



## BRISTOL WATER plc

Bristol Water plc is a subsidiary of Bristol Water Group Ltd, which is itself a subsidiary of Sociedad General de Aguas de Barcelona S.A. (Agbar)

Year ended 31 March	2007 £m	2006 £m
Turnover	86.3	81.9
Operating profit	25.2	24.9
Profit before tax	18.9	18.4
Profit after tax	16.4	11.6
Regulatory Capital Value (RCV)	260.4	234.5
Net debt (excluding 8.75% irredeemable cumulative preference shares) as percentage of RCV	68%	71%

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# CHAIRMAN'S STATEMENT

## Introduction

In June 2006 the acquisition of Bristol Water Group plc by Sociedad General de Aguas de Barcelona S.A. (Agbar) was completed. In connection with the acquisition we agreed with Ofwat a minor change to Condition P of our licence as a water undertaker.

Agbar provides water services to approximately 23 million people worldwide and their expertise and understanding of the water industry reinforces Bristol Water's commitment to providing high standards of service to its customers.

## Operational performance

The company continues to make good progress in the delivery of the outputs required by Ofwat's determination of price limits for the 2005-2010 period. In particular we have three major capital schemes in progress:

- A £24m project to improve the security of supply for a population of almost 200,000 in the northern and eastern parts of Bristol and surrounding areas
- A £11m project to upgrade our Banwell treatment works to improve its effectiveness in dealing with a range of different raw water qualities
- A £7m project to construct a new treatment works to treat water from the River Axe

In total, we invested £45.5m in capital projects during the year. We currently anticipate a total investment programme for the 5-year regulatory period of almost £170m (in current prices, before grants and contributions). This is broadly in line with Ofwat's assumptions.

Bristol Water has a mix of water sources with approximately 40% from impounding reservoirs, 40% to 50% from river sources and the balance from groundwater sources. This mix provides considerable flexibility. We have not had any water usage restrictions for over 15 years and do not anticipate any need for them in the foreseeable future. We are not complacent and are continually reinforcing the message to customers of the need to use water wisely. During 2006/07 we continued to meet our leakage target agreed with Ofwat.

Billing and operational service levels have remained high. Our surveys show continuing high levels of customer satisfaction.

## Ofwat price review for 5 years from 2010 (PR09)

The PR09 price review, which will result in the setting of price limits for the 5-year period 2010/11 to 2014/15, is now underway. The first major milestone will be the submission to Ofwat in December 2007 of our strategic direction statement setting out our vision and outline plans for the next 25 years.

## Financial performance

Operating profit increased by £0.3m to £25.2m. This reflects the average 5.2% increase in charges to customers under the approved price limits, together with the impact of our continuing efficiency initiatives offset by increased energy costs, increased bad debt charges and additional depreciation related to the capital investment programme.

An important element of our operating cost base is energy. In line with general market movements we were adversely affected by the impact of a price increase of approximately 65% effective from October 2006. We have now entered into a 3 year flexible energy purchasing contract which will allow us to reduce our exposure to market movements. We currently anticipate that energy costs for 2007/08 will remain at broadly the same level as for 2006/07 with the full year effect of the October 2006 tariff increase being offset by reduced tariffs from October 2007.

Our charge for bad debts increased to £2.3m (2006: £1.6m) and represents approximately 2.7% of turnover. We are experiencing a continuing trend of customer debt becoming harder and more expensive to collect. An important factor was the Government decision to remove in 2000 the right of water companies to disconnect supplies to domestic customers who do not pay. We have enhanced our debt collection activity and have initiatives to assist customers facing genuine difficulties in paying.

Net interest charges, excluding those related to retirement benefits and the preference share dividend, increased by £0.4m to £6.7m. This reflects the increase in net debt resulting from the financing of the capital expenditure programme.

The tax charge of £2.5m represents an effective tax rate of 14% (2006: 37%). The principal reasons for the change are prior year adjustments together with a significant variation in the discount rates used to calculate the deferred tax liability.

Net debt, excluding the irredeemable preference shares, increased to £176.3m (2006: £166.2m) and represents approximately 68% of Regulatory Capital Value at 31 March 2007. As previously indicated we currently anticipate that this ratio will increase to between 70% and 80% for the remainder of the 5-year regulatory period ending in March 2010.

## **Dividends**

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

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

During the year ordinary dividend payments were:

- Base level - fourth interim and final dividend in respect of the 2005/06 trading year of £3.5m.
- Interim dividends for 2006/07 in respect of the intercompany loan interest element of £2.8m.

A final dividend of £6.0m in respect of 2006/07 is proposed.

## **Board structure**

My thanks go to Professor David Blockley who retired on 23 May after three years service as a director of the company and nine years service with the Bristol Water Group.

In June 2006 three Agbar appointees joined the Board, two in executive positions. We now welcome Cyril Rozman, a senior financial manager with Agbar, who was appointed to the Board as a non-executive director on 23 May 2007.

## **Conclusion**

The company is performing strongly and is well placed for the future. The transition to become part of the Agbar group has progressed smoothly. As ever my thanks go to all the employees of the company for their commitment to both customer service and the continuing success of the company.

**Moger Woolley**  
**Chairman**

**31 May 2007**

## PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2007

	Note	2007 £m	2006 £m
<b>Turnover</b>		<b>86.3</b>	81.9
Operating costs	<b>2</b>	<b>(61.1)</b>	(57.0)
<b>Operating profit</b>		<b>25.2</b>	24.9
Dividends on 8.75% irredeemable cumulative preference shares		<b>(1.1)</b>	(1.1)
Interest in respect of retirement benefit scheme surplus		<b>1.5</b>	0.9
Other net interest payable and similar charges		<b>(6.7)</b>	(6.3)
<b>Profit on ordinary activities before taxation</b>		<b>18.9</b>	18.4
Taxation on profit on ordinary activities	<b>3</b>	<b>(2.5)</b>	(6.8)
<b>Profit on ordinary activities after taxation</b>		<b>16.4</b>	11.6
<b>Earnings per ordinary share</b>	<b>4</b>	<b>273.0p</b>	193.0p
<b>Dividends per ordinary share</b>			
- declared or proposed in respect of the period	<b>10</b>	<b>147.10p</b>	139.85p
- paid during the period	<b>10</b>	<b>105.09p</b>	169.83p

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

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

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 March 2007

	Note	2007 £m	2006 £m
Profit attributable to Bristol Water plc shareholders		16.4	11.6
Actuarial gains recognised in respect of retirement benefit obligations	8	4.8	7.8
Attributable deferred taxation		(1.3)	(2.1)
Charged against operating profit for equity-settled share-based payment		-	0.2
Attributable deferred taxation		-	0.6
Deferred tax asset reversal upon closure of equity-settled share based payment scheme		(0.6)	-
<b>Total recognised gains for the year</b>		<b>19.3</b>	<b>18.1</b>

# BALANCE SHEET

at 31 March 2007

	Note	2007 £m	2006 £m
<b>Fixed assets</b>	<b>5</b>	<b>218.7</b>	197.0
<b>Investments - Loans to ultimate UK holding company</b>		<b>68.5</b>	68.5
<b>Current assets</b>			
Stocks		<b>0.8</b>	0.7
Debtors		<b>20.8</b>	19.1
Other investments	<b>6</b>	<b>28.0</b>	39.5
Cash at bank	<b>6</b>	<b>2.8</b>	1.0
		<hr/> <b>52.4</b> <hr/>	60.3
<b>Creditors: amounts falling due within one year</b>			
Short term borrowings and derivatives	<b>6</b>	<b>(2.5)</b>	(2.5)
Other creditors		<b>(24.1)</b>	(19.2)
		<hr/> <b>(26.6)</b> <hr/>	(21.7)
<b>Net current assets</b>		<hr/> <b>25.8</b> <hr/>	38.6
<b>Total assets less current liabilities</b>		<b>313.0</b>	304.1
<b>Creditors: amounts falling due after more than one year</b>	<b>6</b>	<b>(204.6)</b>	(204.2)
<b>8.75% irredeemable cumulative preference shares</b>	<b>6</b>	<b>(12.5)</b>	(12.5)
<b>Deferred income</b>		<b>(9.4)</b>	(9.6)
<b>Provisions for liabilities</b>	<b>7</b>	<b>(19.7)</b>	(18.8)
<b>Retirement benefit scheme surplus, net of attributable deferred taxation</b>	<b>8</b>	<b>8.3</b>	3.1
<b>Net assets</b>		<hr/> <b>75.1</b> <hr/>	62.1
<b>Capital and reserves</b>			
Called up share capital		<b>6.0</b>	6.0
Share premium account		<b>4.4</b>	4.4
Share option reserve		-	0.8
Other reserves		<b>5.8</b>	5.8
Profit and loss account		<b>58.9</b>	45.1
<b>Shareholders' funds</b>	<b>9</b>	<hr/> <b>75.1</b> <hr/>	62.1

# CASH FLOW STATEMENT

for the year ended 31 March 2007

	Note	2007 £m	2006 £m
<b>Net cash inflow from operating activities</b>	<b>11(a)</b>	<b>42.6</b>	35.1
<b>Returns on investments and servicing of finance</b>			
Interest received		6.0	5.3
Interest paid on term loans and debentures		(8.7)	(8.4)
Interest paid on finance leases		(1.0)	(1.2)
Dividends paid on 8.75% irredeemable cumulative preference shares		(1.1)	(1.1)
Net costs of issue of new loans		-	(1.1)
		<b>(4.8)</b>	(6.5)
<b>Taxation</b>			
Corporation tax paid		<b>(1.0)</b>	(1.7)
<b>Capital expenditure and investing activities</b>			
Purchase of tangible fixed assets		<b>(41.2)</b>	(22.5)
Contributions received		3.5	3.1
Loan advanced to ultimate UK holding company		-	(21.5)
		<b>(37.7)</b>	(40.9)
<b>Equity dividends paid</b>	<b>10</b>	<b>(6.3)</b>	(10.2)
<b>Cash outflow before management of liquid resources and financing</b>		<b>(7.2)</b>	(24.2)
<b>Management of liquid resources</b> being decrease/(increase) in short term deposits		<b>11.5</b>	(29.1)
<b>Financing</b>			
New term loans		-	57.0
Capital element of lease repayments		(2.2)	(1.9)
Loan repayments		-	(1.8)
Payments in respect of swap liability		(0.3)	(0.6)
		<b>(2.5)</b>	52.7
<b>Increase/(decrease) in cash</b>	<b>11(b)</b>	<b>1.8</b>	(0.6)
Cash, beginning of year		1.0	1.6
<b>Cash, end of year</b>		<b>2.8</b>	1.0

# NOTES TO THE ACCOUNTS

## 1. BASIS OF PREPARATION AND CIRCULATION

These preliminary statements do not constitute the statutory accounts for the year ended 31 March 2007 or the year ended 31 March 2006. The statutory accounts for 2006 have been delivered to the Registrar of Companies and those for 2007 have been reported on by the auditors without qualification but have not yet been delivered to the Registrar of Companies. The comparative figures for 2006 have been extracted from the accounts of Bristol Water plc for the year ended 31 March 2006 upon which the auditors' report was unqualified and did not contain a statement under S.237(2) or (3) of the Companies Act 1985.

The preliminary announcement was approved by the Board of Directors on 31 May 2007.

The Annual Report and Accounts will be posted to shareholders on or before 5 July 2007. Copies will be available to the public from the registered office at PO Box 218, Bridgwater Road, Bristol BS99 7AU. The Annual General Meeting will be held at the Bristol Water plc Head Office, Bridgwater Road, Bristol, on Monday 6 August 2007 at 9.00 am.

During the year the treatment of receipts under S41 of the Water Act was amended. They are no longer credited to deferred income and released to the profit and loss account over a three-year period, but are now deducted from the cost of the related infrastructure assets. Amounts for the previous year have not been restated as the adjustment is not material. The change was made to bring the treatment of these receipts into line with generally accepted practice in the water industry.

The effect of the change in accounting policy is:

- to decrease profit after tax by £0.6m including £0.2m in relation to the previous year (year ended 31 March 2006: Nil)
- to decrease total recognised gains and losses for the year by £0.6m including £0.2m in relation to the previous year (year ended 31 March 2006: Nil)
- to decrease net assets as at 31 March 2007 by £0.6m including £0.2m in relation to the previous year (as at 31 March 2006: Nil)

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.

## 2. OPERATING COSTS

Operating costs comprise -	2007 £m	2006 £m
Net payroll cost	11.2	11.5
Total other operating costs	31.0	27.6
Net depreciation	18.9	17.9
Total operating costs	<u>61.1</u>	<u>57.0</u>

### 3. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2007 £m	2006 £m
<b>Analysis of charge for the year, all arising in the United Kingdom:</b>		
<b>Current tax:</b>		
Corporation tax at 30 % (2006 - 30%)	2.4	3.4
Advance Corporation Tax (ACT) previously recovered now written off	0.5	-
Adjustment to prior periods	(1.1)	(0.1)
	<u>1.8</u>	<u>3.3</u>
<b>Deferred tax:</b>		
Current year movement	2.7	2.8
Adjustment to prior periods	0.7	0.1
Effect of discounting	(2.7)	0.6
	<u>0.7</u>	<u>3.5</u>
<b>Tax on profit on ordinary activities</b>	<u>2.5</u>	<u>6.8</u>

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

The ACT written off relates to a reduction in the claims made in prior years as a result of a review of the taxation of capitalised contributions. The ACT asset generated by the reduction in claims is written off on the grounds that it is not expected to be recovered in the foreseeable future.

Discount rates have increased during the current year. Within the effect of discounting £2.7m, £1.0m is in respect of the restatement of the opening balance at the new rates.

In the 2007 Budget the Chancellor announced a number of measures that will affect the future tax charges of the company. None of these measures have as yet been enacted and are therefore not reflected in these financial statements. However the effects of the main issues are disclosed below.

- Reduction in corporation tax rate to 28% with effect from 1 April 2008. This will affect the deferred tax liability recognised at 31 March 2008, which will be based on the new rate. Based on the deferred tax liability stated within the 2007 accounts, the restatement of the overall liability as at 31 March 2007, will reduce the 2008 deferred tax charge by £2.6m before discounting (discounted: £1.5m).
- The abolition of industrial buildings allowances ('IBA') from 1 April 2011 was announced in the 2007 Budget but was not incorporated in the 2007 Finance Bill. Accordingly it is not expected to be enacted until June/July 2008 and if enacted would be reflected in the 2007/08 financial statements. However, under FRS 19, the withdrawal of the IBA pool must be recognised on 1 April 2007. The effect of the withdrawal of the IBA pool together with the reclassification of appropriate fixed assets as non-qualifying is expected to reduce the deferred tax liability stated as at 31 March 2007 by approximately £1m before discounting (discounted £0.2m reflecting the long term nature of the relief). However, it should be noted that the company will lose future allowance claims totalling £6.0m in respect of industrial buildings expenditure up to 31 March 2007.
- The capital allowance rates attributable to the plant and machinery pools are to be revised from 25% and 6% to 20% and 10% respectively. The withdrawal of industrial buildings allowances will be done by reducing the claimable allowances by 1% each year from 1 April 2008. These changes were also not incorporated in the 2007 Finance Bill and are not expected to be enacted until June/July 2008. The 2008 current tax charge will not be materially effected by the changes in relief, based on the claims expected in that year on the pools held at 31 March 2007.

#### 4. EARNINGS PER ORDINARY SHARE

	2007 m	2006 m
Earnings per ordinary share have been calculated as follows - On average number of ordinary shares in issue during the year -		
Earnings attributable to ordinary shares	£16.4	£11.6
Weighted average number of ordinary shares	6.0	6.0

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

#### 5. TANGIBLE FIXED ASSETS

	2007 £m	2006 £m
<b>Net book value, beginning of year</b>	<b>197.0</b>	195.6
Additions	45.5	22.6
Disposals	-	(0.2)
Grants and contributions	(3.9)	(2.4)
Depreciation	(18.9)	(18.6)
Contributions received in 2005/06 now reclassified (note 1)	(1.0)	-
<b>Net book value, end of year</b>	<b>218.7</b>	197.0

#### 6. NET BORROWINGS

	2007 £m	2006 £m
Cash and short term deposits	30.8	40.5
Debt due within one year	(2.5)	(2.5)
Debt due after one year	(204.6)	(204.2)
Net borrowings excluding 8.75% irredeemable cumulative preference shares	(176.3)	(166.2)
8.75% irredeemable cumulative preference shares	(12.5)	(12.5)
Net borrowings including 8.75% irredeemable cumulative preference shares	(188.8)	(178.7)

## 7. PROVISIONS FOR LIABILITIES

	2007 £m	2006 £m
<b>Provision for deferred tax comprises -</b>		
Accelerated capital allowances and capital element of finance leases	38.5	36.7
Deferred income	(2.0)	(2.5)
Short term timing differences	(1.1)	(1.7)
Arising on equity-settled share based payments	-	(0.6)
Retirement benefit obligations	3.3	1.3
	<u>38.7</u>	<u>33.2</u>
Effect of discounting:		
Retirement benefit obligations	(0.3)	-
Other	(15.7)	(13.1)
	<u>(16.0)</u>	<u>(13.1)</u>
Net provision, including deferred tax on retirement benefit obligations	22.7	20.1
Less, attributable to retirement benefit obligations	(3.0)	(1.3)
Net provision, excluding deferred tax on retirement benefit obligations	<u>19.7</u>	<u>18.8</u>
<b>Deferred tax movement:</b>		
	2007 £m	2006 £m
Beginning of year	20.1	15.1
Charge to Profit and Loss Account (note 3)	0.7	3.5
Charge to Statement of Total Recognised Gains and Losses in respect of pension actuarial gains in the year	1.3	2.1
Charge / (credit) to share options reserve	0.6	(0.6)
<b>Provision carried forward at 31 March</b>	<u>22.7</u>	<u>20.1</u>

## 8. RETIREMENT BENEFIT OBLIGATIONS

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

	Expected long term rate of return			Market values of section assets		
	2007	2006	2005	2007 £m	2006 £m	2005 £m
Equities	7.8%	7.4%	7.7%	61.9	78.8	63.2
Bonds	4.7%	4.3%	4.7%	69.3	46.9	34.9
Cash	5.4%	4.5%	4.7%	0.1	0.1	0.1
Market value of section assets				<u>131.3</u>	<u>125.8</u>	<u>98.2</u>
Present value of liabilities				<u>(120.0)</u>	<u>(121.4)</u>	<u>(110.1)</u>
Surplus/(deficit) in the section				<u>11.3</u>	<u>4.4</u>	<u>(11.9)</u>
Deferred taxation				<u>(3.0)</u>	<u>(1.3)</u>	<u>3.3</u>
<b>Net pension asset/(liability)</b>				<u>8.3</u>	<u>3.1</u>	<u>(8.6)</u>

## 9. MOVEMENT IN SHAREHOLDERS' FUNDS

	2007 £m	2006 £m
At beginning of year	62.1	54.2
Profit for year	16.4	11.6
Actuarial gains recognised in respect of retirement benefit obligations	4.8	7.8
Attributable deferred taxation	(1.3)	(2.1)
Charged against operating profit for equity-settled share based payment	-	0.2
Attributable deferred taxation	-	0.6
Deferred tax asset released upon closure of equity-settled share based payment scheme	(0.6)	-
Dividends	(6.3)	(10.2)
End of year	75.1	62.1

## 10. DIVIDENDS ON ORDINARY SHARES

	2007 £m	2006 £m
<ul style="list-style-type: none"> <li>• Dividend in respect of 2004/05: Final dividend of 88.00 pence per share, approved at the Annual General Meeting on 18 July 2005</li> </ul>	-	5.3
<ul style="list-style-type: none"> <li>• Dividend in respect of 2005/06: First interim dividend of 19.62 pence per share, approved by the Board on 29 September 2005</li> </ul>	-	1.2
<ul style="list-style-type: none"> <li>Second interim dividend of 38.68 pence per share, approved by the Board on 8 December 2005</li> </ul>	-	2.3
<ul style="list-style-type: none"> <li>Third interim dividend of 23.53 pence per share, approved by the Board on 28 March 2006</li> </ul>	-	1.4
<ul style="list-style-type: none"> <li>Fourth and final dividend of 58.02 pence per share, approved by the Board on 16 May 2006</li> </ul>	3.5	-
<ul style="list-style-type: none"> <li>• Dividend in respect of 2006/07: First interim dividend of 23.60 pence per share, approved by the Board on 28 September 2006</li> </ul>	1.4	-
<ul style="list-style-type: none"> <li>Second interim dividend of 23.47 pence per share, approved by the Board on 22 March 2007</li> </ul>	1.4	-
	6.3	10.2

On 31 May 2007 the Board proposed a final dividend of 100.03 pence per share, totalling £6.0m, in respect of the year ended 31 March 2007. In accordance with FRS21 this dividend is not recognised in these accounts as a liability.

## 11. SUPPLEMENTARY CASH FLOW INFORMATION

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

	<b>2007</b>	2006
	<b>£m</b>	£m
Operating profit	<b>25.2</b>	24.9
Depreciation, net of amortisation of deferred income	<b>18.9</b>	17.9
Difference between pension charges and normal contributions	<b>0.5</b>	0.6
Equity-settled share based payments non-cash charge	<b>-</b>	0.2
	<hr/>	<hr/>
Cash flow from operations	<b>44.6</b>	43.6
Working capital movements -		
Stocks	<b>(0.1)</b>	(0.1)
Debtors	<b>(1.8)</b>	(0.5)
Creditors and provisions	<b>0.9</b>	0.6
Additional contributions to pension scheme, including payments in respect of restructuring	<b>(1.0)</b>	(8.5)
	<hr/>	<hr/>
Net cash inflow from operating activities	<b>42.6</b>	35.1

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

	<b>2007</b>	2006
	<b>£m</b>	£m
Increase/(decrease) in net cash in year	<b>1.8</b>	(0.6)
Cash used to repay borrowings	<b>2.5</b>	4.3
Cash from new borrowings	<b>-</b>	(57.0)
Net costs of issue of loans	<b>-</b>	1.1
Cash from (decrease)/increase in short term deposits	<b>(11.5)</b>	29.1
	<hr/>	<hr/>
	<b>(7.2)</b>	(23.1)
New debt increase not affecting cash flow	<b>(2.9)</b>	(2.3)
Net borrowings at beginning of year including 8.75% irredeemable cumulative preference shares	<b>(178.7)</b>	(153.3)
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Net borrowings at end of year including 8.75% irredeemable cumulative preference shares	<b>(188.8)</b>	(178.7)