35.1
Current cost reserve	1,409.6	1,409.1	1,408.4	1,407.8	1,406.3
	1,437.2	1,432.6	1,429.3	1,432.1	1,459.5

Prior year figures have been restated into March 2006 values by applying RPI indexation using the change in inflation rates from each year-end.

Creditors due after one year have increased substantially over the five year period. This reflects additional borrowings used mainly to finance the capital investment programme and interest bearing loans totalling £68.5m advanced to the former ultimate parent company.

During the period, the company has fundamentally restructured its debt portfolio based on a financial ringfencing of the regulated water business.

In May 2003 the company raised £45m of long term loans maturing in 2032 and 2033 and repaid an existing short term £20m bank loan.

In February 2004 the company raised £57m of long term loans, maturing in 2032 and 2033. £47m of which were used to make an intercompany loan to the former ultimate parent company, Bristol Water Group plc.

In June 2005 additional loans of £57m including net premium were raised, maturing in 2032, £21.5m of which were used to make a further intercompany loan to the former ultimate parent company.

C13. Transactions with associated companies

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

Nature of service	Associate	Turnover of associate £m	Terms of supply	Value of service	
				As operating costs £m	As capital expenditure £m
Management charge	Bristol Water Holdings plc/ Bristol Water Group plc	0.3	At cost	0.3	-
Managed Billing Service	Bristol Wessex Billing Services Ltd	10.3	Competitive tender	1.9	0.2

- (b) Basis of cost allocations between regulated and non-regulated businesses

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

- (c) Borrowing / lending with associated companies and related facilities -

A loan of £47m was made to the former ultimate parent company Bristol Water Group plc in 2003/04. The unsecured loan was advanced on 12 February 2004, under an agreement dated 4 December 2003, out of the proceeds of the new Artesian loans entered into during the year. The loan is due for repayment on 30 September 2033 and bears a fixed interest rate of 6.042%. Interest income of £2.8m was received in relation to the loan during 2004/05.

A further loan of £21.5m was made to the former ultimate parent company, Bristol Water Group plc, 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 £0.9m was received in relation to the loan in 2005/06.

(d) Dividends paid to parent company –

	2006	2005
	£m	Restated £m
Ordinary Shares		
• Dividend in respect of 2003/04: Final dividend of 74.27 pence per share, approved at the Annual General Meeting on 19 July 2004	-	4.5
• Dividend in respect of 2004/05: Interim dividend of 47.15 pence per share, approved by the Board on 7 December 2004	-	2.8
Final dividend of 88.00 pence per share, approved at the Annual General Meeting on 18 July 2005	5.3	-
• Dividend in respect of 2005/06: First interim dividend of 19.62 pence per share, approved by the Board on 29 September 2005	1.2	-
Second interim dividend of 38.68 pence per share, approved by the Board on 8 December 2005	2.3	-
Third interim dividend of 23.53 pence per share, approved by the Board on 28 March 2006	1.4	-
	10.2	7.3
Less non-appointed element of dividend	(0.1)	(1.1)
	10.1	6.2

On 16 May 2006 the Board declared a fourth interim dividend of 58.02 pence per share, totalling £3.5m, in respect of the year ended 31 March 2006. In accordance with FRS21 the final dividend is not recognised in these accounts as a liability. The Board does not propose a final dividend.

The base level of dividend has been rebased in 2005/06 at a level consistent with the PRO4 allowed cost of capital. The ordinary dividend comprises two elements:

- a base level of dividend which reflects a wide range of judgemental factors
- an additional dividend equivalent to the post tax cost of the interest payable by the former ultimate parent company on the £68.5m intercompany loans

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

C14. Appointed business-Reconciliation of Current cost (loss) / profit to Historical cost profit retained

	2006	2005
	£m	Restated £m
Current cost (loss)/ profit retained	(1.9)	2.1
Current cost depreciation adjustment	5.8	4.8
Profit on disposal of fixed assets	-	0.1
Financing adjustment	(3.2)	(4.4)
Historical cost profit retained	0.7	2.6

Small differences may occur due to roundings.

C15. Movement in capital and reserves

	Share capital	Share premium account	Share option reserve	Capital redemption reserve	Profit and loss	Current Cost Reserve	Total 2006	Total 2005
	£m	£m	£m	£m	£m	£m	£m	Restated £m
Beginning of year as previously reported	18.5	4.4	-	5.8	4.8	1380.2	1413.7	1370.6
Effect of adoption of FRS17	-	-	-	-	(6.9)	-	(6.9)	(9.1)
Effect of adoption of FRS21	-	-	-	-	5.3	-	5.3	4.5
Effect of adoption of FRS25	(12.5)	-	-	-	-	-	(12.5)	(12.5)
Effect of adoption of FRS26	-	-	-	-	(0.5)	-	(0.5)	(0.9)
Associated financing / working capital adjustments arising from adoption of new accounting standards	-	-	-	-	1.8	(1.8)	-	-
Deferred Tax financing adjustment (see below)	-	-	-	-	2.4	(2.4)	-	-
At beginning of year as restated	6.0	4.4	-	5.8	6.9	1376.0	1399.1	1352.6
Profit for year	-	-	-	-	8.2	-	8.2	8.3
Actuarial gains recognised in respect of retirement benefit obligations	-	-	-	-	7.8	-	7.8	1.7
Attributable deferred taxation	-	-	-	-	(2.2)	-	(2.2)	(0.5)
Charged against operating profit for equity-settled share based payment	-	-	0.2	-	-	-	0.2	-
Attributable deferred taxation	-	-	0.6	-	-	-	0.6	-
Dividends	-	-	-	-	(10.1)	-	(10.1)	(6.2)
RPI adjustments	-	-	-	-	-	33.6	33.6	43.2
End of year	6.0	4.4	0.8	5.8	10.6	1409.6	1437.2	1399.1

Small differences may occur due to roundings.

Previously, deferred tax was not included in the calculation of the financing adjustment. This has been corrected and previous years restated on the basis that it is included.

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS for the year ended 31 March 2006

DIRECTORS' REMUNERATION

The Statutory Accounts for Bristol Water plc include a detailed Remuneration Committee report. This is not repeated within the Regulatory Accounting Statements, and readers should refer to the Statutory Accounts.

The Remuneration Committee report sets out details of Directors' remuneration and notes that Directors' annual bonuses are based on the achievement of water quality, customer service, leakage and financial targets, together with an assessment of personal performance, and is restricted in 2005/06 to a maximum (save in exceptional circumstances) of 50% of basic salary. The components of the bonus **maximum** are:

	%	%
Achieved Profit before tax relative to budget		10
Achieved Profit before tax relative to Ofwat PRO4 assumptions		20
Personal Performance		10
Achievement of Service performance targets:		
- Water Quality	2.5	
- Discoloured water	2.5	
- Leakage target	2.0	
- DG3 interruptions to supply	1.5	
- DG7 complaints	0.75	
- DG9 response time	0.75	
	<hr/>	
Total		<hr/> <hr/> 50

Performance against service performance targets is assessed against provisional June return data.

BRISTOL WATER plc

**REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2006**

OPERATING AND FINANCIAL REVIEW

The Statutory Accounts for Bristol Water plc include a detailed Directors' Report and Business Review. Following the removal of the requirement to produce a statutory Operating and Financial Review (OFR) we have expanded our business review in the directors' report to incorporate the additional content that would have been incorporated in the OFR.

The business review is not repeated within the Regulatory Accounting Statements, and readers should refer to the Statutory Accounts.

BRISTOL WATER plc
REGULATORY ACCOUNTING STATEMENTS

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

We have audited the Regulatory Accounts of Bristol Water plc ("the Company") on pages 3 to 25 and 28 to 45 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 cash flow statement, the regulatory historical cost statement of total recognised gains and losses, related notes and the statement of regulatory historical cost accounting policies; and
- the regulatory current cost accounting statements for the appointed business comprising the current cost profit and loss account, the current cost balance sheet, the current cost cash flow statement and the related notes including the statement of current cost 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 Regulatory Licence 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 as the Regulatory Accounting Guidelines specify alternative treatment or disclosure in certain respects. Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed. Financial information other than that prepared wholly on the basis of UK GAAP may not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 1985.

Respective responsibilities of the Regulator, the Directors and Auditors

The nature, form and content of Regulatory Accounts are determined by the 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 the preparation of regulatory accounting statements on page 26.

Our responsibility is to audit the Regulatory Accounts in accordance with International Standards on Auditing issued by the Auditing Practices Board, except as stated in the "Basis of audit opinion", below and having regard to the guidance contained in Audit 05/03 *"Reporting to Regulators of Regulated Entities"*.

We report to you our opinion as to whether the regulatory historical cost accounting statements present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guideline 2.03 (Guideline for classification of expenditure), Regulatory Accounting Guideline 3.05 (Guideline for the contents of regulatory accounts) and Regulatory

Accounting Guideline 4.02 (Guideline for the analysis of operating costs and assets); and whether the regulatory current cost accounting statements on pages 28 to 45 have been properly prepared in accordance with Regulatory Accounting Guideline 1.03 (Guideline for accounting for current costs and regulatory capital values), Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02. We also report to you if, in our opinion, the Company has not kept proper accounting records as required by paragraph 3 of Condition F and whether the information is in agreement with the appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1.03, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02.

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

Basis of audit opinion

We conducted our audit in accordance with 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 International Standards on Auditing (UK and Ireland).

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory accounts of the Company on which we reported on 13 July 2006, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our "Statutory" audit) was made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a Statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

The regulatory historical cost accounting statements on pages 3 to 25 have been drawn up in accordance with Regulatory Accounting Guideline 3.05 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Principles, and a reconciliation of the balance sheet drawn up on this basis with that drawn up under Companies Act 1985 is given on page 16.

Opinion

In our opinion the Regulatory Accounts of the Company for the year ended 31 March 2006 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 3 to 6 and pages 32 and 33, the state of the Company's affairs at 31 March 2006 on an historical cost and current cost basis, the historical cost and current cost profit for the year and the historical cost and current cost cash flow for the year and have been properly prepared in accordance with those conditions, guidelines and accounting policies.

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

- (a) proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F of the instrument;

- (b) the information is in agreement with the appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1.03, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the WSRA;
- (c) the regulatory historical cost accounting statements on pages 3 to 25 present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the WSRA;
- (d) the regulatory current cost accounting statements on pages 28 to 45 have been properly prepared in accordance with Regulatory Accounting Guideline 1.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the WSRA.

PricewaterhouseCoopers LLP

Chartered Accountants
Bristol

Date: 13 July 2006

1. *The maintenance and integrity of the Company web site is the responsibility of the Directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Regulator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the web sites.*
2. *Legislation in the United Kingdom governing the preparation and dissemination of financial statements and Regulatory Accounts may differ from legislation in other jurisdictions*

BRISTOL WATER plc

REGULATORY CERTIFICATE BY THE DIRECTORS

To Ofwat

As required under condition F6A.2A of its Licence 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.

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

Approved by the Board on 29 June 2006 and signed on its behalf on 13 July 2006 by:

**Alan Parsons Managing Director
Andy Nield Finance Director**

APPENDIX

STATUTORY ACCOUNTING STATEMENTS

YEAR ENDED 31 MARCH 2006