A copy of this preliminary short form prospectus has been filed with the securities regulatory authorities in each of the provinces and territories of Canada but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the short form prospectus is obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

*This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**"), or any U.S. state securities laws and may not be offered, sold or delivered within the United States except in compliance with an exemption from the registration requirements of the U.S. Securities Act and applicable U.S. state securities laws. See "Plan of Distribution".*

***Information has been incorporated by reference in this prospectus from documents filed with securities commissions or similar authorities in Canada.** Copies of the documents incorporated herein by reference may be obtained on request without charge from the Executive Vice President, General Counsel and Corporate Secretary of Capstone Infrastructure Corporation, at Brookfield Place, 181 Bay Street, Suite 3100, Toronto, Ontario, M5J 2T3, telephone: 416-607-5200, and are also available electronically under the Corporation's profile on www.sedar.com.*

PRELIMINARY SHORT FORM PROSPECTUS

New Issue October 27, 2011

CAPSTONE INFRASTRUCTURE

CAPSTONE INFRASTRUCTURE CORPORATION

$75,000,000

12,000,000 Common Shares

This short form prospectus qualifies the distribution of 12,000,000 common shares ("**Common Shares**") of Capstone Infrastructure Corporation (the "**Corporation**") at a price of $6.25 per Common Share (the "**Offering**"). Further particulars concerning the attributes of the Common Shares are set out below and under "*Details of the Common Shares*".

The Common Shares are listed on the Toronto Stock Exchange (the "**TSX**") under the symbol "CSE". On October 21, 2011, the trading day prior to the day on which the Corporation announced the Offering, the closing price of the Common Shares was $6.50. The Corporation has applied to list the Common Shares to be distributed under this short form prospectus on the TSX. Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSX.

$6.25 per Common Share

	Price to the Public	Underwriters' Fee	Net Proceeds to the Corporation[(1)]
Per Common Share	$6.25	$0.28125	$5.96875
Total Offering[(2)]	$75,000,000	$3,375,000	$71,625,000

Notes:

(1) After deducting the Underwriters' (as defined herein) fee, but before deducting expenses of the Offering, estimated to be $375,000, which will be paid from the proceeds of the Offering.

(2) The Corporation has granted the Underwriters an over-allotment option exercisable in whole or in part by the Underwriters at any time up to 30 days after the closing of the Offering to purchase up to an additional 1,800,000 Common Shares (the "**Over-Allotment Option**"). If the Over-Allotment Option is exercised in full, the total "Price to the Public", "Underwriters' Fee" and "Net Proceeds to the Corporation" (before deducting expenses of the Offering) will be $86,250,000, $3,881,250 and $82,368,750, respectively. This short form prospectus qualifies the grant of the Over-Allotment Option and the issuance of Common Shares on the exercise of the Over-Allotment Option. A purchaser who acquires Common Shares forming part of the Underwriters' over-allocation position acquires those Common Shares under this short form prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See "*Plan of Distribution*".

(continued on next page)

(continued from cover)

Underwriters' Position	Maximum Size	Exercise Period	Exercise Price
Over-Allotment Option	1,800,000 Common Shares, if exercised in full (being 15% of the Common Shares sold pursuant to the Offering)	Up to 30 days after the Closing Date	$6.25 per Common Share

The terms and offering price of the Common Shares were established by negotiation between TD Securities Inc. ("**TD**"), RBC Dominion Securities Inc. ("**RBC**"), Macquarie Capital Markets Canada Ltd. ("**Macquarie**"), CIBC World Markets Inc., Scotia Capital Inc., BMO Nesbitt Burns Inc., National Bank Financial Inc., Canaccord Genuity Corp., Cormark Securities Inc. and M Partners Inc. (collectively, the "**Underwriters**") and the Corporation with reference to the market price of the Common Shares and other factors. The Underwriters, as principals, conditionally offer the Common Shares, subject to prior sale, if, as and when issued by the Corporation and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement (as defined herein) referred to under "*Plan of Distribution*" and subject to the approval of certain legal matters by Blake, Cassels & Graydon LLP on behalf of the Corporation and Torys LLP on behalf of the Underwriters.

Subscriptions for Common Shares will be received subject to rejection or allotment in whole or in part, and the Underwriters reserve the right to close the subscription books at any time without notice. See "*Plan of Distribution*". Holders of the Common Shares will not have the right to receive physical certificates evidencing their ownership. See "*Book-Entry Only System*".

In connection with the Offering, the Underwriters may effect transactions that stabilize or maintain the market price of the Common Shares at levels other than those which otherwise might prevail on the open market. Such transactions, if commenced, may be discontinued at any time. **The Underwriters may offer the Common Shares at a price lower than that stated above. See "*Plan of Distribution*"**.

TD Securities Inc. is an affiliate of a Canadian chartered bank which is a lender to certain of the Corporation's subsidiaries under a bank credit facility. Macquarie is an affiliate of (i) the manager of Macquarie European Infrastructure Fund II, the majority owner of the district heating business in which the Corporation has an approximate 33% ownership interest, (ii) MIHI LLC, a lender to the Corporation under a senior credit facility, and (iii) the former manager of the Corporation. The Corporation intends to use the net proceeds of the Offering to repay a portion of its senior credit facility with MIHI LLC. See "*Use of Proceeds*", "*Recent Developments — Investment in Bristol Water*", "*Recent Developments — Investment in the DH Business*" and "*Recent Developments — Management Internalization*". Consequently, the Corporation may be considered to be a "connected issuer" of each of these Underwriters for the purposes of securities legislation in certain provinces. See "*Relationship Among the Corporation and Certain Underwriters*".

Closing is expected to occur on or about November 10, 2011, or such other date as the Corporation and the Underwriters may agree, but in any event no later than November 29, 2011 (the "**Closing Date**"). Accordingly, holders of Common Shares will be entitled to receive dividends on such Common Shares commencing with the anticipated monthly dividend of $0.055 per Common Share payable on December 15, 2011 to holders of record on November 30, 2011, if declared.

There are certain risks inherent in an investment in the Common Shares and in the Corporation's activities. Prospective investors should carefully consider these risk factors before purchasing Common Shares. See "*Risk Factors*".

All monetary amounts used herein are in Canadian dollars, unless otherwise indicated.

The Corporation is incorporated under the laws of the Province of British Columbia. The head office of the Corporation is located at Brookfield Place, 181 Bay Street, Suite 3100, Toronto, Ontario, M5J 2T3 and its registered office is located at 595 Burrard Street, Suite 2600, Three Bentall Centre, Vancouver, British Columbia, V7X 1L3.

TABLE OF CONTENTS

ABOUT THIS PROSPECTUS

Readers should rely only on the information contained or incorporated by reference into this short form prospectus. The Corporation has not authorized any person to provide different information. The Common Shares may be sold only in those jurisdictions where offers and sales are permitted. This short form prospectus is not an offer to sell or a solicitation of an offer to buy the Common Shares in any jurisdiction where it is unlawful. The information contained in this short form prospectus is accurate only as at the date of this short form prospectus, regardless of the time of delivery of this short form prospectus or of any sale of the Common Shares.

Unless otherwise indicated, all information in this short form prospectus assumes that the Underwriters do not exercise the Over-Allotment Option.

Throughout this short form prospectus, unless the context otherwise requires, all references to "the Corporation" include Capstone Infrastructure Corporation and its subsidiaries.

DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in each of the provinces and territories of Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Executive Vice President, General Counsel and Corporate Secretary of the Corporation, at Brookfield Place, 181 Bay Street, Suite 3100, Toronto, Ontario, M5J 2T3, telephone: 416-607-5200 and are also available electronically under the Corporation's profile on www.sedar.com.

On January 1, 2011, Macquarie Power & Infrastructure Income Fund (the "**Fund**") and the Corporation completed a transaction to convert the Fund's income trust structure into a corporate structure by way of a court-approved plan of arrangement under the *Business Corporations Act* (British Columbia) (the "**Conversion Transaction**"). Since the Corporation is the successor corporation to the Fund, certain of the documents incorporated herein by reference relate to the Fund.

From January 1, 2011, the time of conversion, until the completion of the management internalization on April 15, 2011 (see "*Recent Developments — Management Internalization*"), the Corporation was named Macquarie Power and Infrastructure Corporation.

The following documents of the Corporation, which have been filed with the securities commissions or similar authorities in each of the provinces and territories of Canada, are specifically incorporated by reference into and form an integral part of this short form prospectus:

(a) the annual information form of the Corporation dated March 24, 2011 for the year ended December 31, 2010 (the "**AIF**");

(b) the management information circular of the Corporation dated April 27, 2011 in connection with the annual meeting of shareholders held on June 10, 2011;

(c) the management information circular of the Fund dated October 15, 2010 in connection with the special meeting of unitholders held on November 15, 2010 to consider the Conversion Transaction;

(d) the audited consolidated annual financial statements of the Corporation and the notes thereto as at and for the years ended December 31, 2010 and 2009, together with the report of the auditors thereon;

(e) the management's discussion and analysis of the results of operations and the financial condition of the Corporation for the year ended December 31, 2010 (the "**2010 Annual MD&A**");

(f) the unaudited interim consolidated financial statements of the Corporation and the notes thereto as at and for the three and six month periods ended June 30, 2011 and 2010;

(g) the management's discussion and analysis of the results of operations and the financial condition of the Corporation for the three and six month periods ended June 30, 2011 (the "**June 2011 Interim MD&A**");

(h) the material change report of the Corporation dated January 6, 2011 (the "**Conversion Material Change Report**") relating to the completion of the Conversion Transaction;

(i) the material change report of the Corporation dated March 24, 2011 (the "**Internalization Material Change Report**") relating to the internalization of the management of the Corporation, including an agreement to terminate the management agreements between the Corporation, certain of its subsidiaries and Macquarie Power Management Ltd. (the "**Manager**");

(j) the business acquisition report of the Corporation dated June 14, 2011 (the "**DH BAR**") relating to the Corporation's acquisition of a 33.3% ownership interest in the Swedish district heating business (the "**DH Business**"); and

(k) the material change report of the Corporation dated October 14, 2011 (the "**Bristol Water Material Change Report**") relating to the Corporation's acquisition of a 70% ownership interest in Bristol Water plc ("**Bristol Water**"), a regulated water utility in the United Kingdom ("**UK**").

Any document of the type required by National Instrument 44-101 — *Short Form Prospectus Distributions* to be incorporated by reference in a short form prospectus, including any annual information forms, material change reports (except confidential material change reports), business acquisition reports, interim financial statements, annual financial statements, management's discussion and analysis and information circulars filed by the Corporation with securities commissions or similar authorities in Canada after the date of this short form prospectus but before the termination of the distribution of the securities to be distributed under this short form prospectus, shall be deemed to be incorporated by reference in this short form prospectus.

Any statement contained in this short form prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded, for the purposes of this short form prospectus, to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light

of the circumstances in which it was made. Any statement so modified or superseded shall not constitute a part of this short form prospectus, except as so modified or superseded.

In addition, upon the filing with the applicable securities regulatory authorities of the unaudited interim consolidated financial statements of the Corporation and the notes thereto as at and for the three and nine-month periods ended September 30, 2011 and 2010 and the related management's discussion and analysis during the period of distribution under this short form prospectus, the unaudited interim consolidated financial statements of the Corporation and the notes thereto as at and for the three and six-month periods ended June 30, 2011 and 2010 and the June 2011 Interim MD&A shall be deemed to no longer be incorporated by reference in this short form prospectus.

FORWARD-LOOKING STATEMENTS

Certain of the statements contained within this document are forward-looking and reflect management's expectations regarding the Corporation's future growth, results of operations, performance and business based on information currently available to the Corporation. Forward-looking statements and financial outlook are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements use forward-looking words, such as "anticipate", "continue", "could", "expect", "may", "will", "estimate", "believe" or other similar words, and include, among other things, statements found in "*The Corporation's Business*", "*Rationale for the Investment in Bristol Water*", "*Water Distribution Industry*", "*Use of Proceeds*", "*Plan of Distribution*" and "*Risk Factors*". These statements are subject to known and unknown risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied by such statements and, accordingly, should not be read as guarantees of future performance or results. The forward-looking statements within this document are based on information currently available and what the Corporation currently believes are reasonable assumptions, including the material assumptions for each of the Corporation's assets set out in the 2010 Annual MD&A under the heading "Asset Performance", as updated in subsequently filed quarterly financial reports of the Corporation (such documents are available under the Corporation's profile on www.sedar.com). Other material factors or assumptions that were applied in formulating the forward-looking statements and financial outlook contained herein include the assumption that the business and economic conditions affecting the Corporation's operations will continue substantially in their current state, including, with respect to industry conditions, general levels of economic activity, regulations, weather, taxes and interest rates, that there will be no unplanned material changes to the Corporation's facilities, equipment or contractual arrangements, that there will be no unforeseen changes in the legislative and operating framework for the Corporation's businesses; favourable decisions from regulatory bodies concerning outstanding rate and other applications; no delays in obtaining required approvals; no unforeseen changes in rate orders or rate structures for the Corporation's power, water distribution or district heating businesses; no unfavourable changes in environmental regulation; a stable regulatory environment; no significant event occurring outside the ordinary course of business; repayment of the Senior Credit Facility (as defined herein); and that Bristol Water will operate and perform in a manner consistent with the regulatory assumptions underlying its current asset management plan ("**AMP**") including with respect to capital investment, prices, leakage, customer service standards and asset serviceability, among others.

Although the Corporation believes that it has a reasonable basis for the expectations reflected in these forward-looking statements, actual results may differ from those suggested by the forward-looking statements for various reasons, including risks related to: power infrastructure (operational performance; power purchase agreements; fuel costs and supply; contract performance; development risk; technology risk; default under credit agreements; land tenure and related rights; regulatory regime and permits; environmental, health and safety requirements; climate change and the environment; and force majeure) and the Corporation (tax-related risks; variability and payment of dividends, which are not guaranteed; geographic concentration and non-diversification; insurance; environmental, health and safety regime; availability of financing; shareholder dilution; and the unpredictability and volatility of the common share price of the Corporation). There are also a number of risks related to the Corporation's investment in the DH Business, including: general business risks inherent in the district heating business; geographic concentration; minority interest; government regulation; termination of supply and customer contracts; enforcement of indemnities against the vendors of the DH

Business; environmental health and safety liabilities; liability and insurance; and reliance on key personnel. There is also a risk that the DH Business may not achieve expected results. There are also a number of risks related to Bristol Water's business, including operational (failure to deliver capital investment programs; failure to deliver water leakage target; significant interruption of service provision or catastrophic damage resulting in significant loss of life and/or environmental damage and/or economic and social disruption; climate/weather pattern change adversely affecting resource availability or need; reliance on key personnel; geographic concentration; seasonality affecting availability of water), legal and regulatory (revenue is substantially influenced by price determinations made by the UK Water Services Regulation Authority ("**Ofwat**"); imposition of penalties under Ofwat's new comparative incentive mechanism to reward or penalize water companies' service performance; failure to meet existing regulatory requirements; impact of legislative/regulatory changes; development of competition within the water sector; liabilities not discovered in the course of conducting due diligence on Bristol Water) and financial (economic downturn impacting the bank lending environment, as well as debt and capital markets, resulting in more costly financing; inflation negatively impacting leverage and key financial ratios, which may have a negative impact on credit ratings, as well as increasing the cost of capital expenditures; pension plan obligations may require Bristol Water to make additional contributions; the debt collection experience may worsen; foreign exchange risk; default under Bristol Water's Artesian loans, bonds, debentures and/or credit facility).

For a more comprehensive description of these and other possible risks, please see the "Risk Factors" section of the AIF, as updated in subsequently filed quarterly financial reports and other filings of the Corporation with the Canadian securities regulatory authorities (available under the Corporation's profile on www.sedar.com) as well as the "*Risk Factors*" section of this short form prospectus. The assumptions, risks and uncertainties described above are not exhaustive and other events and risk factors could cause actual results to differ materially from the results and events discussed in the forward-looking statements. The forward-looking statements within this document reflect current expectations of the Corporation as at the date of this short form prospectus and speak only as at the date of this short form prospectus. Except as may be required by law, the Corporation does not undertake any obligation to publicly update or revise any forward-looking statements.

NON-GAAP FINANCIAL MEASURES

This short form prospectus contains figures representing adjusted earnings before interest, taxes, depreciation and amortization ("**Adjusted EBITDA**"). Adjusted EBITDA is a performance measure not defined by International Financial Reporting Standards ("**IFRS**" or "**GAAP**"). This non-GAAP performance measure does not have any standardized meaning prescribed by IFRS and is, therefore, unlikely to be comparable to similar measures presented by other issuers. The Corporation believes that Adjusted EBITDA is important since it provides additional information about the Corporation's performance and cash generating capabilities and facilitates comparison of results over different periods. The Corporation uses Adjusted EBITDA to measure the performance of its assets prior to the impact of financing costs, taxes and charges for depreciation and amortization. Adjusted EBITDA is calculated as revenue less operating expenses and administrative expenses plus interest and dividends/distributions received from equity accounted investments. Adjusted EBITDA is reconciled to net income (loss) by adjusting standardized earnings before interest, taxes, depreciation and amortization (calculated using the customary definition of net income (loss) adjusted for interest expense, income tax expense (recovery), depreciation and amortization) for unrealized gains and losses on derivatives, unrealized loss on Class B exchangeable units of MPT LTC Holding LP, a subsidiary entity of the Corporation, unrealized loss on the conversion option for the Corporation's 6.50% convertible debentures due December 31, 2016 (the "**2016 Debentures**"), foreign exchange gains and losses, equity accounted income and dividends/distributions from equity accounted investments. For more information about non-GAAP measures employed by the Corporation, see the June 2011 Interim MD&A and the 2010 Annual MD&A, which are both incorporated herein by reference. For more information and a reconciliation to GAAP measures, see the June 2011 Interim MD&A.

CURRENCY AND EXCHANGE RATE INFORMATION

All dollar amounts set forth in this prospectus are expressed in Canadian dollars, except where otherwise indicated. References to $ are to the currency of Canada and references to £ are to the currency of the UK.

The following table sets forth: (i) the rates of exchange for Canadian dollars, expressed in UK pounds sterling, in effect at the end of each of the periods indicated; (ii) the average of exchange rates in effect during such periods; and (iii) the high and low exchange rates during each such periods, in each case based on the rates published on the Bank of Canada's website as being in effect at approximately noon on each trading day (the "**Bank of Canada noon rate**").

	Six Months Ended June 30, 2011	Year Ended December 31, 2010	2009	2008
High	£0.6488	£0.6722	£0.6109	£0.5686
Low	£0.6205	£0.5791	£0.5222	£0.4853
Average rate during the period	£0.6333	£0.6289	£0.5621	£0.5103
End of period	£0.6455	£0.6446	£0.5911	£0.5588

On October 26, 2011, the Bank of Canada noon rate was £0.6225 per $1.00.

THE CORPORATION'S BUSINESS

The Corporation's mission is to build and responsibly manage a high quality portfolio of infrastructure businesses in Canada and internationally in order to deliver a superior total return to shareholders through a combination of stable dividends and capital appreciation. The Corporation's portfolio currently includes investments in gas cogeneration, wind, hydro, biomass and solar power generating facilities, representing approximately 370 MW of installed capacity, a 33.3% ownership interest in a district heating business in Sweden and a 70% ownership interest in a regulated water utility in the UK.

The Corporation's strategy is to (a) pursue additional investments and other direct and indirect rights in infrastructure projects with an emphasis on power infrastructure and such other businesses or activities as may be approved from time to time by a majority of the Board of Directors, including investments and other direct and indirect rights in other forms of energy-related projects and utility projects and (b) improve the profitability of the existing investments of the Corporation. While the Corporation focuses on making additional investments in and acquisitions of operating power generation facilities, the Board of Directors is aware that potentially attractive investment and acquisition opportunities may emerge in the broader infrastructure sector and intends to continue to pursue such opportunities as they arise.

The Corporation expects to continue to actively pursue other acquisition and investment opportunities. Consistent with its past practice and in the normal course, the Corporation may have outstanding non-binding letters of intent and/or conditional agreements or may otherwise be engaged in discussions with respect to possible acquisitions of, or investments in, additional businesses which may or may not be material. However, there can be no assurance that any of these letters, agreements and/or discussions will result in an acquisition and, if they do, what the final terms or timing of any acquisition would be. Any additional investments or acquisitions by the Corporation may be financed by the issuance of Common Shares, the issuance of other securities of the Corporation, from the Corporation's cash on hand or through indebtedness. It is expected that any future acquisition or investment will be made by the Corporation through one or more of its direct or indirect subsidiaries.

RECENT DEVELOPMENTS

Conversion of the Fund to a Corporate Structure

On January 1, 2011, the Fund completed the Conversion Transaction and became a dividend-paying corporation named Macquarie Power and Infrastructure Corporation. The conversion was completed pursuant to a plan of arrangement under the *Business Corporations Act* (British Columbia) and involved an exchange of the units of the Fund ("**Units**") for Common Shares, on a one-for-one basis. In connection with the Conversion

Transaction, an internal reorganization involving many of the Corporation's subsidiaries was completed which included, among other things, the wind-up of the Fund. Further information regarding the Conversion Transaction is contained in the Conversion Material Change Report (available under the Corporation's profile on www.sedar.com), which is incorporated herein by reference.

Transition to International Financial Reporting Standards

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in The Canadian Institute of Chartered Accountants Handbook ("**CICA Handbook**"). In 2010, the CICA Handbook was revised to incorporate IFRS, and to require publicly accountable enterprises to apply IFRS for years beginning on or after January 1, 2011.

Consequently, the Corporation commenced using IFRS applicable to the preparation of interim financial statements, including International Accounting Standard 34 — Interim Financial Reporting and IFRS 1 — First-time Adoption of IFRS in initial application of IFRS in its unaudited consolidated financial statements for the three month period ended March 31, 2011.

Investment in the DH Business

On March 31, 2011, the Corporation, through an indirect wholly-owned subsidiary, acquired a 33.3% ownership interest in a portfolio of district heating operations located in Sweden. The purchase price for the Corporation's 33.3% ownership interest in the district heating operations was approximately $109 million, including transaction costs, which was funded using cash on hand. The remaining 66.7% ownership interest was acquired by an indirect wholly-owned subsidiary of Macquarie European Infrastructure Fund II, which is managed by an indirect wholly-owned subsidiary of Macquarie Group Limited. The vendors of the district heating businesses were subsidiaries of Fortum Corporation, whose shares are quoted on NASDAQ OMX Helsinki.

The district heating operations, which have been branded as Värmevärden, operate as an integrated business with a dedicated management team, and comprise a 100% ownership interest in seven district heating operations and a majority ownership interest in three district heating operations (in which local municipalities hold minority ownership interests ranging from 5% to 49%). Värmevärden's facilities include both heat production, with a total capacity of 786 megawatt thermal, and distribution. In 2010, Värmevärden's heat sales were approximately 1.4 terawatt hours and its revenue was approximately $114 million.

Further information regarding the purchase of the DH Business is contained in the DH BAR (available under the Corporation's profile on www.sedar.com), which is incorporated herein by reference.

Management Internalization

On March 14, 2011, the Corporation and certain of its subsidiaries (collectively, the "**Managed Parties**") reached an agreement (the "**Internalization Agreement**") with the Manager to internalize all management and administrative functions provided to the Managed Parties pursuant to administration or management agreements between the Manager and the relevant Managed Party (the "**Management Agreements**") in exchange for a payment by the Managed Parties to the Manager of an aggregate amount of $14 million (plus applicable tax) (the "**Internalization Transaction**"). The Corporation also agreed to be responsible for approximately $2 million of expenses over and above its contractual obligations to the Manager. One-time costs related to the Internalization Transaction (including the payment to the Manager) totalled approximately $20 million. Macquarie Infrastructure and Real Assets Canada Ltd. ("**MIRACL**"), an affiliate of the Manager, also agreed to provide transitional services to the Corporation, including the provision of premises, information technology support and tax and accounting services, until December 15, 2011 at no cost to the Corporation.

Prior to closing, the Manager assigned the Management Agreements and its rights under the Internalization Agreement to one of its affiliates (the "**Manager Assignee**").

The Internalization Transaction was completed on April 15, 2011. As part of the Internalization Agreement, immediately following the completion of the Internalization Transaction, the Manager Assignee subscribed for

855,746 Common Shares, valued at approximately $7 million, and agreed that it or one of its affiliates will hold such Common Shares for at least 12 months following such date.

Effective upon the termination of the Management Agreements on April 15, 2011, and in connection with the Internalization Transaction, the senior management team of the Corporation, all of whom were employees of MIRACL, became employees of the Corporation and continued in their previous roles. Certain employees of other affiliates of the Manager who had provided services to the Corporation also became employees of the Corporation as part of the Internalization Transaction.

After completion of the Internalization Transaction, the Corporation changed its name to Capstone Infrastructure Corporation and the trading symbol on the TSX for the Common Shares was changed to "CSE".

Further information regarding the Internalization Transaction is contained in the Internalization Material Change Report (available under the Corporation's profile on www.sedar.com), which is incorporated herein by reference.

Investment in Bristol Water

On October 5, 2011, the Corporation, through its indirect wholly-owned subsidiary CSE Water UK Limited ("**CSE Water**"), acquired a 70% ownership interest in Agbar UK Limited (now Bristol Water Holdings UK Limited) ("**Agbar UK**") from Sociedad General de Aguas de Barcelona, S.A. ("**Agbar**") pursuant to a sale and purchase agreement (the "**Share Purchase Agreement**"). Agbar UK has an indirect 100% interest in Bristol Water, a water utility business located in Bristol, UK. Agbar retained a 30% indirect ownership interest in Agbar UK. Agbar is unrelated to the Corporation.

The purchase price for the Corporation's 70% ownership interest in Agbar UK was approximately $214 million, plus transaction costs, which was funded using a combination of debt and cash on hand. To fund the purchase, the Corporation (i) drew down $34 million on the existing credit facility of certain of its subsidiaries (the "**Existing Credit Facility**"); (ii) obtained a new senior credit facility with MIHI LLC, a subsidiary of Macquarie Group Limited, as lender (the "**Senior Credit Facility**") under which it drew down $150 million; and (iii) funded the remainder of the purchase price with cash on hand.

In connection with the Corporation's investment in Bristol Water, the Corporation, CSE Water, Agbar and Agbar UK entered into a shareholders' agreement (the "**Shareholders' Agreement**") to govern the relations between CSE Water and Agbar, as shareholders of Agbar UK, and to set the parameters for how the business of Agbar UK and its subsidiaries, including Bristol Water, will be conducted. On closing, Agbar UK also entered into an operational and management agreement (the "**O&M Agreement**") with Agbar pursuant to which Agbar will continue to provide strategic advice and management services to Agbar UK.

Further information regarding the purchase of Bristol Water, including summaries of the terms of the Share Purchase Agreement, Senior Credit Facility, Shareholders' Agreement and O&M Agreement, is contained in the Bristol Water Material Change Report (available under the Corporation's profile on www.sedar.com), which is incorporated herein by reference. See also "*Rationale for the Investment in Bristol Water*", "*Bristol Water*" and "*Water Distribution Industry*".

RATIONALE FOR THE INVESTMENT IN BRISTOL WATER

Management and the board of directors of the Corporation believe that the Corporation's investment in Bristol Water is consistent with its strategy to build and responsibly manage a high quality portfolio of infrastructure businesses in Canada and internationally in order to deliver a superior total return to shareholders through a combination of stable dividends and capital appreciation. The attributes of the Bristol Water investment include:

Regulated Business with Stable and Predictable Investment Returns and Cash Flows

- Bristol Water is a regulated regional monopoly offering stable and predictable cash flows;
- Bristol Water benefits from an established and transparent regulatory framework overseen by Ofwat; and

- The mechanism under which Ofwat sets the price cap on amounts charged by Bristol Water to its customers includes a reference to inflation (as measured by the UK Retail Prices Index ("**RPI**")).

Strong Financial Performance

- Bristol Water's regulated capital value ("**RCV**") is expected to grow by over 26% in real terms over the current five-year regulatory period ending March 31, 2015 (referred to as AMP period 5 or "**AMP5**"). RCV has been developed for regulatory purposes and is one of the key elements that Ofwat considers when setting price limits; and
- Bristol Water had strong financial performance during the five-year AMP period ended March 31, 2010 ("**AMP4**"), with revenue growing by 22% and revenue growth of approximately 7% in the year ended March 31, 2011.

Platform Investment for the Corporation

- The investment in Bristol Water provides the Corporation with a platform in a new infrastructure category for the Corporation, positioning it to pursue additional growth opportunities in the water infrastructure sector globally; and
- The Corporation extends its geographic footprint such that its estimated 2012 Adjusted EBITDA by geography is expected to be: North America — 53%; UK — 41%; and Sweden — 6%.

Financial Benefits for the Corporation

- The Corporation expects its fiscal 2012 Adjusted EBITDA to be approximately $140 million (including its investment in Bristol Water), compared to approximately $80 million (without Bristol Water).
- The addition of Bristol Water also diversifies the Corporation's cash flow and Adjusted EBITDA profile by asset. In 2012 it is anticipated that approximately 41% of the Corporation's Adjusted EBITDA will be generated by Bristol Water, 21% by the Cardinal gas cogeneration facility ("**Cardinal**"), 13% by the Erie Shores wind farm ("**ESWF**"), 9% by the Amherstburg solar park ("**ASP**"), 7% by the Corporation's hydro power facilities, 6% by Värmevärden, and 3% by the Whitecourt biomass facility ("**Whitecourt**"). Without the Bristol Water investment, the Corporation's estimated Adjusted EBITDA in 2012 would have been expected to be generated 36% by Cardinal, 22% by ESWF, 15% by ASP, 11% by the Corporation's hydro power facilities, 10% by Värmevärden, 5% by the Whitecourt biomass facility and 1% by the Corporation's interest in the Chapais biomass facility ("**Chapais**"); and
- The Corporation expects to extend the duration of its cash flows (cash flow duration by facility: 2010-2020: Cardinal, Whitecourt, Chapais, Sechelt hydro facility, Hluey Lakes hydro facility and Dryden hydro facility; 2020-2030: ESWF; 2030-2040: ASP; 2040-2050: Wawatay hydro facility; 2050+: Bristol Water and Värmevärden).

Partnership with a High Quality Global Utilities Operator

- Agbar is a subsidiary of Suez Environnement, a world leader in water and waste management services;
- Agbar has retained an indirect 30% ownership interest in Bristol Water; and
- Under the O&M Agreement, Agbar has agreed to provide strategic advice and certain additional management services which are available to supplement the capabilities of Bristol Water's management team.

Strong Management Team

- Bristol Water has a dedicated and fully-staffed management team with broad experience in water cycle management.

Attractive Long Term Financing Structure

- Through Bristol Water's existing Artesian loans and recent £40 million RPI-linked bond issuance, Bristol Water has attractive and structured long-term debt in place;
- Approximately 80% of Bristol Water's outstanding debt matures after 2030; and
- Bristol Water has financing in place for substantially all of the capital required for the remainder of AMP5, with current and projected leverage for AMP5 significantly below that permitted under its financing covenants.

BRISTOL WATER

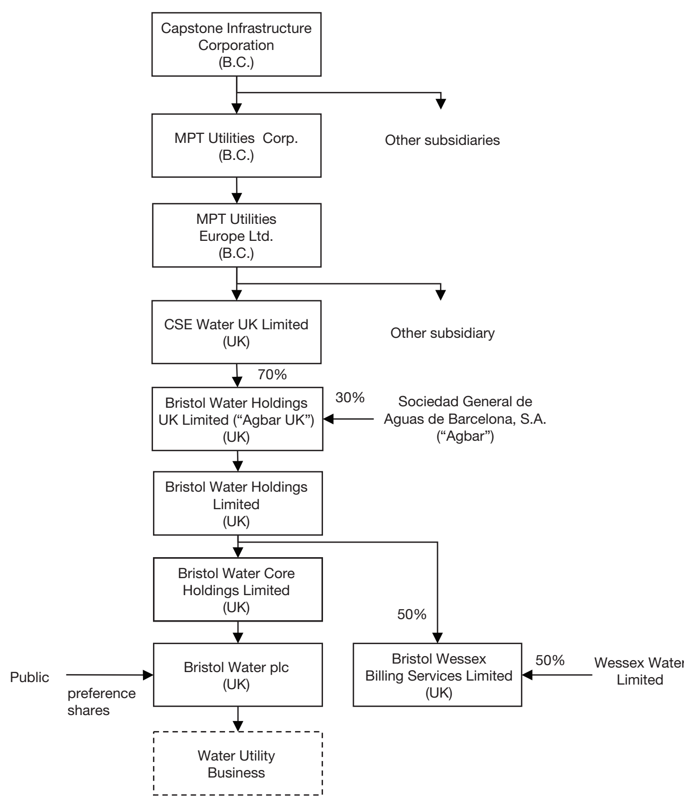
Overview

History

Founded in 1846, Bristol Water is the licensed monopoly provider of water services to an area of approximately 2,400 square kilometres centred on the City of Bristol, England and stretching from Tetbury in the north to Street and Glastonbury in the south and Weston-super-Mare in the west to Frome in the east. As one of 11 regulated Water-Only Companies ("**WoCs**") in England and Wales, Bristol Water is responsible for the abstraction, treatment, storage and distribution of approximately 278 million litres ("**Ml/d**") of water every day to over 1.1 million people. Bristol Water's system encompasses 26 water sources (including reservoirs, rivers, springs and wells), 6,670 kilometres of water mains, 164 pumping stations and 140 treated water storage reservoirs.

Corporate Structure

The following chart presents a simplified summary of the ownership and organizational structure of Bristol Water.



The issued ordinary shares of Agbar UK are held as to 70% by CSE Water and as to 30% by Agbar. The Shareholders' Agreement governs the management of affairs of Agbar UK and its subsidiaries, including Bristol Water (See "*Recent Developments — Investment in Bristol Water*").

Financing Structure

Bristol Water has long- and short-term structured debt financing in place, primarily comprised of Artesian loans, bonds, a credit facility, debentures and preference shares. Bristol Water's policy is to maintain a balanced debt portfolio with mainly long term maturities reflecting the long-term nature of its asset base.

Artesian Loans

As at June 30, 2011, Bristol Water had outstanding an aggregate amount of £111.9 million of RPI-linked Artesian loans due 2032 (with a real interest rate of 3.635%) and an aggregate amount of £57.5 million of 6.01% fixed-rate Artesian loans due 2033.

The Artesian loan financing structure is a bond issuance program designed to facilitate long-term debt financing by smaller UK water companies, such as Bristol Water. Under the Artesian structure, funds were raised through credit-wrapped bonds issued by the Artesian finance issuers (Artesian Finance I plc and Artesian Finance II plc), which bonds were guaranteed by Financial Security Assurance (U.K.) Limited (now known as Assured Guaranty Limited). Funds raised by the Artesian finance issuers were then loaned, through an intermediary UK-based financial institution, to Bristol Water. Principal and interest payments on the loan to Bristol Water are made to the Artesian finance issuers. The advantage of the Artesian financing structure was that it enabled Bristol Water to borrow relatively smaller amounts with longer maturities and with lower upfront costs than through the capital markets, which was the most readily available source of such debt financing previously available to smaller water companies like Bristol Water. Bristol Water's Artesian loans are secured (see below) and include a number of covenants, which includes an obligation to maintain a debt service reserve of six months' debt service cash costs (approximately £5.5 million) and an obligation to maintain an operating account reserve of one month's revenue (approximately £9 million). Bristol Water's other senior debt providers (bank loans, finance leases and new bonds) have acceded to the Artesian loan covenant package.

Subject to the restrictions set out in the Water Industry Act 1991 (as amended) ("**WIA**") and the Instrument of Appointment, Bristol Water has created fixed and floating security over assets including, but not limited to, its bank accounts, its accounts receivables, its rights under certain contracts with third parties, its land and other property, but only to the extent that such security would not otherwise contravene the terms of the WIA or the Instrument of Appointment. Security has also granted over the shares in Bristol Water.

While there are restrictions under the WIA and the Instrument of Appointment on enforcing security over Bristol Water, enforcement over its shares would not be subject to the same restrictions. However, given the duties of Ofwat under the WIA to exercise its powers and duties to, *among other things*, secure that the functions of a licensed undertaker are properly carried out, it is expected that any enforcement of the security over the shares of Bristol Water and subsequent disposal thereof would require consultation with Ofwat. In addition, depending on the circumstances, merger control provisions could also apply.

Bonds

Bristol Water has issued £40 million of RPI-linked secured bonds due 2041 (with a real interest rate of 2.701%). The bonds acceded to the same covenant package as provided for the Artesian loans described above. In addition, under the terms of the bonds, no more than 20% of Bristol Water's total debt/RCV may fall due during any two year period and no more than 40% of Bristol Water's total debt/RCV may fall due during any five year regulatory period.

Credit Facility

Bristol Water has a £30 million undrawn committed credit facility with a UK-based financial institution, which expires in May 2013.

Debentures

Bristol Water has four small outstanding tranches of debentures listed on the London Stock Exchange: (i) 4.00% consolidated irredeemable debenture stock in an amount of approximately £1.4 million; (ii) 4.00% perpetual irredeemable debenture stock in an amount of approximately £55,000; (iii) 4.25% perpetual irredeemable debenture stock in an amount of approximately £37,000; and (iv) 3.50% perpetual irredeemable debenture stock in an amount of approximately £73,000.

Preference Shares

Bristol Water has issued £12.5 million of 8.75% irredeemable cumulative preference shares of £1 each. The preference shares are listed on the London Stock Exchange and are entitled to receive dividends at a rate of 8.75% per annum on their par value on a cumulative basis, such dividends being payable semi-annually on April 1 and October 1. In the event of a wind up of Bristol Water, the preference shareholders rank ahead of ordinary shareholders (including, indirectly, the Corporation) and are entitled to receive at least £1 per preference share (the actual price to be determined in accordance with Bristol Water's constitution but, in any event, not to exceed £2 per preference share) and any dividends accrued but unpaid in respect of their shares. Such preference shares usually do not carry any voting rights, however, 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 of Bristol Water. The irredeemable preference shares are recorded as debt in Bristol Water's financial statements.

Instrument of Appointment

The water sector in England and Wales is governed by the WIA, the Water Resources Act 1991, the Water Act 2003 ("**WA**") and related secondary legislation. Under the WIA, each regulated WoC holds an instrument of appointment (an **"Instrument of Appointment"**) and is regulated through the conditions of that licence and the WIA.

Pursuant to its Instrument of Appointment dated August 1, 1989 (as subsequently modified, most recently in October 2010) under Sections 11 and 14 of the Water Act 1989 (now Sections 6, 7, 11 and 12 of the WIA), Bristol Water (then known as Bristol Waterworks Company) was appointed as a water undertaker (a "**Regulated Company**") by the Secretary of State for the Environment. The fundamental statutory duty of a Regulated Company in respect of its water business is to develop and maintain an efficient and economical system of water supply within its supply area. Regulation pursuant to an Instrument of Appointment is the responsibility of Ofwat (see "*Water Distribution Industry — Regulated Industry — Economic Regulation — Ofwat*"), the economic and customer service regulator for the water industry in England and Wales. The independent Consumer Council for Water represents the interests of the customers of Regulated Companies.

Bristol Water's Instrument of Appointment is subject to a number of conditions including:

- provisions relating to the operation of price control (see "*Water Distribution Industry — Regulated Industry — Economic Regulation — K Factor*");
- a prohibition on undue discrimination or undue preference in setting charges for water supply;
- provisions to ensure that the financial affairs of Bristol Water can be separately assessed and reported on;
- maintaining at least three independent non-executive directors on the Board of Bristol Water and complying with the UK Listing Authority Listing Rules regarding reporting and good corporate governance;
- obligations on Bristol Water to ensure that it has adequate financial resources and facilities, management resources and systems of planning and internal control to carry out the regulated activities and maintain an investment grade credit rating, failing to do so will restrict Bristol Water's ability to pay dividends;
- restrictions on the disposal of certain land and restrictions on the granting of security over certain assets;
- an obligation on Bristol Water to conduct its regulated business as if it was substantially Bristol Water's sole business and Bristol Water was a separate public limited company;

- provisions on the payment of fees and the supply of information to Ofwat;
- a provision allowing the Instrument of Appointment to be terminated on 25 years' notice;
- obtaining an undertaking from its ultimate controlling entity to protect the downward regulatory ring fence;
- provisions relating to water supply licensing competition; and
- restrictions on dealings with associated companies (the consent of Ofwat is required for certain transactions including transferring certain rights or assets, guaranteeing any liability, or lending any funds to an associated company and all transactions with associated companies must be on an arm's length basis without cross subsidy).

A number of these conditions are often referred to as the "regulatory ring fence" which are designed to ensure that regulated businesses are treated as separate from other business within the corporate group structure.

Instrument of Appointment conditions can be modified by Ofwat, either with the Regulated Company's agreement or following reference to the UK Competition Commission (the "**CC**") for a decision on public interest grounds. Instrument of Appointment modifications can also result, in certain circumstances, from a merger or market investigation reference to the CC.

Failure to comply with the Instrument of Appointment conditions can result in penalties. See "*Risk Factors — Risks relating to Bristol Water and the Water Distribution Business — Legal and Regulatory Risks.*"

Water Supply Operations

Bristol Water's water supply services consist of the abstraction of water and its subsequent treatment and distribution to homes and other premises (the "**Water Distribution Business**").

Abstraction

Abstraction involves the removal of water from surface sources (such as rivers, reservoirs and canals) and from underground sources (such as aquifers). Bristol Water has the ability to abstract water from approximately 26 licensed sources, linked by a flexible, integrated distribution system enabling economical use of such sources in terms of cost, energy and conservation. These water sources can be divided into three types: groundwater; surface water reservoirs; and surface river water. The proportion of water used from each type of source varies on a daily and seasonal basis according to the availability of water, the relative costs and other operational constraints.

Water Source	Approximate Percentage of Bristol Water's Requirements	Information on Water Source
Groundwater	15%	Groundwater sources are principally comprised of aquifers, from which water is abstracted through wells, springs and boreholes.
Surface Water Reservoirs	40%	Bristol Water owns 10 surface water reservoirs, five of which are raw water reservoirs that store run-off from the Mendip Hills, while the remaining five reservoirs are located adjacent to Bristol Water's treatment facilities.
Surface River Water	45%	Surface river water sources include the River Severn, other rivers and the Sharpness Canal. Bristol Water abstracts water from the Sharpness Canal pursuant to a long-term management agreement with British Waterways, which controls the canal.

Treatment

All abstracted water is treated by Bristol Water prior to being supplied to customers. Each of Bristol Water's 16 treatment plants is designed to meet the characteristics of the water abstracted from the applicable source supplying water to the plant. In general, water abstracted from underground sources is of better quality and requires less treatment than water abstracted from rivers, canals and reservoirs which normally undergoes a complex sequence of advanced treatment processes. Water from underground sources normally only needs chlorination as it starts out with the best original raw water quality. Water from Bristol Water's surface water reservoirs is generally of a good original quality, typically requiring only microstrainers, slow sand filtration and chlorination. To deal with the more complex characteristics of surface river water sources, Bristol Water utilizes sophisticated treatment methods like clarification and ozone disinfection, coupled with granular activated carbon filtration.

Distribution

Treated water is distributed to household and non-domestic customers through Bristol Water's distribution system of approximately 6,670 kilometres of networked potable water mains and approximately 478,000 communication pipes connecting mains in the street to customer properties. These mains vary in size from 50 millimetres to 1,200 millimetres in diameter.

Treated water is initially stored at strategic points in a network of 140 storage reservoirs to allow Bristol Water's treatment works to run at an optimum level and to provide buffer stock in the event of outages. At any particular time, the amount of water resources available depends upon the cumulative effect of weather and consumption over the previous two to three years, and Bristol Water actively monitors reservoir levels. Due to the varied landscape across its region, Bristol Water successfully utilizes a number of different routes and techniques to move over 100 million tonnes of water around its network each year. This mixture of hills, valleys and plateaus and soil types has resulted in water mains either taking indirect routes to avoid hill ranges, or in additional pumping stations and booster stations being required in order to maintain water pressure and keep the water flowing into service reservoirs. Pressure reduction systems are then needed to reduce pressure at customers' taps. Flow is maintained by gravity in areas where the service reservoirs are higher than the area they serve or by 164 remote controlled pumping stations. The distribution system is highly automated and is centrally monitored at all times.

Approximately 22% of Bristol Water's mains are over 100 years old, with the average age being approximately 66 years. The age profile of Bristol Water's mains is in the oldest quartile as compared to other UK water companies and, accordingly, Bristol Water has a robust capital investment program focused on water main replacement. As well, a key element of Bristol Water's strategy to meet customer demand for water is to reduce leakage, which is a common issue faced by all UK water companies. Bristol Water's AMP5 leakage target for 2010/2011 was 52 Ml/d, which Bristol Water surpassed by achieving leakage of only 50 Ml/d (despite severe cold weather in December 2010 which resulted in a large number of water main bursts).

Customers

During the year ended March 31, 2011, Bristol Water treated an average of 278 Ml/d of water for use by approximately 510,000 premises. Approximately 73% of water delivered was used by domestic customers and approximately 77% of Bristol Water's customers are located in urban areas, which constitute approximately 11% of the supply area. Bristol Water serves approximately 475,000 domestic premises, a figure which has grown at approximately 1% per annum over the last 10 years. Bristol Water has approximately 35,000 non-domestic customers, of which 44 customers are defined by Ofwat as large users (consumption in excess of 50 million litres per annum) and who therefore fall outside of the price control regime (see "*Water Distribution Industry — Regulated Industry — Economic Regulation — K Factor*"). Bristol Water's large consumers include healthcare providers, infrastructure operators, utilities and other industrial users. No single customer accounts for over 0.6% of Bristol Water's revenues.

Approximately 35% of domestic customers pay for their water on a metered basis. Bristol Water's strategy is to increase meter penetration (which tends to reduce usage) in order to enhance the efficient use of its water resources, promote environmental stewardship, identify potential leakage, comply with regulatory objectives and reduce operating expenses. Bristol Water's total revenue and return allowance is determined without regard to the water consumption by individuals, and hence meter penetration does not impact its profitability. All new connections are metered, and existing customers can opt to be charged by meter at no extra cost. Together, these two factors have historically led to domestic meter penetration increasing by approximately 2% per annum. Non-domestic customers are predominantly charged by metered volumes.

An affiliate of Bristol Water and Wessex Water Services Limited ("**Wessex Water**"), the main provider of sewerage services in Bristol Water's service area, provide combined billing to customers for Bristol Water's water supply service and Wessex Water's wastewater services through Bristol Wessex Billing Services Limited (50% owned by Bristol Water Holdings Limited and 50% by the Wessex Water group). See "*Bristol Water — Overview — Corporate Structure*".

Water companies are not permitted to disconnect domestic customers from their water supply for failure to pay bills but industrial and commercial customers are subject to normal payment recovery processes, including disconnection. Throughout the industry, there is a focus on alternative methods to manage increasing levels of bad debt. Bristol Water has made substantial investments in effective debt management and the collection of bad debts.

Capital Investment

The water industry invests heavily in maintenance and new assets in order to meet its obligations for service delivery and regulatory requirements. Bristol Water's level of capital investment in five-year periods has been or is projected to be (all figures are stated in 2009/10 values to aid comparison):

Asset Management Plan	Period	Capital Investment
AMP 1	5 years to March 31, 1995	£136 million
AMP 2	5 years to March 31, 2000	£134 million
AMP 3	5 years to March 31, 2005	£124 million
AMP 4	5 years to March 31, 2010	£159 million
AMP 5	5 years to March 31, 2015	£244 million

Bristol Water has a 25-year strategy to meet expected growth in demand by investment in the necessary supply infrastructure. Its overall objective is to maintain an adequate supply/demand balance, while maintaining exceptionally high levels of service. A key part of Bristol Water's strategic planning therefore focuses on the long-term capital investment in its network, and its capital investment program in AMP5 is significantly greater than the equivalent program in AMP4. Bristol Water's strategy is further driven by the expected population growth in its service area over the next 25 years. Ofwat takes account of these investment programs when setting price limits (see "*Water Distribution Industry — Regulated Industry — K Factor*").

Property

Bristol Water occupies approximately 350 sites, of which approximately 340 are owned and the remainder leased. There are approximately 40 sites which Bristol Water considers material due to their strategic importance and/or value to its business. These comprise Bristol Water's head office, key depots, key pumping stations, treatment works, lakes, and key reservoirs.

Employees and Management

As at June 30, 2011, Bristol Water had approximately 510 employees (454 equivalent full-time employees). Bristol Water has a highly skilled management team of professionals with significant industry knowledge and expertise, and in the case of the executive team, each with many years of experience in the water sector. Under the O&M Agreement, Bristol Water has access to the global management resources of Agbar, which has agreed to provide certain management support, including: (i) the nomination of the chief executive of Bristol Water, in accordance with the terms of the Shareholders' Agreement; (ii) contributing advice on best practices in company management and strategic planning according to Agbar's worldwide experience in water and sewage companies; (iii) contributing Agbar's experience in the development of advanced systems and procedures for technical and operational management; (iv) contributing the experience of Agbar in the development and implementation of information systems and telecommunications; (v) contributing the expertise of Agbar in the use of systems and procedures to optimize infrastructure investments and operation strategies; (vi) contributing the expertise of Agbar gained in new fields, procedures and technologies being investigated and created in Agbar's water business worldwide; and (vii) subject to relevant procurement rules, allowing participation as an individual company or as part of any relevant procurement consortium in the procurement arrangements of Agbar and its affiliates.

Seasonality

Although there is little seasonal variation in demand, the proportion of water used from each type of Bristol Water's sources of water varies on a daily and seasonal basis according to the availability of water, the relative costs and other operational constraints, and the quantity of treated water supplies fluctuates owing to a variety of seasonal factors, such as dry weather and burst pipes due to freeze/thaw cycles affecting the ground during winter months. There is a seasonal effect on Bristol Water's cash flow as a result of unmetered customers who pay their water bills in semi-annual instalments in March/April and in September/October of each year.

Legal and Regulatory Proceedings

Except as may be described elsewhere in this short form prospectus, there are no material legal or regulatory proceedings to which Bristol Water is a party or to which its property is subject and no such proceedings are contemplated. See also "*Water Distribution Industry — Regulated Industry — Economic Regulation*".

WATER DISTRIBUTION INDUSTRY

Overview

The water industry in England and Wales is divided into 10 regional Water and Sewerage Companies (**"WaSCs"**), which provide both water and sewage services, and 11 WoCs, including Bristol Water, which only provide water services. All WaSCs and WoCs were privatized in 1989 when the current regulatory system was put in place and the companies are now a mix of publicly listed and privately owned.

Regulated Industry

Bristol Water operates within a highly regulated industry in England and Wales, subject to a range of UK and European Union ("**EU**") legislation, as well as the terms of its Instrument of Appointment (see "*Bristol Water — Overview — Instrument of Appointment*"), and its operations are strongly influenced by economic, drinking water quality and environmental regulation.

Economic Regulation

Ofwat regulates water charges by capping the average increase in charges to most customers that a company can impose in any year. Ofwat conducts a periodic review and sets the applicable price caps every five years. Following a consultation process in 2006, Ofwat announced that it intended to maintain this five-year review period of price controls but that it would also seek to place price limits within a longer-term framework. The current regulatory price review period, AMP5, runs from April 2010 to March 2015.

Ofwat

Ofwat must comply with its statutory duties as primarily laid out in the WIA and must exercise its powers and duties in the manner that it considers is best calculated to:

- protect the interests of consumers wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the provision of water and sewerage services;

- secure that the functions of water and sewerage undertakers are properly carried out in respect of every area of England and Wales;
- secure that water and sewerage undertakers are able (in particular, by securing reasonable returns on their capital) to finance the proper carrying out of their functions; and
- secure that the activities authorized by the licence of a licensed water supplier and any statutory functions imposed on it in consequence of the licence, are properly carried out.

Ofwat also has secondary duties that include an obligation to promote efficiency and economy on the part of Regulated Companies in the carrying out of their functions as such and to contribute to the achievement of sustainable development. It also has duties in exercising its powers to have regard to the effect on the environment and to the desirability of preserving any rights of recreational access.

K Factor

The price cap on amounts that Bristol Water may charge its customers is set by reference to inflation as measured by the RPI together with an adjustment factor known as 'K', which is specific to each Regulated Company and which can vary for each year of the review period. The size of a Regulated Company's K factor (which can be positive, negative or zero) reflects the scale of its capital investment program, its operating cost, its cost of capital and its operational and environmental obligations, taking into account the scope for it to improve efficiency. For AMP5, the average K factor for Bristol Water is 3.2% per annum, with the following profile:

	2010/11	2011/12	2012/13	2013/14	2014/15
K factor	0.6%	3.9%	3.9%	3.9%	3.8%

Based on Ofwat RCV publications, the average annual domestic customer bill is expected to rise from £157 in 2009/10 to £180 by 2014/15 (in 2009/10 values), an increase in real terms of 15% over the five-year review period, and Bristol Water's RCV is expected to increase by approximately 26% in real terms to £353 million in 2009/10 values.

K must be reviewed every five years (the "periodic review"). Ofwat has published a series of discussion papers regarding possible changes in the way that periodic reviews are carried out in the future, including the possibility of separate price limits for different parts of a Regulated Company's business. Ofwat has stated that it will consult formally on the principles to be applied at the next periodic review during the Autumn of 2011, and that it will consult on the methodology to be used during the Autumn of 2012.

Capital Expenditures

Regulated Companies are incentivized to be efficient, both in terms of their operating costs and in the implementation of their capital expenditure ("**capex**") program. It is intended that the benefit of any efficiency savings achieved through effective management should be retained by the Regulated Companies for a period of up to five years, after which time the benefit should be passed to customers via the subsequent price setting process. The cost of any under-performance in operating costs is borne by the Regulated Companies.

For the 2009 price review, Ofwat introduced a new capex incentive scheme (the "**CIS**") under which companies bear the cost of under-performance for five years, giving symmetry with treatment of efficiency savings. The CIS is designed to provide incentives for companies to put forward challenging and efficient business plans.

Customer Service

Ofwat measures a broad range of performances to ensure customer service is maintained at high levels by water companies. The Overall Performance Assessment (the "**OPA**") was a method used by Ofwat in previous five-year periodic reviews to measure and incentivize water company performance across the broad range of services provided to consumers and the environment. OPA scores in the period 2004/2005 to 2008/2009 were taken into account in Ofwat's 2009 price review, and Regulated Companies were penalized if they provided a poor quality of service by means of adjustments to the K factor at the price review. In the case of Bristol Water, which scored comparatively well on the OPA, a price increase of 0.2% was allowed from April 2010 to March 2015.

Effective April 1, 2010, Ofwat has introduced a new mechanism for assessing customer service, the Service Incentive Mechanism ("**SIM**"). Service is measured by a mix of customer satisfaction surveys and quantitative data relating to complaints and the SIM ranks each water company's relative performance in terms of the quality of service that is delivered to customers. The SIM will be measured over the period 2011/12 to 2013/14. Depending upon Bristol Water's relative performance under the SIM, it could receive a revenue penalty or reward when price limits are next reset in 2014 for the following five year regulatory period. The current proposed price adjustments range from a 0.5% reward to a 1.0% penalty, and, as with the OPA, adjustments will apply in the first period of the next AMP of which Ofwat will set prices, which is in 2015/16. During 2010/11 Bristol Water was ranked 5th out of 21 overall on the SIM. It was ranked 4th in terms of quantitative complaint measures and 7th in terms of customer satisfaction. In the first quarterly customer survey of 2011/12, Bristol Water was ranked 1st out of 21 for overall customer satisfaction.

Adjustments

Unexpected capital costs or savings arising from changes in certain regulatory assumptions during a review period are recorded and reported by Bristol Water to Ofwat. This process, known as 'logging up and down', allows prices to be adjusted up or down at the next periodic review to compensate Regulated Companies or customers, respectively, for unexpected costs or savings, to the extent agreed by Ofwat. In addition, Bristol Water can request, and Ofwat can instigate, a re-setting of its price limit during the five-year period, known as an 'Interim Determination of K', in certain other circumstances where additional costs to the business reach a materiality threshold in defined areas known as 'Notified Items'. Bristol Water has several specific Notified Items which cover cost changes due to items such as household bad debt and debt management costs and as a result of new legislation that requires Bristol Water to pay road rental fees related to the creation of roadworks.

Substantial Effects Clause

All Regulated Companies' Instruments of Appointment also include a 'shipwreck' or substantial effect clause, which allows Regulated Companies' price limits to be revised by Ofwat when events beyond their control have a significant effect (equivalent over 5 years to more than 20% of annual revenue).

Drinking Water Quality and Environmental Regulation

Overview

The water industry in the UK is subject to substantial domestic and EU regulation, placing significant statutory obligations on Bristol Water relating to, among other factors, the quality of treated water supplied and the effects of Bristol Water's activities on the environment, biodiversity and human health and safety. All water companies have general duties to conserve and enhance biodiversity and natural beauty and to promote efficient use of water. Environmental regulation is primarily the responsibility of the UK Secretary of State for Environment, Food and Rural Affairs together with:

- The UK Environment Agency, which is responsible for conserving and redistributing water resources and securing their proper use, including the licensing of water abstraction from, and the consenting of discharges to, controlled waters, as well as the preservation and improvement of the quality of rivers, estuaries, coastal waters and groundwaters, through pollution control powers;
- The UK Drinking Water Inspectorate, which enforces drinking water quality standards and is involved in ensuring that water companies are fulfilling their statutory duty as regards the supply of wholesome drinking water, and in prosecuting any Regulated Company that commits the offence of supplying water unfit for human consumption; and
- Natural England, an independent public body responsible for the protection of designated sites for nature conservation. There is a statutory requirement to manage these sites to conserve or improve biodiversity.

EU directives, including the EU Water Framework Directive and the EU Drinking Water Directive, have been implemented in the UK. The requirements of the EU Water Framework Directive, including the requirement on EU member states to ensure that their waters achieve at least "good status" by 2015, may result in increased limitations on abstraction licences and restrictions on discharge consents. Any pollution of controlled waters or other environmental harm caused by Bristol Water may result in liability for remedial or compensatory works under a number of statutory liability regimes, including under the EU Environmental Liability Directive.

Energy use in water treatment and other activities carried out by Bristol Water results in indirect emissions of greenhouse gases. Bristol Water is subject to the UK Climate Change Levy (which is estimated will result in an annual cost to Bristol Water of approximately £20,000 in 2011/2012) and the UK CRC Energy Efficiency Scheme, a mandatory UK emissions trading scheme for significant consumers of energy (which is estimated will result in an annual cost to Bristol Water of approximately £500,000 in 2011/2012).

Company Permits and Initiatives

Bristol Water manages a range of environmental issues in the course of its business, including the protection and security of water resources, the prevention and remediation of pollution, waste management, energy efficiency and carbon reduction. Addressing each of these areas requires the involvement of a variety of stakeholders, including the UK Government, industry regulators and local groups. Bristol Water has systems and procedures in place which are designed to assess and monitor environmental performance across every aspect of its business with a view to ensuring compliance with environmental laws and regulations and that the highest environmental standards are maintained at all times.

Bristol Water's core water abstraction activities require permits from the Environment Agency and compliance with the conditions to which such permits are subject. Bristol Water is also required to maintain discharge permits in respect of its water treatment facilities. All of Bristol Water's material permits are valid and Bristol Water has no areas of material non-compliance.

Bristol Water continually maintains and invests in its assets to ensure that a high standard of drinking water quality is maintained. To assess compliance with drinking water standards prescribed in the UK Water Supply (Water Quality) Regulations 2000, Bristol Water monitors water quality through an extensive programme of plant and telemetry controls, regular sampling and analysis.

Bristol Water is actively engaged in waste reduction and recycling programmes and it is pursuing strategies aimed at reducing its energy usage and overall carbon footprint. Certain of Bristol Water's water resources are important biodiversity sites, and it routinely works in cooperation with various stakeholders aimed at securing the most effective management of such sites.

Protected Land

Under the WIA, there is a prohibition on Regulated Companies disposing of any of their Protected Land (as defined in the WIA) except with the specific consent of, or in accordance with a general authorization given by, the UK Secretary of State. A consent or authorization may be given on such conditions as the UK Secretary of State considers appropriate. For the purpose of these provisions, disposal includes the creation of any interest (including leases, licences, mortgages, easements and wayleaves) in or any right over land, and includes the creation of a charge. Land used for water supply purposes is generally classified as protected land and a substantial majority of Bristol Water's landholdings are classified as being used for such purposes.

Enforcement and Special Administration

In practice, many regulatory issues arising between Regulated Companies and Ofwat are settled without the need to resort to formal enforcement proceedings. However, where Ofwat is satisfied that a Regulated Company is in breach of the conditions of its Instrument of Appointment or certain of its statutory obligations, it has powers to secure compliance by means of an enforcement order, and to impose financial penalties.

The imposition of financial penalties for breach of Instrument of Appointment conditions and other regulatory duties was introduced by the WA to bring Ofwat's powers into line with those of other regulators.

Companies may face a penalty of up to ten per cent. of relevant regulated turnover for breaching Instrument of Appointment conditions, prescribed standards of performance of certain other statutory obligations. Ofwat has published a statement of the policy that it intends to apply to the imposition of any penalty and the determination of its amount. Such penalties can be appealed to the High Court on the grounds that their imposition is not within Ofwat's power, that Ofwat has failed to follow the procedure for imposing such penalties, or that the dates required for payment of such penalties are unreasonable.

Failure to comply with an enforcement order can lead to court action by Ofwat for an injunction and claims for compensation by any person who suffers loss or damage as a result of the breach. Alternatively, where actual or likely contravention of an enforcement order (or of one of a Regulated Company's principal statutory duties under the WIA) is so serious as to make it inappropriate for the Regulated Company to continue to hold its Instruments of Appointment, the Secretary of State or, with his or her consent, Ofwat, may apply to the High Court for the appointment of a Special Administrator. A Special Administrator may also be appointed in other circumstances such as where the Regulated Company is, or is likely to be, unable to pay its debts.

A Special Administrator has powers similar to those of an administrator under the Insolvency Act 1986, but with certain important differences. He is appointed only for the purposes of transferring to one or more different companies, as a going concern, so much of the business of the Regulated Company as is necessary to transfer in order to ensure the proper carrying out of its water supply functions, as the case may be, and pending the transfer, of carrying out those functions (the "transfer purpose"). Once the relevant provisions of the Flood and Water Management Act 2010 are brought into force, where a Regulated Company is placed in special administration on the grounds that it is, or is likely to be, unable to pay its debts, the Special Administrator will be required to seek to regulate the Regulated Company as a going concern (the "rescue purpose") rather than to transfer its business in accordance with the transfer purpose. However, the Special Administrator must pursue the transfer purpose instead of the rescue purpose where he thinks that a rescue is unlikely to be possible or that the objectives of a Special Administration Order would be better achieved through a transfer.

On any application for the winding up of a Regulated Company the court is obliged (if it is otherwise satisfied that it would be appropriate to make the order) to make a Special Administration Order instead. A Regulated Company also cannot be wound up voluntarily, or have an administration order made in relation to it, unless fourteen days' notice is given to the Secretary of State or Ofwat (which gives them time to decide whether to apply for a Special Administration Order). Notice must also be given before any step is taken by any person to enforce security over the Regulated Company's property.

Restrictions on the Granting of Security

A Regulated Company's ability to grant security over its assets and the enforcement of such security are restricted by the provisions of the WIA and its Instrument of Appointment. For example, all Instruments of Appointment (including Bristol Water's Instrument of Appointment) restrict a Regulated Company's ability to dispose of Protected Land in this way (as described above in "Protected Land"). Accordingly, an Instrument of Appointment restricts a Regulated Company's ability to create a charge or mortgage over Protected Land.

In addition, provisions in a Regulated Company's Instrument of Appointment require the Regulated Company at all times:

(a) to ensure, so far as is reasonably practicable, that if a Special Administration Order were made in respect of it, it would have sufficient rights and assets (other than financial resources) to enable the Special Administrator to manage its affairs, business and property so that the purpose of such an order could be achieved; and

(b) to act in the manner best calculated to ensure that it has adequate (i) financial resources and facilities, (ii) management resources and (iii) systems of planning and internal control, to enable it to carry out its regulated activities including the investment programme necessary to fulfil its obligations in respect of its Instrument of Appointment.

These requirements must not be dependent upon the discharge by any other person of any obligation under or arising from any agreement or arrangement under which that other person has agreed to provide any services to the Regulated Company in its capacity as the Regulated Company.

These provisions further limit the ability of Bristol Water to grant security over its assets, in particular assets required for carrying out its regulated business, and limit in practice the ability to enforce such security.

In the case of Bristol Water, the substantial majority of Bristol Water's assets by value is tangible property which is either Protected Land and/or assets that are required for carrying out Bristol Water's regulated business and cannot therefore be effectively secured. This necessarily affects the ability of the Issuer to create a floating charge over the whole or substantially the whole of its business. However, in any event, there is no right under the WIA to block the appointment of a Special Administrator equivalent to the right that a holder of a floating charge over the whole or substantially the whole of the business of a non-Regulated Company may have, in certain circumstances, to block the appointment of a conventional administrator under the Insolvency Act 1986.

Competition

The water industry in England and Wales is essentially a series of regional monopolies but the UK Government, through Ofwat, has taken progressive steps to open up competition within the industry for large industrial and commercial customers and greenfield domestic developments. Currently, the two main forms of competition permitted in the water industry are: (i) inset appointments and (ii) the Water Supply Licensing regime. An inset appointment is made when an existing Regulated Company is replaced by another as the supplier of water and services for one or more customers within a particular licensed area. The WA has also extended opportunities for competition in the water industry by introducing a new Water Supply Licensing regime in December 2005. The Water Supply Licensing regime is designed to open up a small fraction of the water supply market by permitting Regulated Companies to provide to non-household users with an annual consumption of not less than 50 million litres either: (a) retail supply (i.e. the supply by a licensee of water purchased from a Regulated Company's supply system to an eligible customer) or (b) combined supply (i.e. the introduction of water into a Regulated Company's existing network for retail by the licensee to an eligible customer, plus retail supply). A Regulated Company is obliged to allow a licensed water supplier to use its network for this purpose, subject to payment of charges and certain conditions and rights of refusal. Ofwat is responsible for implementing the regime.

To date, competition has had no significant impact on either Bristol Water. Furthermore, Ofwat has advised that the current regulatory regime, particularly the price review process, may in some areas place an excessive burden on water companies in England and Wales. As a result of these challenges, a number of reviews have been, and are being, undertaken to help guide future regulatory developments in the sector.

One prominent review of competition and innovation in water markets was published in April 2009 (the "**Cave Review**"). The Cave Review supported the objective to introduce greater competition in the water industry and recommended a number of reforms, including: abstraction licence trading in order to optimize efficient use of water resources across different regions; upstream competition through the introduction of separate network and supply licences; retail competition for non-household consumers; and the relaxation of the special regime applicable to mergers between water companies. There are government proposals to reduce the threshold for competition for non-household users but there is currently no indication of when this lower threshold will be brought into effect. A White Paper expected to set out the UK Government's conclusions following the Cave Review and proposals for reforms to the current regime is expected later in 2011. Ofwat is reviewing the way it regulates the water industry in future and Bristol Water continues to monitor future developments.

USE OF PROCEEDS

Net proceeds of the Offering are estimated to be approximately $71,250,000 ($81,993,750 if the Over-Allotment Option is exercised in full) after deduction of the Underwriters' fee and the estimated expenses of the Offering. The Underwriters' fee and the expenses of the Offering will be paid out of the gross proceeds of the Offering.

The Corporation intends to use the net proceeds of the Offering to repay a portion of the Senior Credit Facility. The amount drawn on the Senior Credit Facility was incurred to finance the Corporation's investment in Agbar UK and, indirectly, in Bristol Water (see "*Recent Developments — Investment in Bristol Water*").

DETAILS OF THE COMMON SHARES

Holders of Common Shares are entitled to one vote per share at meetings of holders of Common Shares, to receive dividends if, as and when declared by the Board of Directors (subject to the rights of securities, if any, having priority over the Common Shares) and to receive *pro rata* the remaining property and assets of the Corporation upon its dissolution or winding-up (subject to the rights of securities, if any, having priority over the Common Shares). See the section "Description of the Corporation" in the AIF for more information.

BOOK-ENTRY ONLY SYSTEM

The Common Shares will be issued in uncertificated, "book-entry only" form and must be purchased, transferred, converted or redeemed through participants ("**Participants**") in the depository service of CDS Clearing and Depository Services Inc. ("**CDS**"). On the Closing Date, the Corporation will cause the issued Common Shares to be registered in the name of CDS or its nominee. No holder of Common Shares will be entitled to a certificate or other instrument from the Corporation or CDS evidencing that holder's ownership of Common Shares, and no holder will be shown on the records maintained by CDS except through a book-entry account of a Participant acting on behalf of such holder. Each holder of Common Shares will receive a customer confirmation of purchase from the registered dealer from which the Common Shares are purchased in accordance with the practices and procedures of that registered dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS will be responsible for establishing and maintaining book-entry accounts for its Participants having interests in the Common Shares.

The ability of a beneficial owner of Common Shares to pledge such shares or otherwise take action with respect to such owner's interest in such Common Shares (other than through a Participant) may be limited due to the lack of a physical certificate.

The Corporation has the option to terminate registration of the Common Shares through the book-entry only system, in which event certificates for Common Shares, as applicable, in fully registered form will be issued to the beneficial owners of such Common Shares or their nominees.

CONSOLIDATED CAPITALIZATION

The table below sets out the consolidated capitalization of the Corporation as at June 30, 2011 and the *pro forma* consolidated capitalization of the Corporation as at June 30, 2011 after giving effect to the Bristol Water acquisition and the Offering (with and without the exercise of the Over-Allotment Option and issuances of Common Shares under the Corporation's dividend reinvestment plan in September and October 2011). The historical amounts are derived from the unaudited interim consolidated financial statements of the Corporation as at June 30, 2011.

($000s)	**As at June 30, 2011**	**As at June 30, 2011 after giving effect to the Bristol Water acquisition**	**As at June 30, 2011 after giving effect to the Bristol Water acquisition and the Offering[(1)]**	
				(if the Over-Allotment Option is exercised in full)
Long-term debt	345,460	968,291	897,041	886,297
Shareholders' equity	379,995	373,895	445,740	456,484
Total Capitalization	**725,455**	**1,342,186**	**1,342,781**	**1,342,781**

Notes:

(1) Assumes that the entire proceeds of the Offering are used to repay a portion of the Senior Credit Facility. See "*Use of Proceeds*".

PRIOR SALES

For the 12 month period preceding the date of this short form prospectus, the Corporation (or the Fund) has issued the following Common Shares (Units):

Date	Securities	Price per Security	Number of Securities[1]
October 28, 2010	Units	$7.00	2,428
November 8, 2010	Units	$7.00	3,285
November 17, 2010	Units	$7.00	5,285
November 26, 2010	Units	$7.00	214,285
December 7, 2010	Units	$7.00	84,999
December 15, 2010	Units	$7.00	300,999
December 22, 2010	Units	$7.60	9,079,250[2]
January 18, 2011	Common Shares	$7.00	1,428
January 20, 2011	Common Shares	$7.00	12,999
January 26, 2011	Common Shares	$7.00	142,857
January 27, 2011	Common Shares	$7.00	401,714
January 31, 2011	Common Shares	$7.00	2,142
February 7, 2011	Common Shares	$7.00	1,428
February 10, 2011	Common Shares	$7.00	214,285
February 14, 2011	Common Shares	$7.00	714
February 15, 2011	Common Shares	$7.00	2,571
February 18, 2011	Common Shares	$7.00	41,999
February 24, 2011	Common Shares	$7.00	466,142
February 25, 2011	Common Shares	$7.00	26,714
March 7, 2011	Common Shares	$7.00	74,714
March 11, 2011	Common Shares	$7.00	4,571
March 18, 2011	Common Shares	$7.00	571
March 21, 2011	Common Shares	$7.00	1,142
March 23, 2011	Common Shares	$7.00	5,142
March 25, 2011	Common Shares	$7.00	6,142
April 12, 2011	Common Shares	$7.00	2,857
April 14, 2011	Common Shares	$7.00	714
April 15, 2011	Common Shares	$8.18	855,746[3]
May 6, 2011	Common Shares	$7.00	7,428
May 13, 2011	Common Shares	$7.00	714
May 16, 2011	Common Shares	$7.00	1,999
May 20, 2011	Common Shares	$7.00	7,142
May 27, 2011	Common Shares	$7.00	57,571
June 2, 2011	Common Shares	$7.00	2,142
June 13, 2011	Common Shares	$7.00	5,714
July 7, 2011	Common Shares	$7.00	1,428
July 19, 2011	Common Shares	$7.00	999
September 15, 2011	Common Shares	$6.45	46,118[4]
October 14, 2011	Common Shares	$6.14	48,635[4]

Notes:

(1) Unless otherwise noted, the issuance relates to a conversion of 2016 Debentures.

(2) Private placement.

(3) Private placement in connection with Management Internalization.

(4) Issuances relating to the Corporation's dividend reinvestment plan.

TRADING PRICE AND VOLUME OF LISTED SECURITIES

Units/Common Shares

Until January 11, 2011, the Units were listed on the TSX under the symbol "MPT.UN". From January 11, 2011 to April 21, 2011, the Common Shares were listed on the TSX under the symbol "MPT". Since April 21, 2011, the Common Shares have been listed on the TSX under the symbol "CSE". The following table sets forth the high and low sales prices per outstanding Unit/Common Share and trading volumes for the outstanding Units/Common Shares on the TSX for the periods indicated:

	Price Per Unit/ Common Share		Trading
	High ($)	Low ($)	Volume (#)
2010			
October	7.70	7.14	1,744,687
November	8.03	7.48	2,064,848
December	8.39	7.71	2,029,152
2011			
January	8.80	8.07	2,233,371
February	8.67	7.93	2,574,505
March	8.20	7.50	2,995,501
April	8.29	7.60	2,883,645
May	8.23	7.76	2,352,724
June	8.20	7.73	2,727,267
July	7.85	7.30	1,960,002
August	7.48	6.12	2,859,578
September	6.95	6.21	1,618,493
October (1st to 26th)	6.69	5.68	2,964,735

On October 26, 2011, the last trading day prior to the filing of this short form prospectus, the closing price of the Common Shares on the TSX was $6.25.

Series A Preferred Shares

The Corporation issued cumulative 5-year rate reset preferred shares, series A (the "**Series A Preferred Shares**") on June 30, 2011. The Series A Preferred Shares are listed on the TSX under the symbol "CSE.PR.A". The following table sets forth the high and low sales prices per outstanding Series A Preferred Share and trading volumes for the outstanding Series A Preferred Shares on the TSX for the periods indicated:

	Price Per Series A Preferred Share		Trading
	High ($)	Low ($)	Volume (#)
2011			
June 30th	24.75	24.00	13,150
July	24.20	22.80	213,843
August	23.20	21.00	127,121
September	21.50	18.76	62,683
October (1st to 26th)	20.50	18.60	90,416

2016 Debentures

Prior to January 1, 2011, the Corporation's 2016 Debentures were obligations of the Fund and were listed on the TSX under the symbol "MPT.DB.A". The 2016 Debentures became obligations of the Corporation on January 1, 2011, but remained listed on the TSX under the same symbol. Since April 21, 2011, the outstanding 2016 Debentures have been listed on the TSX under the symbol "CSE.DB.A". The following table sets forth the high and low sales prices per outstanding 2016 Debenture and trading volumes for the outstanding 2016 Debentures on the TSX for the periods indicated:

	Price Per 2016 Debenture		
	High ($)	Low ($)	Trading Volume (#)
2010			
October	111.00	105.00	13,120
November	114.00	107.01	38,810
December	116.03	109.27	20,650
2011			
January	120.50	115.00	60,250
February	123.00	113.56	52,110
March	116.50	108.50	9,130
April	117.40	110.00	7,480
May	116.54	111.76	5,970
June	116.10	111.00	29,250
July	112.00	107.00	7,110
August	108.00	99.05	6,730
September	103.00	100.50	4,420
October (1st to 26th)	102.50	98.00	25,890

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement (the "**Underwriting Agreement**") dated October 27, 2011 between the Corporation and the Underwriters, the Corporation has agreed to sell and the Underwriters have severally agreed to purchase, subject to the terms and conditions contained in the Underwriting Agreement, on November 10, 2011 or on such other date as may be agreed between the Corporation and the Underwriters, but, in any event, not later than November 29, 2011, 12,000,000 Common Shares at a price of $6.25 per share, payable in cash to the Corporation against delivery of such Common Shares. The Underwriting Agreement provides that, in consideration of the services of the Underwriters in connection with the Offering, the Corporation will pay the Underwriters a fee of $0.28125 per Common Share sold as part of the Offering. The obligations of the Underwriters under the Underwriting Agreement are several, and not joint and several, and may be terminated at their discretion on the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the offered securities if any of such offered securities are purchased under the Underwriting Agreement.

The Corporation has agreed to grant the Underwriters the Over-Allotment Option, exercisable in whole or in part at any time until 30 days after the Closing Date, to purchase up to an additional 1,800,000 Common Shares on the same terms as set out above solely to cover over-allotments, if any. If the Over-Allotment Option is exercised in full, the total price to the public, the Underwriters' fee and the net proceeds to the Corporation, before expenses, will be $86,250,000, $3,881,250 and $82,368,750, respectively. This short form prospectus qualifies the grant of the Over-Allotment Option and the issuance of Common Shares on the exercise of the Over-Allotment Option.

The Offering is being made in each of the provinces and territories of Canada. The Common Shares have not and will not be registered under the U.S. Securities Act or any state securities laws and, subject to certain exceptions, may not be offered or sold in the United States. The Underwriters have agreed in the Underwriting Agreement that they will not offer or sell the Common Shares within the United States, its territories, its possessions and other areas subject to its jurisdiction other than through their U.S. broker-dealer affiliates by way of private placement to "qualified institutional buyers" pursuant to Rule 144A of the U.S. Securities Act. This short form prospectus does not constitute an offer to sell or solicitation of an offer to buy any of the Common Shares in the United States. In addition, until 40 days after the commencement of the Offering, any offer or sale of the Common Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an exemption from the registration requirements under the U.S. Securities Act.

The Corporation has agreed to indemnify the Underwriters and their directors, officers and employees against certain liabilities pursuant to the Underwriting Agreement, including liabilities under Canadian securities legislation.

The Corporation has agreed that it will not, directly or indirectly, without the prior written consent of TD, on behalf of the Underwriters, issue, offer, sell, grant any option to purchase or otherwise dispose of (or announce any intention to do so) any Common Shares or securities convertible into or exchangeable for Common Shares (subject to certain exceptions) or enter into any swap transaction in respect of the Common Shares (other than the Offering) for a period commencing on the date of the Underwriting Agreement and ending on the date that is 90 days after the Closing Date.

The Corporation has applied to list the Common Shares to be distributed under this short form prospectus on the TSX. Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSX.

Subscriptions for Common Shares will be received subject to rejection or allotment in whole or in part and the Underwriters reserve the right to close the subscription books at any time without notice.

The terms and offering price of the Common Shares were established by negotiation between the Corporation and the Underwriters with reference to the market price of the Common Shares and other factors. The Underwriters propose to offer the Common Shares initially at the offering price specified on the cover page of this short form prospectus. After the Underwriters have made a reasonable effort to sell all of such securities at the price specified on the cover page, the applicable offering price may be decreased and may be further changed from time to time to an amount not greater than that set out on the cover page, and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by purchasers for the Common Shares is less than the gross proceeds paid by the Underwriters to the Corporation. **The Underwriters may offer the Common Shares at a price lower than that stated above.**

Pursuant to the policy statements of certain securities regulators, the Underwriters may not, throughout the period of distribution, bid for or purchase Common Shares other than pursuant to the Underwriting Agreement. The foregoing restriction is subject to exceptions, including (i) a bid or purchase permitted under Universal Market Integrity Rules administered by the Investment Industry Regulatory Organization of Canada; and (ii) a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution, provided that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Common Shares. The Corporation has been advised that in connection with the Offering and pursuant to the first-mentioned exception, the Underwriters may effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

RELATIONSHIP AMONG THE CORPORATION AND CERTAIN UNDERWRITERS

TD is an affiliate of a Canadian chartered bank which is a lender to certain subsidiaries of the Corporation under the Existing Credit Facility. As at June 30, 2011, $85 million was drawn under the Existing Credit Facility (excluding letters of credit issued under the facility). Borrowings under the Existing Credit Facility are secured by, among other things, unconditional and unlimited guarantees from each of the guarantors thereunder, as more particularly described in the AIF. As at June 30, 2011, the Corporation was in compliance with all debt covenants under the Existing Credit Facility. Except as otherwise disclosed herein, neither the financial position of the Corporation nor the value of the security under the Existing Credit Facility has changed substantially since the indebtedness was incurred. There has been no waiver of a breach of the agreement in respect of the Existing Credit Facility since its execution.

Macquarie is an affiliate of the lender to the Corporation under the Senior Credit Facility and the proceeds from the Offering are to be used to repay a portion of the Senior Credit Facility. See "*Recent Developments — Investment in Bristol Water*". As at the date hereof, $150 million was drawn under the Senior Credit Facility. See "*Use of Proceeds*". To secure amounts owing under the Senior Credit Facility, the following security has been provided: (i) the Corporation has provided a pledge of the shares of MPT Utilities Corp ("**MPTU**"), its wholly owned subsidiary; (ii) MPTU has provided a guarantee and security agreement over all of its present and after acquired property, including the shares of MPT Utilities Europe Ltd. ("**MPT Europe**"), its wholly owned subsidiary; (iii) MPT Europe has provided a guarantee and security agreement over all of its present and after acquired property, including pledges of the shares it owns in each of MPT District Heating Luxembourg SÀRL and CSE Water, and (iv) CSE Water has provided a guarantee and debenture providing for a charge over certain of its present and after acquired property. As at the date hereof, the Corporation was in compliance with all debt covenants under the Senior Credit Facility. Except as otherwise disclosed herein, neither the financial position of the Corporation nor the value of the security under the Senior Credit Facility has changed substantially since the indebtedness was incurred. There has been no waiver of a breach of the agreement in respect of the Senior Credit Facility since its execution. Macquarie is also an affiliate of (i) the manager of Macquarie European International Fund II, the majority owner of the DH Business in which the Corporation has an approximate 33% interest and (ii) the former manager of the Corporation. See "*Recent Developments — Investment in the DH Business*" and "*Recent Developments — Management Internalization*".

Based on the above, under applicable securities laws, the Corporation may be a "connected issuer" of such Underwriters. The terms of the Offering were negotiated at arm's-length between the Underwriters and the Corporation. The Underwriters participated in the drafting of this short form prospectus, the negotiation of the terms and offering price of the Common Shares and the due diligence process in respect of the Offering. TD and Macquarie will not receive any benefit in connection with the Offering other than as described in this short form prospectus.

ELIGIBILITY FOR INVESTMENT

In the opinion of Blake, Cassels & Graydon LLP, counsel to the Corporation, and Torys LLP, counsel to the Underwriters, based on the provisions of the *Income Tax Act* (Canada) and the regulations thereunder (the "**Tax Act**") in force on the date hereof, provided that the Common Shares are listed on a designated stock exchange (which currently includes the TSX), the Common Shares being offered pursuant to this short form prospectus, if issued on the date hereof, would be qualified investments under the Tax Act on the date hereof for trusts governed by registered retirement savings plans ("**RRSPs**"), registered retirement income funds ("**RRIFs**"), deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts ("**TFSAs**").

Provided that the holder of a TFSA or, pursuant to certain proposed amendments to the Tax Act to be effective after March 22, 2011 (the "**RRSP/RRIF Proposals**"), the annuitant under an RRSP or RRIF, does not hold a "significant interest" in the Corporation or any person or partnership that does not deal at arm's length with the Corporation for purposes of the Tax Act, and provided that such holder or annuitant deals at arm's length with the Corporation for purposes of the Tax Act, the Common Shares will not be a prohibited investment for a trust governed by such TFSA or, pursuant to the RRSP/RRIF Proposals, such RRSP or RRIF.

Prospective investors who intend to hold the Common Shares in their TFSA, RRSP or RRIF should consult their own tax advisors.

RISK FACTORS

An investment in Common Shares is subject to a number of risks. Before making an investment decision, investors should carefully consider the risks described below and the risks described in the AIF and the June 2011 Interim MD&A, which are incorporated herein by reference. Prospective purchasers of the Common Shares should carefully consider these risks, the risk factors related to the Common Shares set forth below, as well as the other information contained in and incorporated by reference in this short form prospectus before purchasing or acquiring any Common Shares.

Risks Relating to the Offered Securities

The Corporation's ability to meet its financial obligations is dependent on the value of its underlying businesses and assets

As the Corporation operates as a holding company, the Corporation's ability to pay dividends and other operating expenses and to meet its obligations depends to a significant extent upon receipt of sufficient funds from its principal subsidiaries, the amount of intercompany debt between the Corporation and its subsidiaries, its ability to raise additional capital and the value of its underlying business and assets. Accordingly, the likelihood that holders of the Common Shares will receive dividends will depend to a significant extent upon the financial position and creditworthiness of the principal subsidiaries of the Corporation. Should the value of the underlying assets of the Corporation decrease substantially, the Corporation may not legally be in a position to declare or pay its dividends or upon liquidation, dissolution or winding up of the Corporation.

The declaration of dividends on the Common Shares is at the discretion of the Board of Directors.

Holders of Common Shares do not have a right to dividends on such shares unless declared by the Board of Directors. The declaration of dividends is at the discretion of the Board of Directors even if the Corporation has sufficient funds, net of its liabilities, to pay such dividends.

The Corporation may not, under corporate law, declare or pay a dividend if there are reasonable grounds for believing that the Corporation is, or would after the payment be, unable to pay the its debts as they become due in the ordinary course of its business. Debts of the Corporation will include things such as liabilities arising in the course of its business, indebtedness (including inter-company debt) and amounts, if any, that are owing by the Corporation under guarantees in respect of which a demand for payment has been made. See "*Consolidated Capitalization*".

Risks Relating to the Corporation

Risks relating to credit facilities

The Corporation and its subsidiaries have the following credit agreements in place: the Existing Credit Facilty, the Senior Credit Facility and project-level credit agreements in respect of the Corporation's ESWF and ASP facilities. These credit agreements contain a number of customary financial and other covenants. A failure by any borrower or obligor to comply with its obligations under the applicable credit agreement could result in a default, which, if not cured or waived, could result in the termination of distributions generated by the applicable facility and permit acceleration of the relevant indebtedness, as applicable. If the indebtedness under any of the credit agreements were to be accelerated, there could be no assurance that the assets of the applicable borrower, or the applicable guarantors, would be sufficient to repay that indebtedness in full. There can be no assurance that any of borrowers under any of these credit agreements will generate sufficient cash flow from operations or that future distributions will be available in amounts sufficient to pay outstanding indebtedness or to fund any other liquidity needs.

The Existing Credit Facility matures on June 29, 2012 and the Senior Credit Facility matures on October 4, 2012. There can be no assurance that the Corporation or its subsidiaries will be able to refinance these credit agreements or its other credit agreements or obtain additional financing on commercially reasonable terms, if at all. Borrowings under the Existing Credit Facility may be, and borrowings under the Senior Credit Facility are, at variable rates of interest, which exposes the Corporation to the risk of increased interest rates. This factor may increase the sensitivity of the Corporation's cash flow to interest rate variations.

Risks Relating to Bristol Water and the Water Distribution Business

Revenue of Bristol Water is substantially influenced by the price determinations made by Ofwat

Bristol Water operates in an industry that is substantially influenced by the service levels, regulatory targets and price determinations set by its economic regulator, Ofwat, as well as Ofwat's assessment of its delivery against these.

The price determinations periodically made by Ofwat limit the prices Bristol Water can charge its customers. Under the terms of Bristol Water's Instrument of Appointment, Ofwat is required to review Bristol Water's price limits periodically (currently every five years). Ofwat's determination of price limits may be appealed to the CC. The price limits were last reviewed and reset by Ofwat in 2009 for the five-year period from April 2010 and, following the rejection by Bristol Water, were subsequently amended by the CC. The conditions of Bristol Water's Instrument of Appointment, including any condition relating to the prices Bristol Water can charge its customers, can be modified by Ofwat either with Bristol Water's agreement, or following reference to the CC, on public interest grounds.

Implicit within the most recent price limits set by Ofwat (as amended by the CC) are assumptions concerning Bristol Water's future operating expenditure and the achievement of operating cost savings. If these efficiencies are not achieved this may be reflected in less favourable outcomes in future profitability and cashflows or in Ofwat's future price determinations.

Failure to deliver capital investment programs

The regulated business requires significant capital expenditure, particularly in relation to new and replacement plant and equipment for water distribution networks and treatment facilities. Historically, Bristol Water has financed this capital expenditure from operating cash flows, from external debt, an issue of irredeemable preference shares and retained profits. There can be no assurance that operating cash flows will not decline or that external debt financing and other sources of capital will be available or at similar cost to that assumed by Ofwat, in order to meet future capital expenditure requirements.

Delivery of capital investment programmes could also be affected by a number of factors including adverse legacy effects of earlier capital investments (such as increased maintenance or enhancement costs), failure to adequately deliver specified outputs or amounts funded in regulatory capital investment programs proving insufficient to meet the actual amount required. This may affect Bristol Water's ability to meet regulatory and other environmental performance standards, which may result in fines imposed by Bristol Water's regulators of an amount of up to 10% of its revenue for each infringement or other sanctions.

Failure to deliver water leakage target

Bristol Water is required to meet an annual target for water leakage. If Bristol Water fails to achieve the leakage target by a significant margin in any one year, or by a small margin over a number of years, Ofwat may impose a fine or a reduced revenue allowance at the next price setting review. In addition, if performance were to decline, Bristol Water may incur additional operating or capital expenditure to restore performance.

Ofwat's introduction of the SIM and the serviceability assessment

For the 2010-2015 period, Ofwat has introduced a new comparative incentive mechanism to reward or penalize water companies' service performance, replacing the OPA. The SIM compares companies' performance in terms of the quality of service that is delivered to customers. The SIM comprises both a quantitative measure of complaints and unwanted contacts, and a qualitative measure, based on survey evidence, that looks at how satisfied customers are with the quality of service that they receive. The SIM will be measured over the period 2011/12 to 2013/14. Depending upon Bristol Water's relative performance under the SIM, it could receive a reduced or increased revenue allowance when price limits are next reset in November 2014.

Bristol Water is required to maintain the serviceability of its water assets, ensuring they continue to deliver a level of service and performance at least as good as in the past. Where serviceability falls below required reference levels of performance Ofwat may impose a reduced revenue allowance at the next price-setting review. In addition, if performance were to decline, Bristol Water may incur additional operating or capital expenditure to restore performance.

Economic environment, inflation and capital market conditions

In recent years, the global financial crisis and economic downturn have impacted the bank lending environment, as well as the debt and equity capital markets. This has resulted in financing arrangements available to Bristol Water becoming potentially more expensive and difficult to secure.

A compounding challenge arises from the relationship between the RCV of Bristol Water and the RPI. The RCV is adjusted annually for inflation so, if RPI decreases, the RCV would be adjusted downward to reflect this. This may lead to pressure on leverage and other key financial ratios, which may have an adverse impact on the credit ratings of Bristol Water, and increase the cost or limit the availability of credit. In the extreme, Bristol Water may be required to increase its equity base by either reducing its dividend payments or raising new equity capital. The global economic environment continues to present difficult trading and financing conditions for customers, contractors and suppliers of materials and/or services to Bristol Water.

The movement of the Construction Price Index ("**COPI**") relative to RPI will influence the calculation of RCV at the next price review. If the COPI decreases relative to RPI then the initial RCV at the start of the next regulatory period will be lower, potentially adversely impacting financial leverage. Given the significant investments Bristol Water is set to undertake over the remainder of AMP5, it will have to be mindful of any such movement relative to RPI in the determination of dividends.

Pension plan obligations may require Bristol Water to make additional contributions

Bristol Water operates both defined benefit and defined contribution pension arrangements. Pension arrangements for the majority of Bristol Water's employees are provided through Bristol Water's membership of the Water Companies' Pension Scheme ("**WCPS**"), which provides defined benefits based on final pensionable pay. Bristol Water's pension assets and liabilities are managed within a separate section of WCPS. Bristol Water's section was closed to new employees in 2002. Since that closure all new employees are offered membership of a stakeholder pension plan outside of the WCPS. Estimates of the amount and timing of future funding for Bristol Water's defined benefits plan are based on various actuarial assumptions and other factors including, among other things, the actual and projected market performance of the plan assets, future long-term bond yields, average life expectancies and relevant legal requirements. The impact of these assumptions and other factors may require Bristol Water to make additional contributions to its pension plan which, to the extent they are not recoverable under the regulatory price determination process, could materially adversely affect Bristol Water's results of operations and financial condition.

Legal and regulatory risks

Bristol Water is subject to various laws and regulations in the UK and internationally. Regulatory authorities may, from time to time, make enquiries of companies within their jurisdiction regarding compliance with regulations governing their operations. In addition to regulatory compliance proceedings, Bristol Water could become involved in a range of third party proceedings relating to, for example: land use, environmental protection and water quality. These proceedings may include civil actions by third parties for infringement of rights, nuisance claims or other matters or criminal liability.

Furthermore, the impact of future changes in laws or regulations or the introduction of new laws or regulations that affect the business cannot always be predicted and, from time to time, interpretation of existing laws or regulations may also change or the approach to their enforcement may become more rigorous. The UK Government is currently developing a White Paper which is expected to be published later in 2011 which may result in new legislation, including in relation to water charging, Ofwat and increased competition.

If Bristol Water fails to comply with applicable law or regulations, in particular in relation to its Instrument of Appointment, or has not successfully undertaken corrective action, regulatory action could be taken that could include the imposition of a financial penalty (of up to 10% of relevant revenue for each infringement) or the imposition of an enforcement order requiring Bristol Water to incur additional capital or operating expenditure to remedy its non-compliance. In the most extreme cases, non-compliance may lead to revocation of Bristol Water's Instrument of Appointment or the appointment of an administrator to manage the affairs, business and property of the company.

Special Administration

The WIA contains provisions enabling the Secretary of State of Ofwat (with the permission of the Secretary of State) to secure the general continuity of water supply by petitioning the High Court for the appointment of a Special Administrator in certain circumstances (for example, where Bristol Water is in breach of its principal duties under its Instrument of Appointment or of the provisions of a final or confirmed provisional enforcement order (and in either case the breach is serious enough to make it inappropriate for Bristol Water to continue to hold its Instrument of Appointment or of the provisions of a final or confirmed provisional enforcement order or is unable, or is unlikely to be able, to pay its debts). In addition, a petition by a creditor of Bristol Water to the High Court for the winding-up of Bristol Water might result in the appointment of a Special Administrator where the court is satisfied that it would be appropriate to make such a winding-up order if the company were not a company holding an appointment under the WIA. The duties and functions of a Special Administrator differ in certain important respects to those of an administrator of a company which is not a Regulated Company.

During the period of the Special Administration Order, Bristol Water would be managed by the Special Administrator for the purposes of the order and in a manner protecting the interest of shareholders and creditors. As noted above, while an order is in force, no steps may be taken to enforce any security over the property of Bristol Water except with the consent of the Special Administrator or the leave of the court. A Special Administrator would be able to dispose of assets free of any floating charge existing in relation to them. On such a disposal, however, the proceeds would be treated as if subject to a floating charge which has the same priority as that afforded to the original security. A Special Administrator may not dispose of property which is the subject of fixed charge without the agreement of the relevant creditor except under an order of the court. On such a disposal, the Special Administrator must account for the proceeds to the chargee, although the disposal proceeds to which the chargee is entitled are determined by reference to "the best price which is reasonably available on a sale which is consistent with the purposes of the Special Administration Order" as opposed to an amount not less than "open market value", which would apply in a conventional administration for a company which is not a Regulated Company under English insolvency legislation.

Due to the statutory purposes of a Special Administration Order, it is not open to a Special Administrator to accept an offer to purchase the assets on a break-up basis in circumstances where the purchaser would be unable properly to carry out the relevant functions of a Regulated Company. Where the Special Administrator determines that the business of the Regulated Company should be transferred to one or more different companies as a going concern, the transfer is effected by a transfer scheme which the Special Administrator puts in place, subject to the approval of the Secretary of State of Ofwat on behalf of the existing Regulated Company. The transfer scheme may provide for the transfer of the property, rights and liabilities of the existing Regulated Company to the new Regulated Company(ies) and may also provide for the transfer of the existing Regulated Company's Instrument of Appointment (with modifications as set out in the transfer scheme) to the new Regulated Company(ies).

Foreign exchange risk

Through its investment in Bristol Water, the Corporation is exposed to foreign exchange risk through exchange rate movements attributable to future cash flows (transaction exposure) and in the revaluation of net assets in foreign subsidiaries (translation or balance sheet exposure) as the revenue generated by Bristol Water is denominated in pound sterling. As a result, fluctuations in the Canadian dollar and the pound sterling could materially affect the performance of the Corporation's investment in Bristol Water. The Corporation's foreign exchange hedging policy focuses on reducing foreign exchange risk by selecting an appropriate hedging strategy which accounts for hedging costs and tax implications. However, the Corporation could be exposed to losses which could occur under various circumstances in the event that it enters into imperfect hedging arrangements.

Operational risks

Bristol Water controls and operates a water network and maintains the associated assets with the objective of providing a continuous service. In exceptional circumstances, a significant interruption of service provision or catastrophic damage could occur resulting in: significant loss of life; and/or environmental damage; and/or economic and social disruption. Such circumstances might arise, for example, from energy shortages; the failure of an asset or an element of a network or supporting plant and equipment; human error; unavailability of access to critical sites or key staff; malicious intervention; failure by a supplier; labour disputes; pollution or contamination; or naturally occurring events.

Bristol Water could be fined for breaches of statutory obligations or held liable to third parties, or be required to provide an alternative water supply of equivalent quality, which could increase costs. Insurance coverage may be inadequate or unobtainable.

Bristol Water is also dependent upon the ability to access, utilize and communicate remotely via electronic software applications mounted upon corporate information technology hardware and communicating through internal and external networks. The ownership, maintenance and recovery of such applications, hardware and networks are not wholly under Bristol Water's control.

Management has limited control over future energy or chemical costs, abstraction charges, levels of customer bad debt or taxes. Changes in these costs from the current position could materially affect Bristol Water's future profitability or financial position.

Since 2000 domestic customers cannot be disconnected from their supply for failure to pay their bill. This adds to debt collection costs and bad debt write offs. An allowance for bad debts is included when Ofwat sets price limits.

As with other UK water companies, Bristol Water is dependent upon suitable weather conditions supplying raw water as inflow for its abstraction points and it has a drought contingency plan in place should there be a lack of such rainfall.

Risk of increased competition

If the Cave Review recommendations are implemented, they could eventually expand the competitive market allowing retail competition to all non-household customers as an initial step in opening markets to competition. The Cave Review also proposed that the retail divisions of Regulated Companies should be made legally independent from the remainder of their regulated businesses, and included recommendations for reform in respect of abstraction and discharge, upstream activities and water industry structure. The UK Government has stated that its proposed White Paper will set out its conclusions on the Cave Review and other potential developments in the water sector. Ofwat and the UK Environment Agency are considering the introduction of reforms to the regulation of water abstraction licences that would allow trading of licences. Ofwat is also examining the scope for upstream competition in treated water supply and has recently consulted on future price limits (although this was predicated on accounting rather than structural or legal separation).

Ofwat has taken steps to introduce competition into the water supply market through inset appointments and the water supply licensing regime. Prior to 2007 (with one exception), inset appointees had all been granted to existing Regulated Companies. Since 2007, Ofwat has granted more inset appointments, none of which are within Bristol Water's water supply area. Further inset appointments may be made in the future, resulting in increased competition.

In addition, Ofwat or the UK Government may take steps that lead to other changes in the structure of the water industry with potentially adverse consequences to the financial position of Bristol Water.

Reliance on key personnel

Bristol Water's success depends heavily on its ability to attract, retain and motivate key employees, including senior management. If Bristol Water loses the services of any of its key executives and cannot replace them in a timely manner, its business and prospects may be adversely affected. The loss of the technical knowledge, management expertise and knowledge of operations of one or more members of the Bristol Water senior management team could result in a diversion of management resources, as the remaining members of management would need to cover the duties of any departed executive officer and would need to spend time usually reserved for managing the business to search for, hire and train new members of management. The loss of some or all of the Bristol Water's executives could negatively affect its ability to develop and pursue its business strategy which could materially and adversely affect Bristol Water's business, operating results, financial condition and cash flow.

Default under Bristol Water's Artesian loans, bonds, debentures and credit facility

A portion of Bristol Water's cash flow is devoted to servicing its debt and there can be no assurance that Bristol Water will continue to generate sufficient cash flow from operations to meet the required interest and principal payments on its Artesian loans, bonds, debentures or drawings under its credit facility. If Bristol Water were unable to meet such interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. If this were to occur, it could have an impact upon the business, operating results and financial condition of Bristol Water which could adversely affect the Corporation's results and its ability to pay dividends on its Common Shares. As well, the Artesian loans, bonds, debentures and Bristol Water's credit facility contain a number of customary financial and other covenants and a failure by Bristol Water to comply with its obligations under these instruments could result in a default, which, if not cured or waived, could result in the termination of dividends by Bristol Water and permit acceleration of the relevant indebtedness and a possible sale of Bristol Water by its lenders pursuant to their security rights in relation to the Artesian loans and/or bonds. Such a default could have an impact upon the business, operating results and financial condition of Bristol Water, which could adversely affect the Corporation's results and its ability to pay dividends on its Common Shares.

Geographic concentration

Bristol Water's operations are all located in the Bristol area of the UK. If the Bristol market was to generally experience a severe decline in financial performance as a result of changes in local or regional economic conditions or an adverse change to the regulatory environment, the market value of Bristol Water, the income generated from its operations and the overall financial performance of the Corporation could be negatively affected.

Seasonality

Although there is little seasonal variation in demand, the proportion of water used from each type of Bristol Water's sources of water varies on a daily and seasonal basis according to the availability of water, the relative costs and other operational constraints, and the quantity of treated water supplies fluctuates owing to a variety of seasonal factors, such as dry weather and burst pipes due to freeze/thaw cycles affecting the ground during winter months.

Assumption of Liabilities

In connection with the acquisition of Bristol Water, there may be liabilities that the Corporation did not discover, or did not appropriately quantify, during the due diligence process which occurred prior to the closing of the transaction. As a result, the Corporation may not be fully indemnified for some or all of these liabilities. Any such liabilities could materially and adversely affect Bristol Water's financial performance and future prospects.

INTERESTS OF EXPERTS

The matters referred to under "*Eligibility for Investment*", as well as certain other legal matters relating to the issue and sale of the Common Shares, will be passed upon on behalf of the Corporation by Blake, Cassels & Graydon LLP and on behalf of the Underwriters by Torys LLP. As at the date of this short form prospectus, the partners and associates of Blake, Cassels & Graydon LLP, as a group, and the partners and associates of Torys LLP, as a group, each beneficially own, directly or indirectly, less than 1% of the outstanding securities of each of the Corporation, its affiliates and its associates.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Shares is Computershare Trust Company of Canada at its principal office located in Montreal, Quebec.

AUDITORS

The auditor of the Corporation is PricewaterhouseCoopers LLP, Chartered Accountants, Toronto, Ontario, who has advised the Corporation that it is independent of the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

PURCHASER'S STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENTS

Consent of PricewaterhouseCoopers LLP

We have read the short form prospectus of Capstone Infrastructure Corporation (the "**Corporation**") dated October 27, 2011 relating to the issue and sale of 12,000,000 common shares of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use, through incorporation by reference in the above-mentioned short form prospectus, of our report to the shareholders of Macquarie Power and Infrastructure Corporation (formerly Macquarie Power & Infrastructure Income Fund) on the consolidated statements of financial position of Macquarie Power and Infrastructure Corporation (formerly Macquarie Power & Infrastructure Income Fund) as at December 31, 2010 and 2009 and the consolidated statements of operations, comprehensive income, unitholders' equity and cash flows for the years then ended. Our report is dated March 10, 2011.

Toronto, Ontario	(Signed) ●
● , 2011	Chartered Accountants, Licensed Public Accountants

Consent of Ernst & Young LLP

We have read the short form prospectus of Capstone Infrastructure Corporation (the "**Corporation**") dated October 27, 2011 relating to the issue and sale of 12,000,000 common shares of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the inclusion in the above-mentioned short form prospectus of our report to the members of Bristol Water plc on the statement of financial position of Bristol Water plc as at March 31, 2011 and April 1, 2009 and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended March 31, 2011. Our report is dated October 24, 2011.

Bristol, United Kingdom	(Signed) ●
● , 2011	Chartered Accountants

FINANCIAL STATEMENTS

Index

BRISTOL WATER plc

Non-statutory Financial Statements
for the year ended 31 March 2011

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

At 31 March 2011 Bristol Water plc was an immediate member of the Agbar group, which provides water services to approximately 26 million people worldwide, and was ultimately a member of the Suez Environnement group, which provides water services to approximately 91 million, and wastewater treatment services to 61 million people worldwide.

On 5 October 2011, CSE Water UK Limited, the UK subsidiary of Capstone Infrastructure Corporation, a Canadian infrastructure company, purchased 70% of the equity of Agbar UK Limited (the then ultimate UK parent company of Bristol Water plc) from Agbar.

On 19 October 2011, Agbar UK Limited, the former UK ultimate parent company, changed its name to Bristol Water Holdings UK Limited.

Basis of Preparation

These non-statutory financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

For all periods up to and including the year ended 31 March 2011, the company has prepared its statutory financial statements in accordance with UK GAAP, which remains its basis of accounting. For the purpose of these non-statutory financial statements, the company has adopted IFRS with a transition date of 1 April 2009, and has re-presented the non-statutory financial statements on an IFRS basis. Note 28 includes details on how the company has adopted IFRS for the purposes of preparing these non-statutory financial statements.

These non-statutory financial statements are not the statutory accounts of the company. The company's statutory accounts for the years ended 31 March 2010 and 2011 have already been filed with Companies House and an auditor's report was given for both such accounts on an unqualified basis.

In preparing these non-statutory financial statements, the company has applied IAS19 and IFRIC14 in respect of pensions accounting. The standard and interpretation respectively, result in the recognition of a surplus on the balance sheet totalling £26.7 million (2010: £8.8 million), and a gross actuarial gain of £17.8 million (2010: £9.2 million loss) in the Statement of Comprehensive Income. These amounts are the result of the technical application of both IAS19 and IFRIC 14.

The winding-up provisions in the pension scheme rules provide that any surplus on winding-up is first allocated to the augmentation of members benefits. A surplus remaining following augmentation may be paid over to the company at the trustee's discretion following consultation with pension scheme members.

In contrast to the result arising on the application of IFRS, on a scheme funding basis, the Bristol Water plc section of the scheme is expected to register a £2.9 million deficit at 31 March 2011. In addition, on a buyout basis, the scheme is estimated to cost £25.3 million at 31 March 2011. The triennial review at 31 March 2011 is ongoing and therefore both positions remain subject to final review.

BRISTOL WATER plc

INCOME STATEMENT

for the year ended 31 March 2011

	Note	2011 £m	2010 £m (unaudited)
Revenue	3	**100.7**	99.7
Operating costs	4	**(68.5)**	(68.4)
Operating profit		**32.2**	31.3
Financing costs			
Finance income	5	**4.2**	4.1
Finance costs	5	**(15.2)**	(9.1)
Profit before taxation		**21.2**	26.3
Taxation	6	**(2.0)**	(7.6)
Profit for the year		**19.2**	18.7
Basic earnings per ordinary share	7	**320p**	312p

All activities above relate to continuing operations.

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

BRISTOL WATER plc

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2011

	Note	2011 £m	2010 £m (unaudited)
Profit for the year		**19.2**	18.7
Other comprehensive income			
Actuarial gains/(losses) recognised in respect of retirement benefit obligations	**23**	**17.8**	(9.2)
Attributable deferred taxation in respect of actuarial gains/(losses)	**19**	**(4.6)**	2.5
Change in the fair value of the interest rate swap	**18**	**0.1**	0.1
Total other comprehensive income/(expense)		**13.3**	(6.6)
Total comprehensive income for the year		**32.5**	12.1

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

BRISTOL WATER plc

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2011	Share capital	Share premium account	Other reserves: Capital redemption reserve	Other reserves: Hedging reserve	Retained earnings	Total 2011
	£m	£m	£m	£m	£m	**£m**
At 1 April 2010	6.0	4.4	5.8	(0.7)	82.1	**97.6**
Profit for the year	—	—	—	—	19.2	**19.2**
Other comprehensive income						
Actuarial gains recognised in respect of retirement benefit obligations	—	—	—	—	17.8	**17.8**
Attributable deferred taxation in respect of actuarial gains	—	—	—	—	(4.6)	**(4.6)**
Change in the fair value of the interest rate swap	—	—	—	0.1	—	**0.1**
Total other comprehensive income	—	—	—	0.1	13.2	**13.3**
Total comprehensive income	—	—	—	0.1	32.4	**32.5**
Equity dividends	—	—	—	—	(2.9)	**(2.9)**
At 31 March 2011	6.0	4.4	5.8	(0.6)	111.6	**127.2**

for the year ended 31 March 2010	Share capital	Share premium account	Other reserves: Capital redemption reserve	Other reserves: Hedging reserve	Retained earnings	Total 2010
	£m	£m	£m	£m	£m	**£m (unaudited)**
At 1 April 2009	6.0	4.4	5.8	(0.8)	80.3	**95.7**
Profit for the year	—	—	—	—	18.7	**18.7**
Other comprehensive income/(expense)						
Actuarial losses recognised in respect of retirement benefit obligations	—	—	—	—	(9.2)	**(9.2)**
Attributable deferred taxation in respect of actuarial losses	—	—	—	—	2.5	**2.5**
Change in the fair value of the interest rate swap	—	—	—	0.1	—	**0.1**
Total other comprehensive income/(expense)	—	—	—	0.1	(6.7)	**(6.6)**
Total comprehensive income	—	—	—	0.1	12.0	**12.1**
Equity dividends	—	—	—	—	(10.2)	**(10.2)**
At 31 March 2010	6.0	4.4	5.8	(0.7)	82.1	**97.6**

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

BRISTOL WATER plc

BALANCE SHEET

at 31 March 2011

	Note	2011	2010	2009
		£m	£m (unaudited)	£m (unaudited)
Non-current assets				
Property, plant and equipment	**8**	**293.0**	285.1	279.2
Intangible assets	**9**	**2.6**	3.2	3.1
Retirement benefit surplus	**23**	**26.7**	8.8	17.6
Amounts receivable from parent undertaking	**10**	**68.5**	68.5	68.5
		390.8	365.6	368.4
Current assets				
Inventories	**12**	**1.1**	1.0	1.1
Trade and other receivables	**13**	**22.3**	23.1	21.6
Cash and cash equivalents	**14**	**18.9**	26.8	20.6
Short-term deposits	**11**	**60.8**	—	—
		103.1	50.9	43.3
Current liabilities				
Interest bearing loans and borrowings	**16**	**(2.8)**	(2.5)	(2.2)
Trade and other payables	**15**	**(25.3)**	(28.8)	(25.2)
		(28.1)	(31.3)	(27.4)
Net current assets		**75.0**	19.6	15.9
Non-current liabilities				
Trade and other payables	**15**	**(7.0)**	(3.2)	—
Interest bearing loans and borrowings	**16**	**(268.8)**	(227.2)	(231.5)
Other financial laibilities	**18**	**(1.0)**	(1.1)	(1.2)
Deferred tax liabilities	**19**	**(61.8)**	(56.1)	(55.9)
Net assets		**127.2**	97.6	95.7
Shareholders' equity				
Called-up share capital	**20**	**6.0**	6.0	6.0
Share premium account		**4.4**	4.4	4.4
Retained earnings		**111.6**	82.1	80.3
Other reserves		**5.2**	5.1	5.0
Total shareholders' equity		**127.2**	97.6	95.7

L García, Director

M Anglada, Director

21 October 2011

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

BRISTOL WATER plc

CASH FLOW STATEMENT

for the year ended 31 March 2011

	Note	2011 £m	2010 £m (unaudited)
Cash flow from operating activities			
Cash generated from operations	24(a)	**44.2**	42.9
Interest paid on term loans and debentures		**(8.6)**	(8.3)
Interest paid on finance leases		**(0.3)**	(0.9)
Dividends paid on 8.75% irredeemable cumulative preference shares		**(1.1)**	(1.1)
Tax paid		**(4.0)**	(2.8)
Contributions under IFRIC18		**3.8**	3.2
Net cash generated from operating activities		**34.0**	33.0
Cash flow from investing activities			
Finance income		**4.2**	4.2
Purchase of property, plant and equipment and intangible assets		**(19.6)**	(19.5)
Contributions received		**—**	0.7
Proceeds from sale of property, plant and equipment		**0.2**	0.2
Increase in short term deposits	11	**(60.8)**	—
Net cash used in investing activities		**(76.0)**	(14.4)
Cash flow from financing activities			
Dividends paid to equity shareholders	21	**(2.9)**	(10.2)
New term loan		**39.5**	—
Loan repayment		**(2.5)**	(2.2)
Net cash generated from/(used in) financial activities		**34.1**	(12.4)
Net (decrease)/increase in cash and cash equivalents	24(b)	**(7.9)**	6.2
Cash and cash equivalents at beginning of the year	14	**26.8**	20.6
Cash and cash equivalents at end of the year	14	**18.9**	26.8

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

1. PRINCIPAL ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2011

The principal accounting policies adopted in the preparation of these non-statutory financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

These non-statutory financial statements were authorised by the Board on 21 October 2011.

(a) Basis of preparation

These non-statutory financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

For all periods up to and including the year ended 31 March 2011, the company has prepared its statutory financial statements in accordance with UK GAAP, which remains its basis of accounting. For the purpose of these non-statutory financial statements, the company has adopted IFRS with a transition date of 1 April 2009, and has re-presented the non-statutory financial statements on an IFRS basis. Note 28 includes details on how the company has adopted IFRS for the purposes of preparing these non-statutory financial statements.

These non-statutory financial statements are not the statutory accounts of the company. The company' s statutory accounts for the years ended 31 March 2010 and 2011 have already been filed with Companies House and an auditor's report was given for both such accounts on an unqualified basis.

These non-statutory financial statements represent the results of the company as a single entity.

Statement of compliance with IFRS

These non-statutory financial statements have been prepared under the historical cost accounting basis (except for derivative financial instruments and retirement benefits that have been measured at fair value) and in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretation Committee (IFRIC) interpretations, as adopted by the IASB.

The non-statutory financial statements have been prepared in sterling and all values are rounded to the nearest (£100,000) except where otherwise stated.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best assessment of the amounts, events or actions, actual results ultimately may differ from those estimates. Details of critical accounting judgements and estimates are set out in note 2.

The going concern basis has been adopted for preparing the non-statutory financial statements as stated below in note (b).

Standards not yet adopted

At the date of approval of these non-statutory financial statements the following statements and interpretations, which have not been applied in these non-statutory financial statements, were in issue but not yet effective:

IFRS 1 — 'First time adoption of IFRS' (amendment) (hyperinflation exemptions and fixed date for IFRS transition): effective for periods beginning on or after 1 July 2011.

IFRS 1 — 'First time adoption of IFRS' (amendment) (limit exemption from IFRS 7 disclosures): effective for periods beginning on or after 1 July 2010.

IFRS 7 — 'Financial instruments: disclosure on derecognition' (amendment): effective for periods beginning on or after 1 July 2011.

IFRS 9 — 'Financial instruments': effective for periods beginning on or after 1 January 2013.

IFRS 10 — 'Consolidated financial statements': effective for periods beginning on or after 1 January 2013.

IFRS 11 — 'Joint arrangements': effective for periods beginning on or after 1 January 2013.

IFRS 12 — 'Disclosure of interests in other entities': effective for periods beginning on or after 1 January 2013.

IFRS 13 — 'Fair value measurement': effective for periods beginning on or after 1 January 2013.

Improvements to IFRS 2010 (effective on various dates).

1. PRINCIPAL ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

IAS 12 — 'Income taxes' (amendment): effective for periods beginning on or after 1 January 2012.

IAS 24 — 'Related party disclosures' (revised): effective for periods beginning on or after 1 January 2011.

IAS 27 — 'Separate financial statements' (revised): effective for periods beginning on or after 1 January 2013.

IAS 28 — 'Investments in associates and joint ventures' (revised): effective for periods beginning on or after 1 January 2013.

IFRIC 14 — 'Prepayments of a minimum funding requirement' (amendment): effective for periods beginning on or after 1 January 2011.

IFRIC 19 — 'Extinguishing financial liabilities with equity instruments': effective for periods beginning on or after 1 July 2010.

The presentational impact of these standards and interpretations is currently being assessed.

(b) Going concern

In assessing the going concern basis, the directors have considered the cash flow and financial ratios projections of the company for the foreseeable future which show that the company is fully funded to meet its committed obligations as disclosed in Note 22.

The key risks to the company are regulatory requirements and developments, operational events and performance problems. The company is well placed to face the near future, with cash and cash equivalents and short-term investments of £79.7 million and the £30.0 million unutilised committed borrowing facility.

The company is not immune from the financial market uncertainties in the medium term, which have the potential to impact its ability to obtain appropriate financing to deliver the current and future capital programmes.

The directors report that, after making enquiries, they have concluded that the company has adequate resources or the reasonable expectation of raising further resources as required, to continue in operation for the foreseeable future.

Accordingly, they continue to adopt the going concern basis in preparing the accounts.

(c) Revenue recognition

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

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

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Board of Directors that make strategic decisions.

(e) Property, plant and equipment

Property, plant and equipment 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. For accounting purposes, the water system is segmented into components representing categories of asset classes with similar characteristics and asset lives. Expenditure on such assets relating to increases in capacity, enhancements or planned maintenance of the network is treated as an addition to property, plant and equipment and is included at cost. Other expenditure is charged as an operating cost as incurred. 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, plant and equipment, (operational structures, fixed and mobile plant, equipment and motor vehicles) and are included at cost. The cost of other assets is their purchase cost together with incidental expenses of acquisition and any directly attributable labour costs which are incremental to the company.

1. PRINCIPAL ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

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 ready to use.

The depreciation charge of infrastructure assets is determined for each component of the network and is based on each component's cost, estimated residual value and the expected remaining average useful life. The useful average economic lives of the infrastructure components range principally from 70 to 213 years.

Plant and equipment is 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 until commissioned.

Asset lives and residual values are reviewed annually and where adjustments are required, these are made prospectively.

Gains or losses on disposals are determined by comparing the proceeds of sale with the carrying amount and are recognised within the income statement.

Impairment

The values of property, plant and equipment are reviewed regularly to determine whether their carrying amounts exceed their value in use. Where such an excess is believed to exist it is treated as an impairment loss immediately and charged to the income statement.

(f) Intangible assets

Intangible assets, which comprise principally computer software and system developments, are included at cost less accumulated amortisation. Cost reflects purchase price together with any expenditure directly attributable to bringing the asset into use, including directly attributable internal costs. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when the relevant recognition criteria are met (as per IAS36). The carrying values of intangible assets are reviewed for impairment if circumstances dictate the carrying value may not be recovered. Intangible assets are amortised on a straight line basis over their estimated useful economic lives, which range between 3 and 7 years. These asset lives are reviewed annually.

(g) Grants and contributions

Grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Grants and contributions in respect of expenditure charged to the income statement are netted against such expenditure as received.

(h) 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 corresponding liability is recorded as borrowings. 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 income statement.

Operating lease rental payments are charged to the income statement on a straight line basis as incurred over the term of the lease.

(i) Pension costs

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

1. PRINCIPAL ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

Costs of defined contribution pension schemes are charged to the income statement in the period in which they fall due. Administration costs of defined contribution schemes are borne by the company.

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

The net asset or liability recognised in the balance sheet represents the present value of the defined benefit obligation less the fair value of the plan's assets. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are recognised in full in the period in which they occur in the Statement of Comprehensive Income.

Past service costs are recognised in income statement on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement or a curtailment occurs the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the income statement. Losses are measured at the date that the company becomes demonstrably committed to the transaction and gains when all parties whose consent is required are irrevocably committed to the transaction.

In July 2010, the government announced that it would in future use the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) as the basis for determining the statutory minimum percentage increase for revaluation and indexation in the Pension Increase (Review) Order. As further explained in note 23, commencing 31 March 2011 the CPI basis has been used for the calculation of pension scheme related amounts in respect of the future pension increases. The actuarial gain relating to this charge is recognised in other comprehensive income.

(j) Investments and other financial assets

Investments and other financial assets are initially recorded at the fair value of the consideration given including the acquisition charges associated with the investment. Subsequent to initial recognition, they are valued at amortised cost less impairment.

Other financial assets include cash term deposits which have a maturity greater than three months from the date of acquisition. These are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non current assets. Those deposits with a maturity of less than three months are included in cash and cash equivalents (see (m) below).

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all rights and rewards of ownership.

(k) Taxation

Current Tax

The tax expense for the period comprises current and deferred tax. The tax charge for the year is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date.

Deferred Tax

Deferred tax is provided using the liability method on temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements with the exception of those temporary differences arising from the initial recognition of an asset or liability that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. A deferred tax asset is only recognised to the extent it is probable that sufficient taxable profits will be available in the future for it to be utilised. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income and was levied by the same taxation authority on either the same taxable entity or different taxable entities where the intention to settle the balances on a net basis.

1. PRINCIPAL ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

(l) Dividend distributions

Dividends 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.

(m) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition and typically include cash in hand and deposits with banks, less any overdrafts.

(n) Inventories

Inventories are valued at the lower of purchase cost (calculated on a first in first out basis) 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.

(o) Provisions

A provision is recognised when the company has a legal or constructive obligation as a result of past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of the time value of money is material the provisions are discounted.

(p) Exceptional items

Exceptional items are those significant items which are disclosed separately by virtue of their size and/or nature to enable a full understanding of the company's financial performance.

(q) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. They are first assessed individually for impairment, or collectively where the receivables are not individually significant. Where there is no objective evidence of impairment for an individual receivable, it is included in a group of receivables with similar credit risk characteristics and these are assessed collectively for impairment based on their ageing. Movements in the provision for impairment are recorded in the income statement.

(r) Financial liabilities

Borrowings

Debt is initially measured at fair value, which is the amount of the net proceeds after deduction of directly attributable issue costs, with subsequent measurement at amortised cost. Debt issue costs are recognised in the income statement over the expected term of such instruments at a constant rate on the carrying amount.

The carrying amount of index linked borrowings increases annually in line with the RPI, with the acretion being charged to the income statements as finance costs payable. The effective interest rate method is used to amortise issue costs.

Trade payables are obligations to pay for goods/services acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year, or in the normal operating cycle of the business if longer. If not, they are presented as non-current liabilities.

Derivative financial instruments

The company uses derivative financial instruments, principally interest rate swaps, to hedge some of its risks associated with interest rate fluctuations. Such derivative instruments are initially recorded at cost and subsequently re-measured at fair value for the reported balance sheet.

The gain or loss on re-measurement is taken to the income statement except for cash flow hedges that meet the conditions for hedge accounting, when the portion of the gain or loss on the hedging instrument which is determined to be an effective hedge is recognised directly in other comprehensive income, and the ineffective portion in the income statement. The gains or losses

1. PRINCIPAL ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

deferred in other comprehensive income in this way are subsequently recognised in the income statement in the same period in which the hedged underlying transaction or firm commitment is recognised in the income statement.

In order to qualify for hedge accounting, the company is required to document in advance the relationship between the item being hedged and the hedging instrument. The company is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an on going basis. This effectiveness testing is re-performed at the end of each reporting period to ensure that the hedge remains highly effective.

The full value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Derivative instruments that do not qualify for hedge accounting are classified as a current asset or liability with any change in fair value recognised immediately in the income statement.

(s) Fair values

The fair value of the interest rate swaps is based on the market price of comparable instruments at the balance sheet date if they are publicly traded.

The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values. In the case of bank loans (other than variable rate loans due in more than one year) the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the company for similar financial instruments.

(t) Transfers of assets from customers

Where an item of property, plant and equipment that must be used to connect customers to the network is received from a customer, or where cash is received from a customer for the acquisition or construction of such an item, that asset is recorded and measured on initial recognition at its fair value in accordance with IFRIC 18. The period over which the credit is recognised depends upon the nature of the service provided by the Company as determined by the agreement with the customer. If the agreement does not specify a period, the revenue is treated as deferred income and recognised over a period no longer than the useful life of the transferred asset used to provide the ongoing service.

2a CRITICAL ESTIMATES AND ASSUMPTIONS

The preparation of financial statements which conform to IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Provision for impairment of trade receivables

Individual impairment losses on customer debts are calculated based on an individual assessment of the cash flows that are expected. Collective impairment losses on receivables with similar credit risk are calculated using a statistical model. The key assumption in the model is the probability of a failure to recover amounts when they fall into arrears. The probability of failing to recover is determined by past experience, adjusted for changes in external factors. The accuracy of the impairment calculation would therefore be affected by unexpected changes to the economic situation, and to changes in customer behaviour. To the extent that the failure to recover debts in arrears alters by 5%, the provision for impairment would increase or decrease by £0.5 million.

Pension benefits

The present value of the pension obligations is dependent on the actuarial calculation, which includes a number of assumptions. These assumptions include the discount rate, which is used to calculate the present value of the estimated future cash outflows that will be required to meet the pension obligations. In determining the discount rate to use, the company considers market yields of high quality corporate bonds, denominated in sterling, that have times to maturity approximating the terms of the pension liability. Were this discount rate to reduce or increase by 0.1%, the carrying value of the pension obligations as at 31 March 2011 would increase or reduce by £1.8 million (2010: £2.0 million).

2a CRITICAL ESTIMATES AND ASSUMPTIONS (Continued)

Revenue recognition — Measured income accrual

Revenue includes an accrual for unbilled charges at the year-end. The accrual is estimated using a defined methodology based upon the weighted average water consumption by tariff, which is calculated using historical billing information adjusted for changes in external factors, such as weather. A 5% change in actual consumption from that estimated would have the effect of increasing or decreasing the accrual by £0.4 million (2010: £0.4 million).

Carrying value of long-life assets

Estimated useful lives of property, plant and equipment are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of capital investment to the Company, variations between actual and estimated useful lives could impact operating results both positively and negatively. Historically, only minor changes to estimated useful lives have been required.

2b CRITICAL ACCOUNTING JUDGEMENTS

Management has not made significant judgements in their application of the stated accounting policies.

3. SEGMENTAL AND GENERAL INFORMATION

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

The directors consider that there is only one segment, being the operation of the water supply business in the UK. As the company has only UK based activities there is also only one geographical segment: therefore the disclosure for this segment has already been given in these non-statutory financial statements.

It is noted that in making these decisions the Board reviews the accounts prepared in accordance with UK GAAP. A reconciliation from UK GAAP to IFRS is provided in note 28.

The company is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in the UK. The address of its registered office is PO Box 218, Bridgwater Road, Bristol, BS99 7AU.

4. OPERATING EXPENSES — ANALYSIS BY NATURE

Operating expenses comprise —

	2011	2010
	£m	£m (unaudited)
Wages, salaries and severance costs	**14.1**	13.8
Social security costs	**1.2**	1.1
Defined benefit scheme pension costs (note 23(b))	**2.1**	1.6
Total payroll expense	**17.4**	16.5
Less capitalised as property, plant and equipment	**(5.1)**	(4.9)
Net employee expense	**12.3**	11.6
Other operating expenses		
Research and development expenditure	**0.1**	0.1
Auditors' remuneration	**0.1**	0.1
Trade receivables impairment (note 13)	**3.3**	3.7
Raw materials, consumables and other charges less recoveries	**39.4**	40.4
Profit on sale of property, plant and equipment	**—**	(0.2)
Total other operating costs	**42.9**	44.1
Depreciation of property, plant and equipment and intangible assets (notes 8 & 9)		
— owned assets	**10.5**	11.4
— under finance leases	**1.1**	1.3
Depreciation	**11.6**	12.7
Exceptional costs relating to appeal to Competition Commission	**1.7**	—
Total operating costs	**68.5**	68.4

5. NET FINANCING COSTS

	2011	2010
	£m	£m (unaudited)
Finance Costs		
Other net interest payable and similar charges relate to:		
Bank borrowings	**1.0**	1.1
Term loans and debentures		
—interest charges	**7.5**	7.3
—indexation and amortisation of fees and premium on loans	**4.9**	(1.8)
Finance leases	**0.3**	0.6
	13.7	7.2
Dividends on 8.75% irredeemable cumulative preference shares	**1.1**	1.1
Net Interest charge in respect of retirement benefit scheme (Note 23b)	**0.4**	0.8
Total finance costs	**15.2**	9.1
Finance income		
Interest receivable and similar income		
Loan to Agbar UK Ltd* — interest receivable	**(4.0)**	(4.0)
Other external investments and deposits	**(0.2)**	(0.1)
Total Finance Income	**(4.2)**	(4.1)
Net financing costs	**11.0**	5.0

* renamed Bristol Water Holdings UK Limited (see note 27)

5. NET FINANCING COSTS (Continued)

Dividends on the 8.75% irredeemable cumulative preference shares are payable at a fixed rate of 4.375% by 1 April and 1 October each year. Payment by the company to the share registrars is made two business days earlier. The payments are classified as interest in accordance with IAS 39.

6. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of charge for the year, all arising in the United Kingdom:

	2011	2010
	£m	£m (unaudited)
Current tax:		
Corporation tax at 28% (2010: 28%)	**1.0**	4.9
Adjustment to prior periods	**(0.1)**	—
	0.9	4.9
Deferred tax:		
Current year movement at 26% (2010: 28%)	**5.0**	2.7
Effect of corporation tax rate change	**(4.0)**	—
Adjustment to prior periods	**0.1**	—
	1.1	2.7
Tax on profit on ordinary activities	**2.0**	7.6

The charge for corporation tax includes amounts for group relief surrendered by other group companies. Group relief is charged at the mainstream corporation tax rate in the applicable year.

The government has announced progressive reductions in the corporation tax rate between 1 April 2011 and 1 April 2014.

The 2011 Budget announced that the rate would decrease from 26% on 1 April 2011 to 23% on 1 April 2014. The effect of corporation tax rate changes included within the deferred tax calculation for the year ended 31 March 2011 is restricted to the corporation tax rate reductions that were substantially enacted at 31 March 2011. Consequently the deferred tax is calculated based on the future tax rate of 26%. The beneficial effect of this change is £4.0 million. The tax rate reductions that were announced but are not yet substantially enacted would have reduced the deferred tax liability of the company by an additional £7.0 million.

Advance Corporation Tax (“ACT”) is recognised as an asset to the extent that it is foreseen to be recoverable. There is £3.9 million (2010: £3.9 million) of unrecognised ACT carried forward at 31 March 2011.

The company also holds £2.9 million (2010: £2.9 million) of unrecognised capital losses, which are available to offset against any future capital gains.

(b) Reconciliation of the total tax charge

The total tax rate for the year is lower (2010: higher) than the standard rate of Corporation Tax in the United Kingdom of 28% (2010:28%). The differences are explained below:

	2011	2010
	£m	£m (unaudited)
Profit on ordinary activities before tax	**21.2**	26.3
Profit on ordinary activities multiplied by standard rate of Corporation Tax in the United Kingdom at 28%	**5.9**	7.3
Effects of:		
Expenses including 8.75% irredeemable cumulative preference share dividends not deductible for tax	**0.3**	0.3
Effect of change in corporation tax rate	**(4.0)**	—
Other	**(0.2)**	—
Total tax charge	**2.0**	7.6

7. BASIC EARNINGS PER ORDINARY SHARE

	2011	2010
	M	M (unaudited)
Basic 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	**£19.2**	£18.7
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 relevant.

8. PROPERTY PLANT & EQUIPMENT

(a) The movements for the year comprise —

	Freehold land & operational structures	Plant and equipment	Infra-structure assets	Assets under construction	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2010	90.1	140.9	188.9	8.6	428.5
Additions	—	—	4.8	14.3	19.1
Reclassification of completed assets	2.1	7.9	0.5	(11.0)	(0.5)
Disposals	—	(0.6)	—	—	(0.6)
At 31 March 2011	**92.2**	**148.2**	**194.2**	**11.9**	**446.5**
Depreciation					
At 1 April 2010	25.6	78.1	39.7	—	143.4
Charge for year	1.6	6.6	2.3	—	10.5
Disposals	—	(0.4)	—	—	(0.4)
At 31 March 2011	**27.2**	**84.3**	**42.0**	**—**	**153.5**
Net book value					
at 31 March 2011	**65.0**	**63.9**	**152.2**	**11.9**	**293.0**
At 31 March 2010	64.5	62.8	149.2	8.6	285.1

8. PROPERTY PLANT & EQUIPMENT (Continued)

	Freehold land & operational structures	Plant and equipment	Infra-structure assets	Assets under construction	Total
	£m	£m	£m	£m	£m (unaudited)
Cost					
At 1 April 2009	86.6	134.0	178.9	14.5	414.0
Additions	—	(0.5)	8.9	10.4	18.8
Reclassificat-ion of completed assets	3.5	10.2	1.1	(16.3)	(1.5)
Disposals	—	(2.8)	—	—	(2.8)
At 31 March 2010	**90.1**	**140.9**	**188.9**	**8.6**	**428.5**
Depreciation					
At 1 April 2009	23.4	73.9	37.5	—	134.8
Charge for year	2.2	6.9	2.2	—	11.3
Disposals	—	(2.7)	—	—	(2.7)
At 31 March 2010	**25.6**	**78.1**	**39.7**	**—**	**143.4**
Net book value					
at 31 March 2010	**64.5**	**62.8**	**149.2**	**8.6**	**285.1**
At 31 March 2009	63.2	60.1	141.4	14.5	279.2

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

(b) Included above at 31 March 2011 is freehold land, not subjected to depreciation in the year, of £1.6 million (2010: £1.6 million).

(c) Included above at 31 March 2011 are property, plant and equipment held under finance leases analysed by asset type as follows:

	Freehold land & operational Structures	Plant and Equipment	Infra-structure assets	Total
	£m	£m	£m	£m
At 31 March 2011				
Cost	10.8	30.0	1.2	42.0
Accumulated depreciation	(3.6)	(24.8)	—	(28.4)
Net book value	**7.2**	**5.2**	**1.2**	**13.6**
At 31 March 2010 (unaudited)				
Cost	10.8	30.3	1.2	42.3
Accumulated depreciation	(3.5)	(24.2)	—	(27.7)
Net book value	7.3	6.1	1.2	14.6

(d) The net book value of property, plant and equipment includes £0.1 million (2010: £nil) of borrowing costs capitalised in accordance with IAS 23.

(e) Included within Freehold land are investment properties which have been valued at cost, amounting to £0.3 million (2010: £0.3 million). These investment properties have been valued by the Directors at 31 March 2011 at £7.2 million (2010 £7.5 million). Any profit arising from disposal of investment properties would be subject to an element of clawback in setting price limits in future periods.

9. INTANGIBLE ASSETS

2011	Cost	Amortisation	Net Book Value
	£m	£m	£m
At 1 April 2010	17.6	(14.4)	3.2
Capitalisation of completed assets/(charge for year)	0.5	(1.1)	(0.6)
At 31 March 2011	**18.1**	**(15.5)**	**2.6**
2010	£m (unaudited)	£m (unaudited)	£m (unaudited)
At 1 April 2009	16.1	(13.0)	3.1
Capitalisation of completed assets/(charge for year)	1.5	(1.4)	0.1
At 31 March 2010	17.6	(14.4)	3.2

Intangible assets comprise computer software and related system developments.

Included in the intangible assets are assets held under finance lease with a gross cost of £2.5 million (2010: £2.5 million) and a nil net book value (2010: nil).

10. AMOUNTS RECEIVABLE FROM PARENT UNDERTAKING

	2011	2010
	£m	£m (unaudited)
Long term loans to former UK parent company (formerly Bristol Water Group Plc, now renamed Bristol Water Holdings UK Limited (see note 27))	**68.5**	68.5

The loans were advanced to Agbar UK Ltd and details are as follows:

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

11. SHORT TERM DEPOSITS

	2011	2010
	£m	£m (unaudited)
Short term cash deposits	**60.8**	—

The effective interest rate on term deposits was 0.92% and these deposits have an average maturity date of 189 days.

12. INVENTORIES

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

The cost of inventories recognised as expense and included in cost of sales amounted to £2.5 million (2010: £2.7 million).

13. TRADE AND OTHER RECEIVABLES — CURRENT

	2011 £m	2010 £m (unaudited)
Trade receivables	**22.6**	22.0
Less: provision for impairment of receivables	**(12.6)**	(11.4)
Net trade receivables	**10.0**	10.6
Amounts due from group and fellow subsidiary companies	**1.3**	2.2
Other receivables	**0.7**	0.8
Prepayments and accrued income	**10.3**	9.5
	22.3	23.1

As at 31 March 2011, based on a review of collection rates it was considered that £12.6 million of trade receivables were impaired and these have therefore been provided for (2010: £11.4 million). The impaired receivables mainly relate to measured and unmeasured water supply receivables. Movements in the provision for impairment of trade receivables are as follows:

	2011 £m	2010 £m (unaudited)
At 1 April	**11.4**	9.1
Charge to Income Statement	**3.3**	3.7
Receivables written off during the year as uncollectable	**(2.1)**	(1.4)
At 31 March	**12.6**	11.4

The creation and release of provision for impaired receivables have been included in operational expenses.

The other classes within trade and other receivables do not contain impaired assets. All trade and other receivables are denominated in sterling.

During the year the company has written off £2.1 million of debt which had been provided for in full (2010: £1.4 million).

There is no concentration of credit risk in trade receivables. The company has a large number of customers and there is no significant loss on trade receivables that has not been provided for.

The company has created IAS 39 portfolio provisions, but it cannot identify which receivables specifically are the ones impaired. It is company policy to consider a receivable in a portfolio to which an impairment has been allocated on a collective basis as not being impaired for the purposes of IFRS 7 disclosures until the loss can be specifically identified with the receivable.

The amounts considered past due but not impaired are as follows:

	2011 £m	2010 £m (unaudited)
Past due 0-30 days	**1.8**	1.6
Past due 31-120 days	**0.2**	0.2
Past due more than 120 days	**8.0**	8.8
	10.0	10.6

The company has a duty under legislation to continue to provide domestic customers with services regardless of payment. The company specifically reviews separate categories of debt to identify an appropriate provision for impairment.

14. CASH AND CASH EQUIVALENTS

	2011	2010
	£m	£m (unaudited)
Overnight deposits	**2.4**	1.8
Other short-term deposits	**16.5**	25.0
	18.9	26.8

The effective interest rate on short-term deposits was 0.41% (2010: 0.36%) and these deposits have an average maturity of 31 days (2010: 47 days)

15. TRADE & OTHER PAYABLES

	2011	2010
	£m	£m (unaudited)
CURRENT		
Receipts in advance	**10.1**	9.5
Trade payables	**4.7**	5.6
Amounts owed to fellow subsidiaries	**1.2**	0.9
Other tax and social security	**0.8**	0.8
Corporation tax payable	**0.9**	4.1
Accruals	**7.6**	7.9
	25.3	28.8

	2011	2010
	£m	£m (unaudited)
NON-CURRENT		
Deferred Income	**7.0**	3.2

16. INTEREST BEARING LOANS AND BORROWINGS

	2011	2010
	£m	£m (unaudited)
CURRENT		
Finance lease obligations	**2.8**	2.5
NON-CURRENT		
Bank and other term loans — all secured	**243.0**	198.0
Debentures	**1.6**	1.6
Finance lease obligations	**8.1**	10.9
Net unamortised premiums arising on issue of term loans	**3.6**	4.2
8.75% irredeemable cumulative preference shares	**12.5**	12.5
	268.8	227.2

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 2010: 12,500,000).

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

16. INTEREST BEARING LOANS AND BORROWINGS (Continued)

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 IAS 39 the shares are classified as long-term debt.

The movements in net unamortised premiums were as follows:

	2011	**2010**
	£m	£m (unaudited)
Net unamortised premiums at 1 April	**4.2**	4.4
Bond issue costs during the year	**(0.4)**	—
Amortised during the year	**(0.2)**	(0.2)
Net unamortised premiums at 31 March	**3.6**	4.2

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

	2011	**2010**
	£m	£m (unaudited)
Within one year	**0.2**	0.2
Between one and two years	**0.2**	0.2
Between two and five years	**0.6**	0.6
After five years	**2.6**	3.2
	3.6	4.2

Security for borrowings

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

In respect of the company:

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

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

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

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

16. INTEREST BEARING LOANS AND BORROWINGS (Continued)

(a) Net debt and maturities

At 31 March 2011 net borrowings comprise —

	Term loans less cash	Finance leases	Debentures and irredeemable preference shares	Interest rate swap	Total 2011	Total 2010
	£m	£m	£m	£m	**£m**	£m (unaudited)
Repayment due:						
Between one and two years						
Secured, repayable 2012, variable interest at three month LIBOR plus a margin	15.0	3.2	—	—	**18.2**	2.8
Between two and five years	—	2.7	—	—	**2.7**	20.6
After five years:						
Other than by instalment — term loans						
Secured, repayable 2017, variable interest at six month LIBOR plus a margin	20.0	—	—	—	**20.0**	20.0
Secured, repayable 2032, principal index-linked to RPI, fixed interest at 3.635%* on the indexed principal	110.5	—	—	—	**110.5**	105.5
Secured, repayable 2033, fixed interest at 6.01%*	57.5	—	—	—	**57.5**	57.5
Secured, repayable 2041 principal index-linked to RPI, fixed interest at 2.701% on the indexed principal	40.0	—	—	—	**40.0**	—
By instalments						
Finance leases	—	2.2	—	—	**2.2**	2.5
	243.0	8.1	—	—	**251.1**	208.9
Net unamortised premiums	3.6	—	—	—	**3.6**	4.2
Debentures (listed on the London Stock Exchange) —						
4.00% Consolidated irredeemable	—	—	1.4	—	**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**	0.2
8.75% irredeemable cumulative preference shares	—	—	12.5	—	**12.5**	12.5
Total borrowings due after one year	246.6	8.1	14.1	—	**268.8**	227.2
Derivative financial instruments — swap	—	—	—	1.0	**1.0**	1.1
Current portion of debt	—	2.8	—	—	**2.8**	2.5
	246.6	10.9	14.1	1.0	**272.6**	230.8
Investments — term deposits	(60.8)	—	—	—	**(60.8)**	—
Cash and cash equivalents	(18.9)	—	—	—	**(18.9)**	(26.8)
Net debt	166.9	10.9	14.1	1.0	**192.9**	204.0

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

(b) Borrowing facilities

As of 31 March 2011, there were committed undrawn borrowing facilities expiring as set out below:

	2011	**2010**
	£m	£m (unaudited)
Expiring in more than two years	**30.0**	30.0

16. INTEREST BEARING LOANS AND BORROWINGS (Continued)

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

(c) Obligations under finance leases — minimum lease payments

	2011	2010
	£m	£m (unaudited)
Within one year	**3.1**	2.8
In the second to fifth year inclusive	**6.5**	9.2
After five years	**2.5**	2.9
	12.1	14.9
Less: future finance charges	**(1.2)**	(1.5)
	10.9	13.4

(d) Obligations under finance leases — present value of minimum lease payments

	2011	2010
	£m	£m (unaudited)
Within one year	**2.8**	2.5
In the second to fifth year inclusive	**5.9**	8.4
After five years	**2.2**	2.5
	10.9	13.4

17. FINANCIAL RISK MANAGEMENT

Objectives and policies

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

Financial risk factors

The company's main financial instruments comprise:

- 8.75% irredeemable cumulative preference shares
- Borrowings
- Various items, such as trade debtors and trade creditors, that arise directly from its operations
- Two long-term loans made to Bristol Water Group plc (since renamed Agbar UK Ltd with a subsequent name change to Bristol Water Holdings UK Limited (See note 27)).
- Term deposits and cash and cash equivalents

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

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

(a) Foreign exchange risk

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

17. FINANCIAL RISK MANAGEMENT (Continued)

(b) Interest rate risk of financial assets

The financial assets include cash and cash equivalents and cash deposits which are all denominated in sterling. Cash and cash equivalents and cash deposits have been placed with banks on a rolling basis of up to nine months earning interest based on LIBID equivalents. There are also interest-bearing fixed rate loan receivables totalling £68.5 million (2010: £68.5 million) to Bristol Water Group plc (since renamed Agbar UK Ltd with a subsequent name change to Bristol Water Holdings UK Limited (See note 27)).

(c) Refinancing risk

Refinancing risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of borrowings across a range of investments, type and maturities. Our policy is to ensure that the maturity profile does not impose an excessive strain on our ability to repay loans.

The company's policy is to maintain the majority of its net debt on a fixed or index-linked interest basis. At the year-end 86% (2010: 83%) of the company's gross financial liabilities were at fixed or indexed rates, and 14% (2010: 17%) were at floating rates.

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

The carrying value of the company's index-linked borrowings is exposed to changes in RPI. The company's Regulated Capital Value ("RCV") and water charges are also linked to RPI. Accordingly index-linked debt partially hedges the exposure to changes in RPI and delivers a cash flow benefit, as compensation for the indexation is provided through adjustment to the principal rather than in cash.

(d) Interest rate risk and inflation risk of financial liabilities

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

The interest rate profiles of financial assets and liabilities is set out in notes 11, 14 and 16 respectively.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the company's profits.

The sensitivity analysis includes the effect on all financial instruments exposed to changes in interest rate.

	31 March 2011		**31 March 2010**	
	Profit before tax	**Equity**	**Profit before tax**	**Equity**
	£m	**£m**	£m (unaudited)	£m
Movement in interest rate of 100bp	**0.3**	**0.2**	0.3	0.2

Inflation rate sensitivity

The year-end carrying value of index-linked debt held by the company is as follows:

	2011	**2010**
	£m	£m (unaudited)
Index-linked debt	**150.1**	105.5

The following table shows the illustrative effect on the company's profits of changes in RPI in relation to its index-linked debt.

	31 March 2011		**31 March 2010**	
	Profit before tax	**Equity**	**Profit before tax**	**Equity**
	£m	**£m**	£m (unaudited)	£m
Movement in Retail Price Index by 1%	**1.5**	**1.1**	1.1	0.8

17. FINANCIAL RISK MANAGEMENT (Continued)

(e) Credit risk

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

All cash deposits (both term and with maturity of less than 3 months) are placed with banks with a minimum of 'Moody's' P-1 and 'Standard & Poors' A-1 credit ratings in accordance with the credit rating criteria required by the terms of the Artesian loan agreements.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. At 31 March the maximum exposure to credit risk was as follows:

	2011	**2010**
	£m	£m (unaudited)
Long-term loan receivables	**68.5**	68.5
Current Asset Investments — term cash deposits	**60.8**	—
Cash and cash equivalents	**18.9**	26.8
Trade and other receivables	**22.3**	23.1
	170.5	118.4

(f) Liquidity risk

It is company policy to maintain continuity of funding. At the year-end 91% (2010: 88%) of its financial liabilities, including 8.75% irredeemable cumulative preference shares, mature after five years or are irredeemable.

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

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

Under the terms of the Artesian loan agreements the company is required to maintain a specified sum in nominated accounts to cover estimated debt service payments arising during the following year. These funds, currently amounting to approximately £5.5 million (2010: £5.5 million), are therefore not available for other operational use or distribution to shareholders.

The table below details the company's remaining contractual payments until maturity for its non-derivative financial liabilities. The table is based on the undiscounted cash flows on financial liabilities based on the earliest date on which the company is required to pay.

Year ended 31 March 2011	**Within one year**	**Between one and two years**	**Between two and five years**	**After five years**	**Total**
	£m	£m	£m	£m	£m
Liabilities					
Trade payables	4.7	—	—	—	4.7
Due to group and fellow subsidiaries	1.2	—	—	—	1.2
Accruals	7.6	—	—	—	7.6
Interest bearing loans and borrowings	12.7	28.3	33.3	559.1	633.4
	26.2	**28.3**	**33.3**	**559.1**	**646.9**

17. FINANCIAL RISK MANAGEMENT (Continued)

Year ended 31 March 2010	Within one year	Between one and two years	Between two and five years	After five years	Total
	£m	£m	£m	£m	£m (unaudited)
Liabilities					
Trade payables	5.6	—	—	—	5.6
Due to group and fellow subsidiaries	0.9	—	—	—	0.9
Accruals	7.8	—	—	—	7.8
Interest bearing loans and borrowings	11.1	11.7	47.4	440.0	510.2
	25.4	**11.7**	**47.4**	**440.0**	**524.5**

The company borrows long-term to meet its capital programme requirements and surplus cash is invested until required. As at 31 March 2011, short term deposits amount to £60.8m (2010: nil).

(g) Price risk

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

(h) Covenant compliance risk

Under the terms of its principal debt agreements the company is required to comply with covenants relating to minimum levels of interest cover and to maximum levels of net debt in relation to regulatory capital value based on UK GAAP. Failure to comply may result in various restrictions being imposed upon the company. Risk is minimised through continuous monitoring of the relevant ratios in both emerging and forecast results, and by close control of operating cash flows and capital investment programmes. The company was in compliance with its covenant arrangements during 2011.

Derivative financial instruments and hedge accounting

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

The cash flow hedge on the interest rate swap of £1 million was assessed to be highly effective as at 31 March 2011.

The company has entered into an interest rate swap effective from 22 October 2008. In accordance with the provisions of IAS 39, the company fair values its interest-rate swap on the balance sheet.

The termination date of the swap is 7 December 2017.

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

Capital risk management

The company's objective when managing capital is to safeguard its ability to continue as a going concern. Given the regulatory environment in which the company operates, the company monitors capital on the basis of the gearing ratio.

Total capital is calculated as equity as shown in the balance sheet plus net borrowings.

The gearing ratios at 31 March 2011 and 2010 were as follows:

	2011	**2010**
	£m	£m (unaudited)
Total Borrowings	**272.6**	230.8
Less: Cash and cash equivalents	**(18.9)**	(26.8)
Term Cash deposits	**(60.8)**	—
Net borrowings (Note 16)	**192.9**	204.0
Total equity	**127.2**	97.6
Total capital	**320.1**	301.6
Gearing ratio	**60.3%**	67.6%

18. OTHER FINANCIAL LIABILITIES

Determination of Fair values

The fair values of the cash and cash equivalents, term cash deposits and loan receivables, trade receivables and payables, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values.

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

The fair value of the company's debentures has been calculated by discounting the expected cash flows at prevailing market rates including an estimated margin over gilts. In the case of floating rate facilities the fair values approximate to the carrying values as payments are reset to market rates at intervals of one year or less. Fixed rate loans from Artesian Finance II plc have been discounted by reference to the UK Government fixed rate gilt 2032 plus an estimated margin. Index-linked loans from Artesian Finance plc have been discounted by reference to the UK Government index-linked gilt 2030 plus an estimated margin.

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

The long-term loans to Agbar UK Ltd (renamed as Bristol Water Holdings UK Limited (see note 27) have been discounted by reference to the UK Government fixed rate gilt 2032 plus an estimated margin.

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

Valuation hierarchy

The table below shows the financial instruments carried at fair value by valuation method:

	31 March 2011				31 March 2010			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
	£m	£m	£m	£m	£m	£m (unaudited)	£m	£m
Liabilities								
Derivatives for hedging	—	1.0	—	1.0	—	1.1	—	1.1
Total Liabilities	—	1.0	—	1.0	—	1.1	—	1.1

Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 — inputs (other than quoted prices included within Level 1) that are observable for the asset and liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 — Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Derivative Financial Instruments

Interest-rate swap

At 31 March 2011, the company was party to one interest rate swap which was entered into on 4 March 2008, became effective on 22 October 2008 and will expire on 7 December 2017. The swap is designated against a £10.0 million variable rate bank loan drawn in October 2008. The swap exchanges LIBOR rates on a six monthly basis for a fixed rate of 5.025%. In accordance with IAS39, the liability arising under the swap agreement was recognised in these financial statements, as follows:

	2011	**2010**
	£m	£m (unaudited)
Interest rate swaps — cash flow hedges:		
Non-current liabilities	**1.0**	1.1
	1.0	1.1

18. OTHER FINANCIAL LIABILITIES (Continued)

In accordance with IAS39, the company has reviewed all material contracts for embedded derivatives that are required to be separately accounted for if they do not meet the requirements set out in the standard. As a result of this review no embedded derivatives were identified.

Fair values of financial assets and financial liabilities

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

Fair values of non-current borrowings

	31 March 2011		31 March 2010	
	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m (unaudited)
Primary financial instruments issued to finance the company at amortised cost				
Long-term borrowings	**(256.3)**	**(268.5)**	(214.7)	(223.4)
8.75% irredeemable cumulative preference shares	**(12.5)**	**(17.1)**	(12.5)	(16.4)
Derivative financial instruments held to manage the interest rate profile:				
Interest rate swap — (fair value through profit & loss)	**(1.0)**	**(1.0)**	(1.1)	(1.1)
	(269.8)	**(286.6)**	(228.3)	(240.9)

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

Fair values of other financial assets and current liabilities

	31 March 2011		31 March 2010	
	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m (unaudited)
Financial assets — Loans and Receivables				
Investments — Loan to Agbar UK*	**68.5**	**64.9**	68.5	63.5
Investments — Term deposits	**60.8**	**60.8**	—	—
Cash and cash equivalents	**18.9**	**18.9**	26.8	26.8
Trade and other receivables	**22.3**	**22.3**	23.1	23.1
Financial liabilities — Amortised Cost				
Borrowings — Finance lease obligations (current)	**(2.8)**	**(2.8)**	(2.5)	(2.5)
Trade and other payables	**(25.3)**	**(25.3)**	(28.8)	(28.8)
	142.4	**138.8**	87.1	82.1

* renamed as Bristol Water Holdings UK Limited (see note 27)

19. DEFERRED TAXATION LIABILITIES

Deferred tax is calculated in full on the temporary differences under the liability method using a rate of 26% (2010:28%).

	2011	2010
	£m	£m (unaudited)
Provision for deferred tax comprises —		
Deferred tax liabilities		
Accelerated capital allowances and capital element of finance leases	**55.3**	54.2
Retirement benefit obligations	**6.9**	2.5
Total deferred tax liabilities	**62.2**	56.7
Deferred tax assets		
Short-term timing differences	**(0.2)**	(0.3)
Interest rate swap	**(0.2)**	(0.3)
Total deferred tax assets	**(0.4)**	(0.6)
Net provision	**61.8**	56.1

	2011	2010
	£m	£m (unaudited)
Deferred tax movement:		
Provision at 1 April	**56.1**	55.9
Charged to income statement (note 6)	**1.1**	2.7
Charge direct to Comprehensive income	**4.6**	(2.5)
Provision at 31 March	**61.8**	56.1

20. CALLED-UP SHARE CAPITAL AND OTHER RESERVES

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

	Issued and fully paid	
	2011	2010
	£m	£m (unaudited)
5,998,025 ordinary shares of £1 each	**6.0**	6.0

Other reserves:

Capital Redemption Reserve

The capital redemption reserve represents the amounts of previous share capital redeemed in under preserve the original capital of the company.

Hedging Reserve

The hedging reserve includes the far value movements arising from the revaluation of the derivative financial instruments (swaps) arising in each period.

21. DIVIDENDS IN RESPECT OF ORDINARY SHARES

	2011	2010
	£m	£m (unaudited)
Dividends paid		
• Dividend in respect of 2009:		
Final dividend of 60.02 pence per share, approved by the Board on 3 August 2009	—	3.6
• Dividend in respect of 2010:		
First interim dividend of 24.27 pence per share, approved by the Board on 6 September 2009	—	1.5
Second interim dividend of 61.69 pence per share, approved by the Board on 11 November 2009	—	3.7
Third interim dividend of 24.14 pence per share, approved by the Board on 22 March 2010	—	1.4
• Dividend in respect of 2011:		
First interim dividend of 24.27 pence per share, approved by the Board on 29 September 2010	**1.5**	—
Second interim dividend of 24.14 pence per share, approved by the Board on 17 March 2011	**1.4**	—
	2.9	10.2

The Board has not proposed a final dividend in respect of the year ended 31 March 2011 (31 March 2010: nil).

22. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments at 31 March 2011 contracted for but not provided were £1.5 million (2010: £2.0 million).

(b) Contingencies — The company is a member of a VAT group and is jointly liable for the VAT liabilities of Agbar UK Ltd (renamed Bristol Water Holdings UK Limited (see note 27) and certain other companies within the Agbar UK Limited group. The financial effect of this is not expected to be material. Other than as shown in these accounts the directors are not aware of any other contingent liabilities that require disclosure.

23. RETIREMENT BENEFIT OBLIGATIONS

(a) Pension arrangements

Defined contribution schemes

The company operates defined contribution retirement benefit schemes for a number of employees. The total cost charged to income of £0.5m (2010: £0.4m) represents contributions payable to the scheme. As at 31 March 2011 and 31 March 2010, all contributions due have been paid over to the scheme.

Defined benefit schemes

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

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

The financial position of the section is determined by an independent actuary (Lane, Clark & Peacock LLP). The most recent triennial valuation of the scheme was carried out at 1 April 2008 by Lane, Clark & Peacock LLP. The next triennial valuation of the pension scheme is due to be completed later this year.

In 2005/06 the company made a one-off contribution to WCPS of £7.0m. The company also agreed to make and has made additional contributions of £1m in each of the four years beginning 1 April 2006 and a further £0.9m in 2010/11. The amounts are in addition to the normal pension contributions required by the WCPS trustees which are set at 21% for the main sub section and 10% for the alternative benefits sub section of the relevant payroll costs.

23. RETIREMENT BENEFIT OBLIGATIONS (Continued)

In July 2010, the government announced that it would in future use the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) as the basis for determining the statutory minimum percentage increase for revaluation and indexation in the Pension Increase (Review) Order.

"UITF Abstract 48", which governs how this issue is treated under IAS19, requires consideration of:

- whether the company's legal or constructive obligation was to give indexation specifically linked to RPI, or to give increases linked to inflation or the government's statutory minimum;
- whether the company's obligations have changed from RPI-based to CPI-based; and
- whether this is through a change in the legal terms of the scheme, a change in a constructive obligation, or a change in the company's best estimate of future statutory indexation.

Answering these questions required careful consideration of the facts and circumstances, and judgment, and therefore the WCPS's trustee sought legal advice to confirm the impact of the change for Bristol Water's section of WCPS, which concluded that "The Rules of the Bristol Water plc section link pension increases in deferment and in payment to be in line with the increases set out in the Pension Increase (Review) Orders. The Government has indicated that in future Pension Increase Orders will be based on CPI rather than RPI and, provided that no other legal considerations apply, the change to CPI feeds through to the Section's benefits automatically".

Accordingly, commencing 31 March 2011 the CPI basis has been used for the calculation of pension scheme related amounts in respect of the future pension increases.

(b) Accounting under IAS19 "Employee Benefits"

Basis of valuation

The formal actuarial valuation of the Bristol Water plc section of the Water Companies' Pension Scheme as at 1 April 2008 was updated to 31 March 2011, by Lane, Clark & Peacock LLP, using the following major assumptions in accordance with IAS19:

	2011	2010	2009
		unaudited	unaudited
Assumptions:			
RPI Inflation	3.7%	3.9%	3.1%
CPI Inflation	3.0%	n/a*	n/a*
Pension increases in payment (RPI)	3.0%	3.9%	3.1%
Pension increases in payment (LPI)	3.0%	3.7%	3.1%
Salary increases	5.2%	5.4%	4.6%
Discount rate	5.5%	5.5%	6.4%

* As explained in sub note (a) above, the change to the CPI basis for future pension increases was made with effect from 31 March 2011, therefore the CPI inflation assumption for comparative years 2010 and 2009 is not relevant.

Asset distribution and expected return

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

	Expected long-term rate of return			Market values of section assets		
	2011	2010	2009	2011	2010	2009
		(unaudited)	(unaudited)	£m	£m (unaudited)	£m (unaudited)
Equities	**7.8%**	8.0%	8.0%	**26.2**	34.5	26.9
Diversified growth funds	**7.3%**	n/a**	n/a**	**6.6**	—	—
Bonds	**3.9%**	4.1%	4.1%	**116.6**	108.4	96.8
Cash	**2.1%**	2.0%	1.9%	**0.1**	0.2	0.1
Market value of section assets				**149.5**	143.1	123.8
Present value of liabilities				**(122.8)**	(134.3)	(106.2)
Surplus on IAS 19 basis				**26.7**	8.8	17.6

** There was no investment in "Diversified growth funds" in years ended 31 March 2010 and 2009.

23. RETIREMENT BENEFIT OBLIGATIONS (Continued)

In preparing these non-statutory financial statements, the company has applied IAS19 and IFRIC14 in respect of pensions accounting. The standard and interpretation respectively, result in the recognition of a surplus on the balance sheet totalling £26.7 million (2010: £8.8 million), and a gross actuarial gain of £17.8 million (2010: £9.2 million loss) in the Statement of Comprehensive Income. These amounts are the result of the technical application of both IAS19 and IFRIC 14.

The winding-up provisions in the pension scheme rules provide that any surplus on winding-up is first allocated to the augmentation of members benefits. A surplus remaining following augmentation may be paid over to the company at the trustee's discretion following consultation with pension scheme members.

In contrast to the result arising on the application of IFRS, on a scheme funding basis, the Bristol Water plc section of the scheme is expected to register a £2.9 million deficit at 31 March 2011. In addition, on a buyout basis, the scheme is estimated to cost £25.3 million at 31 March 2011. The triennial review at 31 March 2011 is ongoing and therefore both positions remain subject to final review.

The overall expected rate of return on assets was 5% per annum (2010: 4.9% per annum). This rate was derived by taking the weighted average of the long term expected rate of return on each of the above asset classes.

Demographic assumptions

The mortality assumptions have been drawn from actuarial table PNA00 with a 110% adjustment to mortality rates and with future improvements in line with "medium cohort" projections from 2000, subject to a minimum increase of 1.0% per annum (2010 and 2009: same assumptions as current year). These tables assume that the average life expectancy for a male pensioner currently aged 60 is 26.5 years (2010: 26.4 years) and for a female pensioner currently aged 60 is 29.1 years (2010: 29 years).

The allowance made for future improvements in longevity is such that a male member retiring at age 60 in 2036 (i.e. in 25 years' time) is assumed to have an increased average life expectancy from retirement of 29.1 years, whilst that for a female retiring at age 60 in 2036 is assumed to have increased to 31.5 years.

Sensitivity

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

As an indication all other things being equal:

- an increase in the discount rate of 0.1% would lead to a reduction in the value placed on the liabilities of the Section of approximately £1.8 million; and
- a 5% rise in the value of the Section's return seeking assets portfolio would increase the surplus (before the consideration of any balance sheet limitation that might apply) by approximately £1.6 million.

Contributions

Contributions paid in the year to the section including those from Bristol Wessex Billing Services Ltd were £2.6 million (2010: £2.9 million). Contributions paid in the year include £1.7 million of regular employer contributions and £0.9 million of additional contribution as described previously. For normal employer contributions, during the year the company was required to contribute at the rates of 21% (2010: 21%) for the main sub section and 10% (2010: 10%) for the alternative benefits sub section of the relevant payroll costs.

The estimated amount of the total employer contribution expected to be paid to the section for the year ending 31 March 2012 is £1.7 million.

Analysis of charges to Income Statement:

	2011	2010
	£m	£m (unaudited)
Analysis of the amount charged to operating profit		
Current service cost under IAS19	**2.1**	1.6
Total operating charge	**2.1**	1.6

23. RETIREMENT BENEFIT OBLIGATIONS (Continued)

	2011	2010
	£m	£m (unaudited)
Analysis of the amount charged to other finance cost		
Expected return on pension section assets	**6.9**	5.9
Interest on post-retirement liabilities	**(7.3)**	(6.7)
Net return — charge to other finance cost	**(0.4)**	(0.8)

	2011	2010
	£m	£m (unaudited)
Analysis of amount recognised in the Statement of Other Comprehensive Income (OCI)		
Gain on pension section assets	**2.0**	16.2
Experience gains arising on section liabilities	**2.2**	3.0
Gain/(loss) due to changes in assumptions underlying the IAS19 value of the section's liabilities	**13.6**	(28.4)
Actuarial gain/(loss) recognised in SCI	**17.8**	(9.2)

The cumulative amount of actuarial gains and losses recognised in SCI at 31 March 2011 is a loss of £1.0 million (2010: loss of £18.8 million).

	2011	2010
	£m	£m (unaudited)
Movement in section pre-tax financial position during the year		
Surplus in section at 1 April	**8.8**	17.6
Movement in year:		
Current service cost (employee and employer)	**(2.1)**	(1.6)
Aggregate regular contributions (employee and employer)	**1.7**	1.8
Additional contributions	**0.9**	1.0
Charge to other finance cost	**(0.4)**	(0.8)
Actuarial gain/(loss) recognised in SCI	**17.8**	(9.2)
Surplus in section at 31 March	**26.7**	8.8

	2011	2010
	£m	£m (unaudited)
Movement in present value of the defined benefit obligation during the year		
Present value of section liabilities at 1 April	**134.3**	106.2
Movement in year:		
Current service cost (employee and employer)	**2.1**	1.6
Interest cost	**7.3**	6.7
Actuarial (gain)/loss	**(15.8)**	25.4
Benefits paid	**(5.1)**	(5.6)
Present value of the defined benefit obligation at 31 March	**122.8**	134.3

23. RETIREMENT BENEFIT OBLIGATIONS (Continued)

	2011	2010
	£m	£m (unaudited)
Movement in fair value of the section assets during the year		
Fair value of the section assets at 1 April	**143.1**	123.8
Movement in year:		
Expected return on section assets	**6.9**	5.9
Actuarial gain	**2.0**	16.2
Aggregate regular contributions (employee and employer)	**1.7**	1.8
Additional contributions	**0.9**	1.0
Benefits paid	**(5.1)**	(5.6)
Fair value of the section assets at 31 March	**149.5**	143.1

The history of experience gains and losses is:

	2011	2010	2009	2008	2007
	£m	£m (unaudited)	£m (unaudited)	£m (unaudited)	£m (unaudited)
Market value of section assets	**149.5**	143.1	123.8	138.5	131.3
Present value of liabilities	**(122.8)**	(134.3)	(106.2)	(121.9)	(120.0)
Surplus in the section	**26.7**	8.8	17.6	16.6	11.3

	2011	2010	2009	2008	2007
	£m	£m (unaudited)	£m (unaudited)	£m (unaudited)	£m (unaudited)
Experience adjustments on scheme liabilities — Amount (£m)	**2.2**	3.0	0.9	0.2	0.7
Percentage of scheme liabilities	**2%**	2%	1%	0%	1%
Experience adjustments on scheme assets — Amount (£m)	**2.0**	16.1	(19.6)	1.6	(0.2)
Percentage of scheme assets	**1%**	11%	(16)%	1%	0%

24. SUPPLEMENTARY CASH FLOW INFORMATION

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

	2011	2010
	£m	£m (unaudited)
Operating profit	**32.2**	31.3
Adjustments for:		
Depreciation and amortisation	**11.6**	12.7
Pension charges in excess of normal contributions	**0.3**	(0.3)
Profit on sale of property, plant and equipment	**—**	(0.2)
Changes in working capital:		
(Increase)/decrease in inventory	**(0.1)**	0.1
Decrease/(increase) in trade and other receivables	**0.8**	(1.5)
Increase in trade and other payables	**0.3**	1.8
Additional contributions to pension scheme	**(0.9)**	(1.0)
Cash generated from operations	**44.2**	42.9

24. SUPPLEMENTARY CASH FLOW INFORMATION (Continued)

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

	2011	2010
	£m	£m (unaudited)
(Decrease)/increase in cash and cash equivalents in the year	**(7.9)**	6.2
Repayment of loan	**2.5**	2.2
Cash from new borrowings	**(39.5)**	—
Increase in cash deposits (investments)	**60.8**	—
	15.9	8.4
Indexation of debt and amortisation of fees and premium not affecting cash flow	**(4.9)**	1.8
Fair value of interest rate swap not affecting cash flow	**0.1**	0.1
Net borrowings at 1 April including 8.75% irredeemable cumulative preference shares	**(203.0)**	(213.2)
Derivative financial instruments — swap	**(1.0)**	(1.1)
Net borrowings at 31 March	**(192.9)**	(204.0)

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

	Opening net borrowings	Cash flows in the year	Maturity profile	Adjustments to debt not affecting cash flow*	Closing net borrowings
	£m (unaudited)	£m	£m	£m	£m
Cash — overnight deposits	1.8	0.6	—	—	**2.4**
Short term cash deposits	25.0	(8.5)	—	—	**16.5**
Cash and cash equivalent	26.8	(7.9)	—	—	**18.9**
Investment — Term Cash deposits	—	60.8	—	—	**60.8**
Cash and cash deposits	26.8	52.9	—	—	**79.7**
Borrowings due within one year	(2.5)	2.5	(2.8)	—	**(2.8)**
Borrowings due after one year, including 8.75% irredeemable cumulative preference shares and net unamortised premiums in respect of loans	(227.2)	(39.5)	2.8	(4.9)	**(268.8)**
Fair value of the interest rate swap	(1.1)	—	—	0.1	**(1.0)**
Net borrowings	(204.0)	15.9	—	(4.8)	**(192.9)**

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

25. RELATED PARTY TRANSACTIONS

At 31 March 2011 related parties included members and joint ventures of the Agbar UK Limited (AUK) group of companies, members of the Agbar group of companies and key management personnel. The principal related parties were as follows:

Agbar UK Ltd, registered in England and Wales, whose year-end is 31 December, was the ultimate UK holding company of Bristol Water plc until the acquisition on 5 October 2011 by CSE Water UK Limited (see note 27).

On 19 October 2011, AUK changed its name to Bristol Water Holdings UK Limited.

Bristol Wessex Billing Services Limited (BWBSL), registered in England and Wales, whose year-end is 31 March. The joint venture interest was held by Agbar Solutions Ltd, a fellow subsidiary and intermediate holding company within the AUK group, which owned 100 class ‘B’ shares in the company, representing a holding of 50% of the voting and equity rights of the company at the balance sheet date. On 3 October 2011 Agbar Solutions Ltd sold its interest in BWBSL to Bristol Water Holdings Ltd, a 100% subsidiary of AUK Ltd. BWBSL is a joint venture undertaking between Bristol Water Holdings Ltd and Wessex Water Services Ltd, and provides meter reading, billing, debt recovery and customer contact management services to this company and Wessex Water Services Limited, under a cost sharing arrangement.

25. RELATED PARTY TRANSACTIONS (Continued)

Agbar Serco Technology Solutions Limited (ASTS), registered in England and Wales, whose year-end is 31 December. The joint venture company was owned 50% by Agbar Solutions Ltd, a former fellow subsidiary and intermediate holding company within the AUK group until 27 June 2011, and 50% by Serco UK Limited. ASTS provides Information Technology consultancy services, and security asset management services. Following a competitive tendering process, ASTS was contracted to provide IT maintenance and development services to the company from 1 November 2008.

Agbar Environment Limited (AEL), registered in England and Wales, whose year-end is 31 December. This company was a fellow subsidiary within the AUK group until 27 June 2011 and is engaged in providing Water Infrastructure Asset Management services to the water industry. The principal activities include a patented process called "Ice Pigging" which involves passing a mass of slush ice through conduits in order to remove material or other substances found within the pipes. This company also provides sub-licences to customers for the use of Ice Pigging technology in other countries. AEL owns 100% of the equity of Marral Chemicals Limited, registered in England and Wales, whose year end is 31 December. Marral Chemicals Limited provides products and services relating to industrial water treatment.

During the year Bristol Water plc has provided resources to AEL to enable it to engage in its principal activities and recharged the costs accordingly.

Trading transactions

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

	Sales of goods and services		**Purchases of goods and services**	
	2011	2010	**2011**	2010
	£m	£m (unaudited)	**£m**	£m (unaudited)
Members and former members of the AUK group				
Agbar UK Ltd management charges	**0.3**	0.4	**—**	0.1
Agbar Environment Limited	**0.5**	0.2	**0.1**	—
Joint ventures and former joint ventures of the AUK group				
BWBSL				
— management charges	**—**	—	**2.3**	2.3
— capital expenditure	**—**	—	**0.1**	0.1
— other recharges	**—**	—	**0.3**	0.3
ASTS				
— management charges	**—**	—	**1.3**	1.3
— capital expenditure	**—**	—	**0.7**	0.6
— other	**—**	—	**0.3**	0.3
	0.8	0.6	**5.1**	5.0

	Amounts due from		**Amounts due to**	
	2011	2010	**2011**	2010
	£m	£m (unaudited)	**£m**	£m (unaudited)
Members and former members of the AUK group				
Agbar Environment Limited	**0.2**	0.2	**—**	—
Marral Chemicals Limited	**—**	—	**0.1**	—
Joint ventures and former joint ventures of the AUK group				
BWBSL	**1.1**	2.0	**0.7**	0.6
ASTS	**—**	—	**0.4**	0.3
	1.3	2.2	**1.2**	0.9

25. RELATED PARTY TRANSACTIONS (Continued)

Bristol Water plc paid Wessex Water Services Ltd £0.1 million (2010: £0.1 million) for a share of other assets used operationally by BWBSL but capitalised by Bristol Water plc.

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

In addition to the above transactions, interest of £4.0 million (2010: £4.0 million) was received from Agbar UK Limited in respect of amounts receivable from the UK parent company (see note 10).

Key Management Compensation

Key management includes directors (executive and non-executive). The compensation paid or payable to key management for employee services is shown below:

	2011	2010
	£m	£m (unaudited)
Salaries and other short term benefits	**0.8**	0.7
Post-employment benefits	**0.1**	0.1
Share-based payments	**—**	—
	0.9	0.8

26. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

At the balance sheet date the ultimate parent company was considered by the directors to be Suez Environnement Company S.A, a company incorporated in France and partly owned by the French group GDF Suez.

The largest group in which this company is consolidated is Suez Environnement Company S.A. and copies of it consolidated annual report are available from 1, Rue D'astorg 75008 Paris, France.

The smallest group in which this company is consolidated is Agbar, and copies of its consolidated annual report are available from Torre Agbar, Avda, Diagonal, 211, Planta 19-08018, Barcelona, Spain.

27. POST BALANCE SHEET EVENTS

On 5 October 2011, CSE Water UK Limited, the UK subsidiary of Capstone Infrastructure Corporation, a Canadian infrastructure company, purchased 70% of the equity of Agbar UK Limited (the then ultimate UK parent company of Bristol Water plc) from Sociedad General de Aguas de Barcelona S.A.

On 29 September 2011, Bristol Water plc paid an ordinary dividend of 24.95 pence per share totalling £1.5 million to Bristol Water Core Holdings Limited, its immediate parent company.

On 19 October 2011, Agbar UK Limited, the former UK ultimate parent company, changed its name to Bristol Water Holdings UK Limited.

28. RECONCILIATIONS BETWEEN IFRS AND UK GAAP

Transition to IFRS

As set out in the Basis of Preparation note on page 1, these non-statutory financial statements are prepared in accordance with IFRS as adopted by the IASB. The accounting policies set out in Note 1 have been applied in preparing the non-statutory financial statements for the year ended 31 March 2011, the comparative information presented for the year ended 31 March 2010 and in the preparation of an opening IFRS balance sheet at 1 April 2009 (the company's date of transition for these non-statutory financial statements).

In preparing its opening IFRS balance sheet, the company has adjusted amounts reported previously in financial statements prepared with UK GAAP. An explanation of how the transition from UK GAAP to IFRS has affected the company's financial position, and financial performance is set out in the following tables and notes that accompany the tables.

28. RECONCILIATIONS BETWEEN IFRS AND UK GAAP (Continued)

IFRS exemptions.

The company has applied the following exemptions:

- The company has applied the transitional provisions in IAS 23 Borrowing costs on assets where construction commenced on or after transition.
- IFRS1 provides retrospective relief from applying IAS19 'Employee benefits' for the recognition of actuarial gains and losses. In line with the exemption, the company elected to recognise all cumulative actuarial gains and losses that existed at its transition date in opening retained earnings for all its employee benefit plans.
- IFRIC18 'Transfers of assets from customers' has been applied prospectively from 1 July 2009.

a) Reconciliation of income statement for the year ended 31 March 2010 (unaudited)

	UK GAAP	IAS16	IAS12	IFRS
	£m	£m	£m	£m
Note		I	IV	
Revenue	99.7	—	—	99.7
Operating costs:				
Operational costs	(50.6)	(5.1)	—	(55.7)
Depreciation	(21.0)	8.3	—	(12.7)
Operating profit:	28.1	3.2	—	31.3
Finance cost	(9.1)	—	—	(9.1)
Finance income	4.1	—	—	4.1
Profit before taxation	23.1	3.2	—	26.3
Taxation	(4.5)	(0.9)	(2.2)	(7.6)
Profit for the year	18.6	2.3	(2.2)	18.7

b) Reconciliation of income statement for the year ended 31 March 2011

	UK GAAP	IAS16	IAS12	IFRS
	£m	£m	£m	£m
Note		I	IV	
Revenue	100.7	—	—	100.7
Operating costs:				
Operational costs	(52.2)	(4.8)	—	(57.0)
Depreciation	(29.9)	18.4	—	(11.5)
Operating profit:	18.6	13.6	—	32.2
Finance cost	(15.2)	—	—	(15.2)
Finance income	4.2	—	—	4.2
Profit before taxation	7.6	13.6	—	21.2
Taxation	(0.8)	(3.5)	2.3	(2.0)
Profit for the year	6.8	10.1	2.3	19.2

28. RECONCILIATIONS BETWEEN IFRS AND UK GAAP (Continued)

c) Reconciliation of equity at 1 April 2009 (unaudited)

	UK GAAP	IAS16	IAS7	IAS19	IAS12	IFRS
	£m	£m	£m	£m	£m	£m
Note:		I	II	III	IV	
Non-current assets						
Property, plant & equipment	251.7	27.5	—	—	—	279.2
Intangible assets	—	3.1	—	—	—	3.1
Investments	68.5	—	—	—	—	68.5
Retirement benefit surplus	6.3	—	—	11.3		17.6
	326.5	30.6	—	11.3	—	368.4
Current assets						
Inventories	1.1	—	—	—	—	1.1
Trade and other receivables	21.6	—	—	—	—	21.6
Financial assets — Term deposits	19.4	—	(19.4)	—	—	—
Cash and cash equivalents	1.2		19.4	—	—	20.6
	43.3	—	—	—	—	43.3
Liabilities						
Financial liabilities — borrowings	(2.2)	—	—	—	—	(2.2)
Trade and other payables	(25.2)	—	—	—	—	(25.2)
	(27.4)	—	—	—	—	(27.4)
Net current assets	15.9	—	—	—	—	15.9
Non-current liabilities						
Financial liabilities — borrowings	(232.7)	—	—	—	—	(232.7)
Deferred taxation liabilities	(22.8)	(11.4)	—	(4.9)	(16.8)	(55.9)
Deferred income	(10.2)	10.2	—	—	—	—
	(265.7)	(1.2)	—	(4.9)	(16.8)	(288.6)
Net assets	76.7	29.4	—	6.4	(16.8)	95.7

28. RECONCILIATIONS BETWEEN IFRS AND UK GAAP (Continued)

d) Reconciliation of equity at 31 March 2010 (unaudited)

	UK GAAP	IAS16	IAS7	IAS19	IAS12	IFRS
	£m	£m	£m	£m	£m	£m
Note:		I	II	III	IV	
Non-current assets						
Property, plant & equipment	251.2	33.9	—	—	—	285.1
Intangible assets	—	3.2	—	—	—	3.2
Retirement benefit surplus	6.3	—	—	2.5	—	8.8
Investments	68.5	—	—	—	—	68.5
	326.0	37.1	—	2.5	—	365.6
Current assets						
Inventories	1.0	—	—	—	—	1.0
Trade and other receivables	23.1	—	—	—	—	23.1
Financial assets — Term deposits	25.0	—	(25.0)	—	—	—
Cash and cash equivalents	1.8	—	25.0	—	—	26.8
	50.9	—	—	—	—	50.9
Liabilities						
Financial liabilities — borrowings	(2.5)	—	—	—	—	(2.5)
Trade and other payables	(28.8)	—	—	—	—	(28.8)
	(31.3)	—	—	—	—	(31.3)
Net current assets	19.6	—	—	—	—	19.6
Non-current liabilities						
Financial liabilities — borrowings	(228.3)	—	—	—	—	(228.3)
Deferred tax Liabilities	(22.2)	(12.5)	—	(2.5)	(18.9)	(56.1)
Deferred income	(10.3)	7.1	—	—	—	(3.2)
	(260.8)	(5.4)	—	(2.5)	(18.9)	(287.6)
Net assets	84.8	31.7	—	—	(18.9)	97.6

28. RECONCILIATIONS BETWEEN IFRS AND UK GAAP (Continued)

e) Reconciliation of equity at 31 March 2011

	UK GAAP	IAS16	IAS7	IAS19	IAS12	IFRS
	£m	£m	£m	£m	£m	£m
Note:		I	II	III	IV	
Non-current assets						
Property, plant & equipment	240.7	52.3	—		—	293.0
Intangible assets	—	2.6	—		—	2.6
Retirement benefit surplus	7.6	—	—	19.1	—	26.7
Investments	68.5	—	—	—	—	68.5
	316.8	54.9	—	19.1	—	390.8
Current assets						
Inventories	1.1	—	—	—	—	1.1
Trade and other receivables	22.3	—	—	—	—	22.3
Financial assets — Term deposits	—	—	60.8	—	—	60.8
Cash and cash equivalents	79.7	—	(60.8)	—	—	18.9
	103.1	—	—	—	—	103.1
Liabilities						
Financial liabilities — borrowings	(2.8)	—	—	—	—	(2.8)
Trade and other payables	(25.3)	—	—	—	—	(25.3)
	(28.1)	—	—	—	—	(28.1)
Net current assets	75.0	—	—	—	—	75.0
Non-current liabilities						
Financial liabilities — borrowings	(269.8)	—	—	—	—	(269.8)
Deferred tax Liabilities	(22.3)	(15.0)	—	(7.0)	(17.5)	(61.8)
Deferred income	(9.8)	2.8	—	—	—	(7.0)
	(301.9)	(12.2)	—	(7.0)	(17.5)	(338.6)
Net assets	89.9	42.7	—	12.1	(17.5)	127.2

f) Notes to reconciliations of income and equity

I. IAS16 — Property, Plant & Equipment

The most significant impact of IAS16 relates to infrastructure assets. In accordance with UK GAAP (FRS15), infrastructure assets are treated as a single homogenous asset, which is subject to renewals accounting. Under renewals accounting, capital expenditure to maintain the asset (infrastructure renewals expenditure) is treated as an addition to property, plant and equipment and the depreciation charge (infrastructure renewals charge) is the estimated level of annual expenditure required to maintain the operating capability of the network. No other depreciation was applied to the infrastructure network.

Under IAS16, infrastructure renewals accounting is not permitted and infrastructure assets are now depreciated over the estimated useful lives of identified components of the network. In addition, infrastructure renewals expenditure is now capitalised only if it represents a material replacement of a network component. If not, it is charged separately to operating expenditure rather than being treated as depreciation. As a result, there is significant expenditure classification change.

i. For first time adoption of IAS16 in respect of infrastructure renewals expenditure, the company has reconstructed its infrastructure and records from 1 April 1990 (the date when infrastructure renewals accounting was adopted for the first time) in line with the new standard. Assets have been analysed into approximately 70 discrete assets.

In addition, there are two classification changes following implementation of IAS16. These are:

ii. Software development costs are now classified as intangible assets rather than being included as part of property, plant and equipment.

28. RECONCILIATIONS BETWEEN IFRS AND UK GAAP (Continued)

iii. Under UK GAAP customer grants and contributions in property, plant and equipment (P,P&E) were treated as deferred income and amortised over the life of the assets. On transition to IFRS on 1 April 2009 the company adopted the group policy of treating grants and contributions as a deduction against P,P&E as this is an allowable policy under IFRS. On this basis £10.2 million of deferred income under UK GAAP has been offset against P,P&E at transition.

iv. With effect from 1 July 2009 the company has accounted for grants and contributions in accordance with IFRIC18, therefore treating receipts as deferred income. On transition to IFRIC18, the company has taken the exemption to apply IFRIC18 prospectively from 1 July 2009. At 31 March 2011 £7.0 million (2010:£3.2 million) was recognised in deferred income.

At Transition — 1 April 2009 (see table c) above)	**IAS 16 Adjustments**			**Total**
	£m (i)	£m (ii)	£m (iii)	£m (unaudited)
Property, Plant & Equipment	40.8	(3.1)	(10.2)	27.5
Intangible Assets	—	3.1	—	3.1
Deferred Income	—	—	10.2	10.2
Deferred taxation liabilities	(11.4)	—	—	(11.4)
Reserves	(29.4)	—	—	(29.4)

At March 2010 (see table d) above	**IAS 16 Adjustments**				**Total**
	£m (i)	£m (ii)	£m (iii)	£m (iv)	£m (unaudited)
Property, Plant & Equipment	44.2	(3.2)	(10.3)	3.2	33.9
Intangible Assets	—	3.2	—	—	3.2
Deferred Income	—	—	10.3	(3.2)	7.1
Deferred taxation liabilities	(12.5)	—	—	—	(12.5)
Reserves	(31.7)	—	—	—	(31.7)

At March 2011 (see table e) above)	**IAS 16 Adjustments**				**Total**
	£m (i)	£m (ii)	£m (iii)	£m (iv)	£m (unaudited)
Property, Plant & Equipment	57.7	(2.6)	(9.8)	7.0	52.3
Intangible Assets	—	2.6	—	—	2.6
Deferred Income	—	—	9.8	(7.0)	2.8
Deferred taxation liabilities	(15.0)	—	—	—	(15.0)
Reserves	(42.7)	—	—	—	(42.7)

The impact of the new accounting policy is to reduce the depreciation charge for the year ended 31 March 2011 by some £18.4 million and to increase operating expenditure by £4.8 million. The net effect of IAS16 is to increase operating profit by some £13.6 million and increase net assets at 31 March 2011 by some £42.7 million, but will not impact operating cash flows.

The accounting policies applied under UK GAAP for all other fixed assets are compliant with IFRS and continue to be appropriate.

II. IAS7 — Cash Flows.

Under IAS7 cash equivalents are short term, highly liquid investments that are readily convertible to cash. An investment normally qualifies as a cash equivalent only when it has short maturity of three months or less. Therefore, such investments have been reclassified as cash and cash equivalents under IAS7. There are no other material adjustments arising other than presentational as a result of applying IAS7 therefore no further reconciliation is necessary.

At 31 March 2011, this resulted in a reclassification of £60.8 million from cash to short term deposits (2010: £25.0 million, 2009: £19.4 million).

III. IAS12 — Deferred tax

Deferred tax under IAS12 is based on "temporary differences" between the carrying value and tax base of the company's assets and liabilities.

28. RECONCILIATIONS BETWEEN IFRS AND UK GAAP (Continued)

i. Under UK GAAP, deferred tax is provided on "timing differences" that originated but had not reversed before the balance sheet date. These are primarily on the adjustments to property, plant and equipment.

ii. Furthermore, IAS12, unlike UK GAAP does not permit the discounting of deferred tax liabilities, therefore the discounting has been reversed.

iii. The deferred taxation liability of £2.7 million in respect of the IAS19 Pension surplus which was offset under UK GAAP has been added back to disclose the gross surplus as at 31 March 2011. In addition, at 31 March 2011 recognition of the full IAS19 surplus results in an additional deferred tax liability of £4.3 million.

As a result of the implementation of IAS12, an additional deferred tax liability of £39.5 million has been provided at 31 March 2011.

At Transition — 1 April 2009 (see Table b) above)

	At transition 1 April 2009	At 31 March 2010	At 31 March 2011
	£m (unaudited)	£m (unaudited)	£m
UK GAAP	22.8	22.2	22.3
Notes (i)	11.4	12.5	15.0
Notes (ii)	16.8	18.9	17.5
Notes (iii)	4.9	2.5	7.0
Total under IFRS	55.9	56.1	61.8

IV. IAS19 — Pensions schemes

Under UK GAAP the measurement and recognition requirements of FRS17 adopted.

IAS19 takes a balance sheet approach to accounting for defined benefit schemes, similar to FRS17. Therefore, under IFRS, a surplus of £26.7 million (before deferred tax) the same as that previously disclosed under FRS17 is recognised in the balance sheet at 31 March 2011.

Under FRS17 the pension surplus is disclosed net of the deferred tax charge of £2.7 million whilst under IAS19 the pension surplus is disclosed before deferred taxation. Therefore, the £2.7 million has been adjusted.

Under FRS17 (UK GAAP) the pension surplus was restricted by £16.4 million as at 31 March 2011. Under IFRS due to the implementation of IFRIC14 this restriction has been reversed, resulting in recognition of the full surplus on the defined benefit scheme amounting to £26.7 million. (see Table (e) above). As permitted by IAS19, all cumulative actuarial gains and losses as at 1 April 2009, the date of transition to IFRS, were recognised in full. Prospectively the group currently intends to recognise all actuarial gains and losses in the period in which they occur in the Statement of Comprehensive Income.

INDEPENDENT AUDITORS' REPORT TO BRISTOL WATER PLC

Report on the financial statements

We have audited the accompanying financial statements of Bristol Water plc, which comprise the balance sheet as at 31 March 2011, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, the opening balance sheet as at 1 April 2009, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Company in accordance with our engagement letter dated 14 October 2011. Our audit work has been undertaken so that we might state to the Company those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility or liability to anyone other than the Company for our audit work, for this report, or for the opinions we have formed.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Bristol Water plc as at 31 March 2011, and its financial performance and its cash flows for the year then ended and of the opening balance sheet as at 1 April 2009 in accordance with IFRS as issued by the IASB.

Other matter

The corresponding information for the year ended 31 March 2010 is unaudited.

ERNST & YOUNG LLP
Bristol

24 October 2011

BRISTOL WATER plc

INTERIM RESULTS FOR THE THREE MONTHS ENDED 30 JUNE 2011 AND 2010

Basis of Preparation

These non-statutory interim condensed financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

For all periods up to and including the year ended 31 March 2011, the company has prepared its statutory financial statements in accordance with UK GAAP, which remains its basis of accounting. For the purpose of these non-statutory interim condensed financial statements, the company has adopted IFRS with a transition date of 1 April 2009, and has re-presented the non-statutory interim condensed financial statements on an IFRS basis.

These non-statutory interim condensed financial statements are not the statutory accounts of the company. The company's statutory accounts for the years ended 31 March 2010 and 2011 have already been filed with Companies House and an auditor's report was given for both such accounts on an unqualified basis.

In preparing these non-statutory interim condensed financial statements, the company has applied IAS19 and IFRIC14 in respect of pensions accounting. The standard and interpretation respectively, result in the recognition of a surplus on the balance sheet totalling £29.2 million (2010: £12.5 million), and a gross actuarial gain of £2.7 million (2010: £3.5 million) in the Statement of Comprehensive Income. These amounts are the result of the technical application of both IAS19 and IFRIC 14.

The winding-up provisions in the pension scheme rules provide that any surplus on winding-up is first allocated to the augmentation of members benefits. A surplus remaining following augmentation may be paid over to the company at the trustee's discretion following consultation with pension scheme members.

In contrast to the result arising on the application of IFRS, on a scheme funding basis, the Bristol Water plc section of the scheme is expected to register a £2.9 million deficit at 31 March 2011. In addition, on a buyout basis, the scheme is estimated to cost £25.3 million at 31 March 2011. The triennial review at 31 March 2011 is ongoing and therefore both positions remain subject to final review.

BRISTOL WATER plc

CONDENSED INCOME STATEMENT

for the period ended 30 June 2011

	Note	Three months to 30 June 2011 £m (unaudited)	Three months to 30 June 2010 £m (unaudited)
Revenue	2	**26.8**	25.0
Operating costs	3	**(16.8)**	(17.7)
Operating profit		**10.0**	7.3
Financing costs			
Finance income	4	**1.2**	1.0
Finance costs	4	**(4.7)**	(3.6)
Profit before taxation		**6.5**	4.7
Taxation	5	**(1.7)**	(1.4)
Profit for the period		**4.8**	3.3
Basic earnings per ordinary share	6	**80p**	55p

All activities above relate to continuing operations.

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

BRISTOL WATER plc

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

for the period ended 30 June 2011

	Three months to 30 June 2011	Three months to 30 June 2010
	£m (unaudited)	£m (unaudited)
Profit for the period	**4.8**	3.3
Other comprehensive income		
Actuarial gains recognised in respect of retirement benefit obligations	**2.7**	3.5
Attributable deferred taxation in respect of actuarial gains	**(0.6)**	(0.9)
Change in the fair value of the interest rate swap	**(0.3)**	(0.3)
Total other comprehensive income	**1.8**	2.3
Total comprehensive income for the period	**6.6**	5.6

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

BRISTOL WATER plc

CONDENSED STATEMENT OF CHANGES IN EQUITY

for the period ended 30 June 2011	Share capital	Share premium account	Other reserves: Capital redemption reserve	Other reserves: Hedging reserve	Retained earnings	30 June Total 2011
	£m	£m	£m	£m	£m	**£m (unaudited)**
At 1 April 2011	6.0	4.4	5.8	(0.6)	111.6	**127.2**
Profit for the period	—	—	—	—	4.8	**4.8**
Other comprehensive (expense)/income						
Actuarial gains recognised in respect of retirement benefit obligations	—	—	—	—	2.7	**2.7**
Attributable deferred taxation in respect of actuarial gains	—	—	—	—	(0.6)	**(0.6)**
Change in fair value of interest rate swap	—	—	—	(0.3)	—	**(0.3)**
Total other comprehensive (expense)/income	—	—	—	(0.3)	2.1	**1.8**
Total comprehensive (expense)/income	—	—	—	(0.3)	6.9	**6.6**
Equity dividends	—	—	—	—	—	**—**
At 30 June 2011	6.0	4.4	5.8	(0.9)	118.5	**133.8**

for the period ended 30 June 2010	Share capital	Share premium account	Other reserves: Capital redemption reserve	Other reserves: Hedging reserve	Retained earnings	30 June Total 2010
	£m	£m	£m	£m	£m	**£m (unaudited)**
At 1 April 2010	6.0	4.4	5.8	(0.7)	82.1	**97.6**
Profit for the period	—	—	—	—	3.3	**3.3**
Other comprehensive (expense)/income						
Actuarial gains recognised in respect of retirement benefit obligations	—	—	—	—	3.5	**3.5**
Attributable deferred taxation in respect of actuarial gains	—	—	—	—	(0.9)	**(0.9)**
Change in fair value of interest rate swap	—	—	—	(0.3)	—	**(0.3)**
Total other comprehensive (expense)/income	—	—	—	(0.3)	2.6	**2.3**
Total comprehensive (expense)/income	—	—	—	(0.3)	5.9	**5.6**
Equity dividends	—	—	—	—	—	**—**
At 30 June 2010	6.0	4.4	5.8	(1.0)	88.0	**103.2**

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

BRISTOL WATER plc

CONDENSED BALANCE SHEET

at 30 June 2011

	Note	At 30 June 2011 £m (unaudited)	At 30 June 2010 £m (unaudited)	At 31 March 2011 £m
Non-current assets				
Property, plant and equipment	7	**295.7**	285.0	293.0
Intangible assets		**2.6**	3.1	2.6
Retirement benefit surplus	9	**29.2**	12.5	26.7
Amounts receivable from parent undertaking		**68.5**	68.5	68.5
		396.0	369.1	390.8
Current assets				
Inventories		**1.2**	1.0	1.1
Trade and other receivables		**27.0**	27.9	22.3
Cash and cash equivalents	8	**20.5**	27.6	18.9
Short-term deposits	8	**59.8**	—	60.8
		108.5	56.5	103.1
Current liabilities				
Interest bearing loans and borrowings	8	**(2.8)**	(2.5)	(2.8)
Trade and other payables		**(24.3)**	(28.3)	(25.3)
		(27.1)	(30.8)	(28.1)
Net current assets		**81.4**	25.7	75.0
Non-current liabilities				
Trade and other payables		**(7.9)**	(4.0)	(7.0)
Interest bearing loans and borrowings	8	**(270.4)**	(228.2)	(268.8)
Other financial liabilities	8	**(1.3)**	(1.4)	(1.0)
Deferred tax liabilities		**(64.0)**	(58.0)	(61.8)
Net assets		**133.8**	103.2	127.2
Shareholders' equity				
Called-up share capital		**6.0**	6.0	6.0
Share premium account		**4.4**	4.4	4.4
Retained earnings		**118.5**	88.0	111.6
Other reserves		**4.9**	4.8	5.2
Total shareholders' equity		**133.8**	103.2	127.2

(Signed) L GARCÍA,
Director

(Signed) M ANGLADA,
Director

21 October 2011

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

BRISTOL WATER plc

CONDENSED CASH FLOW STATEMENT

for the period ended 30 June 2011

	Note	At 30 June 2011 £m (unaudited)	At 30 June 2010 £m (unaudited)
Cash flow from operating activities			
Cash generated from operations	**11**	**8.1**	6.4
Interest paid on term loans and debentures		**(0.4)**	(0.4)
Interest paid on finance leases		**(0.1)**	(0.1)
Tax paid		**(1.6)**	(1.5)
Contributions under IFRIC18		**0.8**	0.8
Net cash generated from operating activities		**6.8**	5.2
Cash flow from investing activities			
Purchase of property, plant and equipment and intangible assets		**(6.0)**	(4.2)
Decrease in short term deposits		**1.0**	—
Net cash used in investing activities		**(5.0)**	(4.2)
Cash flow from financing activities			
Loan repayment		**(0.2)**	(0.2)
Net cash used in financial activities		**(0.2)**	(0.2)
Net increase in cash and cash equivalents		**1.6**	0.8
Cash and cash equivalents at beginning of the period	**8**	**18.9**	26.8
Cash and cash equivalents at end of the period	**8**	**20.5**	27.6

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

BRISTOL WATER plc
NOTES TO THE INTERIM RESULTS
For the three months ended 30 June 2011

1. ACCOUNTING POLICIES

For all periods up to and including the year ended 31 March 2011, the company has prepared its statutory financial statements in accordance with UK GAAP, which remains its basis of accounting. The company's statutory accounts for the years ended 31 March 2010 and 2011 have already been filed with Companies House and an auditor's report was given for both such accounts on an unqualified basis. For the purpose of these non-statutory interim condensed financial statements, the company has adopted IFRS with a transition date of 1 April 2009, and has re-presented the non-statutory interim condensed financial statements on an IFRS basis.

These non-statutory interim condensed financial statements which have not been audited but have been reviewed by the company's auditors, have been prepared on the basis of the accounting policies adopted by Bristol Water plc for the year ended 31 March 2011 as set out in the "Non-statutory financial statements".

The accounting policies adopted in the preparation of these non-statutory condensed interim results have been prepared in accordance with IAS 34, "Interim Financial Reporting". The condensed interim financial information should be read in conjunction with the "Non-statutory financial statements" for the year ended 31 March 2011.

2. REVENUE

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

The directors consider that there is only one segment, being the operation of the water supply business in the UK. As the company has only UK based activities there is also only one geographical segment: therefore the disclosure for this segment has already been given in these non-statutory interim condensed financial statements.

It is noted that in making these decisions the Board reviews the accounts prepared in accordance with UK GAAP. A reconciliation from UK GAAP to IFRS is provided as follows:

(a) Reconciliation of income statement for the period ended 30 June 2011 (unaudited):

	As reviewed by the Board	Reversal of renewals accounting	Reversal of deferred tax discounting	As reported in the income statement
	£m	£m	£m	**£m**
Revenue	26.8	—	—	**26.8**
Operating costs:				
Operational costs	(13.0)	(0.8)	—	**(13.8)**
Depreciation	(7.8)	4.8	—	**(3.0)**
Operating profit:	6.0	4.0	—	**10.0**
Finance cost	(4.7)	—	—	**(4.7)**
Finance income	1.2	—	—	**1.2**
Profit before taxation	2.5	4.0	—	**6.5**
Taxation	(0.8)	(1.0)	0.1	**(1.7)**
Profit for the period	1.7	3.0	0.1	**4.8**

2. **REVENUE (Continued)**

(b) **Reconciliation of income statement for the period ended 30 June 2010 (unaudited):**

	As reviewed by the Board	Reversal of renewals accounting	Reversal of deferred tax discounting	As reported in the income statement
	£m	£m	£m	**£m**
Revenue	25.0	—	—	**25.0**
Operating costs:				
Operational costs	(13.7)	(1.1)	—	**(14.8)**
Depreciation	(6.2)	3.3	—	**(2.9)**
Operating profit:	5.1	2.2	—	**7.3**
Finance cost	(3.6)	—	—	**(3.6)**
Finance income	1.0	—	—	**1.0**
Profit before taxation	2.5	2.2	—	**4.7**
Taxation	(0.5)	(1.1)	0.2	**(1.4)**
Profit for the period	2.0	1.1	0.2	**3.3**

(c) **Reconciliation of equity at 30 June 2011 (unaudited):**

	As reviewed by the Board	Grants adjustment & reversal of renewals accounting	Reclassifications	Reversal of pension asset restriction	Reversal of deferred tax discounting	As reported in the balance sheet
	£m	£m	£m	£m	£m	**£m**
Non-current assets						
Property, plant & equipment	238.4	57.3	—	—	—	**295.7**
Intangible assets	—	2.6	—	—	—	**2.6**
Investments	68.5	—	—	—	—	**68.5**
Retirement benefit surplus	7.5	—	—	21.7		**29.2**
	314.4	59.9	—	21.7	—	**396.0**
Current assets						
Inventories	1.2	—	—	—	—	**1.2**
Trade and other receivables	27.0	—	—	—	—	**27.0**
Financial assets — Term deposits	80.3	—	(59.8)	—	—	**20.5**
Cash and cash equivalents	—		59.8	—	—	**59.8**
	108.5	—	—	—	—	**108.5**
Liabilities						
Financial liabilities — borrowings	(2.8)	—	—	—	—	**(2.8)**
Trade and other payables	(24.3)	—	—	—	—	**(24.3)**
	(27.1)	—	—	—	—	**(27.1)**
Net current assets	81.4	—	—	—	—	**81.4**
Non-current liabilities						
Financial liabilities — borrowings	(271.7)	—	—	—	—	**(271.7)**
Deferred taxation liabilities	(22.9)	(16.0)	—	(7.6)	(17.5)	**(64.0)**
Deferred income	(9.7)	1.8	—	—	—	**(7.9)**
	(304.3)	(14.2)	—	(7.6)	(17.5)	**(343.6)**
Net assets	91.5	45.7	—	14.1	(17.5)	**133.8**

2. REVENUE (Continued)

(d) Reconciliation of equity at 30 June 2010 (unaudited):

	As reviewed by the Board	Grants adjustment & reversal of renewals accounting	Reclassifications	Reversal of pension asset restriction	Reversal of deferred tax discounting	As reported in the balance sheet
	£m	£m	£m	£m	£m	**£m**
Non-current assets						
Property, plant & equipment	248.2	36.8	—	—	—	**285.0**
Intangible assets	—	3.1	—	—	—	**3.1**
Investments	68.5	—	—	—	—	**68.5**
Retirement benefit surplus	6.4	—	—	6.1		**12.5**
	323.1	39.9	—	6.1	—	**369.1**
Current assets						
Inventories	1.0	—	—	—	—	**1.0**
Trade and other receivables	27.9	—	—	—	—	**27.9**
Financial assets — Term deposits	27.6	—	—	—	—	**27.6**
Cash and cash equivalents	—		—	—	—	**—**
	56.5	—	—	—	—	**56.5**
Liabilities						
Financial liabilities — borrowings	(2.5)	—	—	—	—	**(2.5)**
Trade and other payables	(28.3)	—	—	—	—	**(28.3)**
	(30.8)	—	—	—	—	**(30.8)**
Net current assets	25.7	—	—	—	—	**25.7**
Non-current liabilities						
Financial liabilities — borrowings	(229.6)	—	—	—	—	**(229.6)**
Deferred taxation liabilities	(22.4)	(13.5)	—	(3.4)	(18.7)	**(58.0)**
Deferred income	(10.3)	6.3	—	—	—	**(4.0)**
	(262.3)	(7.2)	—	(3.4)	(18.7)	**(291.6)**
Net assets	86.5	32.7	—	2.7	(18.7)	**103.2**

3. OPERATING EXPENSES — ANALYSIS BY NATURE

	Three months to 30 June 2011	**Three months to 30 June 2010**
	£m (unaudited)	£m (unaudited)
Operating expenses comprise -		
Net employee expenses	**3.3**	3.4
Depreciation and amortisation	**3.0**	2.9
Other operating expenses	**10.5**	11.4
	16.8	17.7

BRISTOL WATER plc
NOTES TO THE INTERIM RESULTS
For the three months ended 30 June 2011

4. NET FINANCING COSTS

	Three months to 30 June 2011 £m (unaudited)	Three months to 30 June 2010 £m (unaudited)
Other net interest payable/(receivable) and similar charges/(income) relate to -		
Finance costs		
Bank borrowings	**0.2**	0.2
Term loans and debentures:		
interest charges	**2.2**	1.8
indexation charge	**1.9**	1.1
Finance leases	**0.1**	0.1
Dividends on 8.75% irredeemable cumulative preference shares	**0.3**	0.3
Interest charge in respect of retirement benefit scheme surplus	**—**	0.1
Total interest payable and similar charges	**4.7**	3.6
Finance income Interest receivable and similar income		
Loan to Agbar UK Ltd* — interest receivable	**(1.0)**	(1.0)
Other external investments and deposits	**(0.2)**	—
Total finance income	**(1.2)**	(1.0)
Net financing costs	**3.5**	2.6

* renamed Bristol Water Holdings UK Limited (see note 16)

5. TAXATION

	Three months to 30 June 2011 £m (unaudited)	Three months to 30 June 2010 £m (unaudited)
The charge for taxation comprises:		
Current tax:		
Corporation tax at 26% (2010: 28%, 31 March 2011:28%)	**0.2**	0.5
Deferred tax:		
Current period movement including prior period adjustments at 26% (2010:28%, 31 March 2011:26%)	**1.5**	0.9
Effect of corporation tax rate change	**—**	—
Total deferred tax	**1.5**	0.9
Tax on profit on ordinary activities	**1.7**	1.4

The effective tax rate at 30 June 2011 is 26% (2010: 30%) primarily due to the corporation tax rate reduction.

6. BASIC EARNINGS PER ORDINARY SHARE

	Three months to 30 June 2011	Three months to 30 June 2010
	£m (unaudited)	£m (unaudited)
Basic earnings per ordinary share have been calculated as follows:		
Earnings attributable to ordinary shares	**£4.8**	£3.3
Weighted average number of ordinary shares	**6.0**	6.0

7. PROPERTY, PLANT AND EQUIPMENT

	Three months to 30 June 2011	Three months to 30 June 2010	Year to 31 March 2011
	£m (unaudited)	£m (unaudited)	£m
The movement in property, plant and equipment comprises:			
Net book value, beginning of period	**293.0**	285.1	285.1
Additions	**5.5**	2.5	18.6
Disposals	**—**	—	(0.2)
Depreciation charge for period	**(2.8)**	(2.6)	(10.5)
Net book value, end of period	**295.7**	285.0	293.0

8. NET INTEREST BEARING LOANS AND BORROWINGS

	At 30 June 2011	At 30 June 2010	At 31 March 2011
	£m (unaudited)	£m (unaudited)	£m
Net interest bearing loans and borrowings comprise:			
Non-current borrowings	**257.9**	215.7	256.3
Current portion of debt	**2.8**	2.5	2.8
8.75% irredeemable cumulative preference shares	**12.5**	12.5	12.5
Derivative financial instruments — swap	**1.3**	1.4	1.0
	274.5	232.1	272.6
Cash and cash equivalents	**(20.5)**	(27.6)	(18.9)
Investments — term deposits	**(59.8)**	—	(60.8)
Net interest bearing loans and borrowings	**194.2**	204.5	192.9

9. RETIREMENT BENEFIT OBLIGATIONS

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

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

9. RETIREMENT BENEFIT OBLIGATIONS (Continued)

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

In 2005/06, in connection with new financing and the return to shareholders by the then ultimate parent company, the company made a one-off contribution to WCPS of £7.0 million. The company also agreed to make additional contributions of £1.0 million in each of the four years beginning 1 April 2006 and a further £0.9 million in 2010/11. The amounts are in addition to the normal pension contributions required by the WCPS trustees.

In preparing these non-statutory interim condensed financial statements, the company has applied IAS19 and IFRIC14 in respect of pensions accounting. The standard and interpretation respectively, result in the recognition of a surplus on the balance sheet totalling £29.2 million (2010: £12.5 million), and a gross actuarial gain of £2.7 million (2010: £3.5 million) in the Statement of Comprehensive Income. These amounts are the result of the technical application of both IAS19 and IFRIC 14.

The winding-up provisions in the pension scheme rules provide that any surplus on winding-up is first allocated to the augmentation of members benefits. A surplus remaining following augmentation may be paid over to the company at the trustee's discretion following consultation with pension scheme members.

In contrast to the result arising on the application of IFRS, on a scheme funding basis, the Bristol Water plc section of the scheme is expected to register a £2.9 million deficit at 31 March 2011. In addition, on a buyout basis, the scheme is estimated to cost £25.3 million at 31 March 2011. The triennial review at 31 March 2011 is ongoing and therefore both positions remain subject to final review.

In accordance with IAS19 actuarial gains and losses are recognised immediately in the Statement of Comprehensive Income.

In summary, assets and liabilities under IAS19 were:

	At 30 June 2011	**At 30 June 2010**	**At 31 March 2011**
	£m (unaudited)	£m (unaudited)	
Market value of section assets	**153.5**	140.4	149.5
Present value of liabilities	**(124.3)**	(127.9)	(122.8)
Surplus on IAS19 basis	**29.2**	12.5	26.7

10. DIVIDENDS IN RESPECT OF ORDINARY SHARES

No dividends have been paid or declared in respect of ordinary shares during either the 3 month period to 30 June 2011 or the three month period to 30 June 2010.

11. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months to 30 June 2011	**Three months to 30 June 2010**
	£m (unaudited)	£m (unaudited)
(a) Reconciliation of operating profit to net cash inflow from operating activities:		
Operating profit	**10.0**	7.3
Depreciation and amortisation	**3.0**	2.9
Pension charges in excess of normal contributions	**0.1**	(0.1)
Changes in working capital:		
Increase in inventory	**(0.1)**	—
Increase in trade and other receivables	**(3.6)**	(3.8)
(Decrease)/increase in trade and other payables	**(1.3)**	0.3
Additional contributions to pension scheme	**—**	(0.2)
Cash generated from operations	**8.1**	6.4

11. SUPPLEMENTARY CASH FLOW INFORMATION (Continued)

	Three months to 30 June 2011 £m (unaudited)	Three months to 30 June 2010 £m (unaudited)
(b) Reconciliation of net cash flow to movement in net borrowings -		
Increase in cash and cash equivalents in the period	**1.6**	0.8
Repayment of loan	**0.2**	0.2
Decrease in cash deposits (investments)	**(1.0)**	—
	0.8	1.0
Indexation of debt and amortisation of fees and premium not affecting cash flow	**(1.9)**	(1.1)
Fair value of interest rate swap not affecting cash flow	**(0.2)**	(0.4)
Net borrowings at 1 April including 8.75% irredeemable cumulative preference shares	**(191.8)**	(203.0)
Derivative financial instruments — swap	**(1.1)**	(1.0)
Net borrowings at 30 June	**(194.2)**	(204.5)

12. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments at 30 June 2011 contracted for but not provided were £13.1 million.

(b) Contingencies — The company is a member of a VAT group and is jointly liable for the VAT liabilities of Agbar UK Limited (renamed Bristol Water Holdings UK Limited (see note 15) and certain other companies within the Agbar UK Limited group. The financial effect of this is not expected to be material.

13. RELATED PARTY TRANSACTIONS

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

Agbar UK Ltd (AUK), registered in England and Wales, whose year-end is 31 December, was the ultimate UK holding company of Bristol Water plc until the acquisition on 5 October 2011 by CSE Water UK Limited (see note 15).

On 19 October 2011, AUK changed its name to Bristol Water Holdings UK Limited.

Bristol Wessex Billing Services Limited (BWBSL), registered in England and Wales, whose year-end is 31 March. The joint venture interest was held by Agbar Solutions Ltd, a fellow subsidiary and intermediate holding company within the AUK group, which owned 100 class 'B' shares in the company, representing a holding of 50% of the voting and equity rights of the company at the balance sheet date. On 3 October 2011 Agbar Solutions Ltd sold its interest in BWBSL to Bristol Water Holdings Ltd, a 100% subsidiary of AUK Ltd. BWBSL is a joint venture undertaking between Bristol Water Holdings Ltd and Wessex Water Services Ltd, and provides meter reading, billing, debt recovery and customer contact management services to this company and Wessex Water Services Limited, under a cost sharing arrangement.

Agbar Serco Technology Solutions Limited (ASTS), registered in England and Wales, whose year-end is 31 December. The joint venture company was owned 50% by Agbar Solutions Ltd, a former fellow subsidiary and intermediate holding company within the AUK group until 27 June 2011, and 50% by Serco UK Limited. ASTS provides Information Technology consultancy services, and security asset management services. Following a competitive tendering process, ASTS was contracted to provide IT maintenance and development services to the company from 1 November 2008.

Agbar Environment Limited (AEL), registered in England and Wales, whose year-end is 31 December. This company was a fellow subsidiary within the AUK group until 27 June 2011 and is engaged in providing Water Infrastructure Asset Management services to the water industry. The principal activities include a patented process called "Ice Pigging" which involves passing a mass of slush ice through conduits in order to remove material or other substances found within the pipes. This company also provides sub-licences to customers for the use of Ice Pigging technology in other countries. AEL owns 100% of the equity of Marral Chemicals Limited, registered in England and Wales, whose year end is 31 December. Marral Chemicals Limited provides products and services relating to industrial water treatment.

13. RELATED PARTY TRANSACTIONS (Continued)

During the period Bristol Water plc has provided resources to AEL to enable it to engage in its principal activities and recharged the costs accordingly.

	Amounts due from		Amounts due to	
	2011	**2010**	**2011**	**2010**
	£m (unaudited)	£m (unaudited)	**£m (unaudited)**	£m (unaudited)
Members of the AUK group				
Agbar Environment Limited	**0.2**	0.2	**0.1**	—
Marral Chemicals Limited	**0.1**	—	**—**	—
Agbar UK Limited	**1.1**	1.1	**—**	—
Joint ventures of the AUK group	**0.1**	1.5	**0.7**	0.6
BWBSL	**—**	—	**—**	0.2
ASTS				
	1.5	2.8	**0.8**	0.8

Bristol Water plc paid Wessex Water Services Ltd for a share of other assets used operationally by BWBSL but capitalised by Bristol Water plc.

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

14. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

At the balance sheet date the ultimate parent company was considered by the directors to be Suez Environnement Company S.A, a company incorporated in France and partly owned by the French group GDF Suez.

The largest group in which this company is consolidated is Suez Environnement Company S.A. and copies of it consolidated annual report are available from 1, Rue D'astorg 75008 Paris, France.

The smallest group in which this company is consolidated is Agbar, and copies of its consolidated annual report are available from Torre Agbar, Avda, Diagonal, 211, Planta 19-08018, Barcelona, Spain.

15. POST BALANCE SHEET EVENTS

On 5 October 2011, CSE Water UK Limited, the UK subsidiary of Capstone Infrastructure Corporation, a Canadian infrastructure company, purchased 70% of the equity of Agbar UK Limited (the then ultimate UK parent company of Bristol Water plc) from Sociedad General de Aguas de Barcelona S.A.

On 29 September 2011, Bristol Water plc paid an ordinary dividend of 24.95 pence per share totalling £1.5 million to Bristol Water Core Holdings Limited, its immediate parent company.

On 19 October 2011, Agbar UK Limited, the former UK ultimate parent company, changed its name to Bristol Water Holdings UK Limited.

CAPSTONE INFRASTRUCTURE CORPORATION

Unaudited Pro Forma Consolidated Financial Statements

CAPSTONE INFRASTRUCTURE CORPORATION

PRO FORMA CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 2010
(in thousands of Canadian dollars)
(Unaudited)

	Capstone CGAAP	IFRS Adjustment	Capstone IFRS	Värmevärden Carveout IFRS	Bristol Water IFRS	Pro Forma Adjustments		Pro Forma Consolidated Capstone
	12 months ended 31-Dec-10	12 months ended 31-Dec-10	12 months ended 31-Dec-10	12 months ended 31-Dec-10	12 months ended 31-Mar-11		Notes	12 months ended 31-Dec-10
		(Note 2c)			(Note 5)			
Revenue	158,512		158,512		160,121			318,633
Costs and expenses								
Operating expenses	94,407	(2,871)	91,536		73,621	1,590	4e	166,747
Administrative expenses	12,555	2,092	14,647		16,855	6,100	4a	37,602
Depreciation of capital assets	20,639	4,486	25,125		16,696	1,359	4g	43,180
Amortization of intangible assets	7,834		7,834		1,749			9,583
	135,435	3,707	139,142	—	108,920	9,049		257,112
	23,077	(3,707)	19,370	—	51,201	(9,049)		61,521
Other income and expenses								
Interest income	948		948		6,678	(6,810)	4i&j	816
Interest expense	(19,209)	(2,324)	(21,533)		(24,169)	(9,075)	4l &m&n	(54,777)
Equity accounted income (loss)	3,332		3,332	1,144				4,476
Amherstburg gain on acquisition		4,234	4,234					4,234
Unrealized loss on derivative financial instruments	(17,858)		(17,858)					(17,858)
Unrealized (gain) loss on Class B exchangeable unit liability		(6,856)	(6,856)					(6,856)
Unrealized (gain) loss on convertible debentures — conversion option		(3,458)	(3,458)					(3,458)
Foreign exchange loss	(19)		(19)					(19)
Income (loss) before income taxes	(9,729)	(12,111)	(21,840)	1,144	33,710	(24,934)		(11,921)
Income tax recovery (expense)								
Current	(8)		(8)		(1,431)	1,988	4q	548
Deferred	21,306	16,443	37,749		(1,749)	362	4q	36,362
Total income tax recovery	21,298	16,443	37,741	—	(3,180)	2,349		36,910
Net income (loss)	11,569	4,332	15,901	1,144	30,529	(22,585)		24,990
Net income (loss) attributable to:								
Equity holders of Capstone								17,579
Non-controlling interests								7,410
Net income (loss)								24,990
Earnings per share								
Basic	0.231		0.339					0.298
Diluted	0.231		0.339					0.298
Weighted average number of common shares								
Basic	50,183	(3,250)	46,933			12,000	4c	58,933
Diluted	50,183	(3,250)	46,933			12,000	4c	58,933

CAPSTONE INFRASTRUCTURE CORPORATION

PRO FORMA CONSOLIDATED STATEMENT OF INCOME

For the 6 months ended June 30, 2011
(in thousands of Canadian dollars)
(Unaudited)

	Capstone IFRS	Värmevärden Carveout IFRS	Bristol Water IFRS	Bristol Water IFRS	Pro Forma Adjustments		Pro Forma Consolidated Capstone
	6 months ended 30-Jun-11	3 months ended 31-Mar-11	3 months ended 31-Mar-11	3 months ended 30-Jun-11		Notes	6 months ended 30-Jun-11
			(Note 5)	(Note 5)			
Revenue	83,943		39,640	42,325			165,908
Costs and expenses							
Operating expenses	48,036		16,109	17,688	795	4f	82,628
Administrative expenses	26,934		3,159	4,106			34,199
Depreciation of capital assets	11,895		4,264	4,422	680	4h	21,261
Amortization of intangible assets	3,905		474	316			4,695
	90,770	—	24,005	26,532	1,475		142,782
	(6,827)	—	15,635	15,793	(1,475)		23,126
Other income and expenses							
Interest income	2,326		1,737	1,895	(3,385)	4i, 4k	2,573
Interest expense	(10,111)		(6,475)	(7,423)	(2,787)	4l, 4o	(26,796)
Equity accounted income (loss)	(6,285)	4,027					(2,258)
Amherstburg gain on acquisition	—						—
Unrealized loss on derivative financial instruments	(2,610)						(2,610)
Unrealized (gain) loss on Class B exchangeable unit liability	—						—
Unrealized (gain) loss on convertible debentures — conversion option	—						—
Foreign exchange loss	(633)						(633)
Loss before income taxes	(24,140)	4,027	10,897	10,265	(7,647)		(6,598)
Income tax recovery (expense)							
Current	(8)		(632)	(316)	989	4p	33
Deferred	32,701		948	(2,369)	181	4p	31,461
Total income tax recovery	32,693	—	316	(2,685)	1,170		31,494
Net income (loss)	8,553	4,027	11,213	7,581	(6,477)		24,896
Net income (loss) attributable to:							
Equity holders of Capstone							20,128
Non-controlling interests							4,768
Net income (loss)							24,896
Earnings per share							
Basic	0.140						0.276
Diluted	0.140						0.269
Weighted average number of common shares							
Basic	61,058				12,000	4c	73,058
Diluted	61,058				12,000	4c	79,564

CAPSTONE INFRASTRUCTURE CORPORATION

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2011
(in thousands of Canadian dollars)
(Unaudited)

	Capstone IFRS 30-Jun-11	Bristol Water IFRS 30-Jun-11 (Note 6)	Pro Forma Adjustments	Notes	Proforma Consolidated Capstone 30-Jun-11
CURRENT ASSETS					
Cash and cash equivalents	109,355	31,761	(30,000)	4c	111,116
Restricted cash	6,148				6,148
Short-term investments	—	92,648			92,648
Accounts receivable	20,521	41,831			62,352
Other assets	3,136	1,859			4,995
Current portion of loans receivable	933				933
Current portion of derivative contract assets	1,251				1,251
	141,344	168,099	(30,000)		279,443
NON-CURRENT ASSETS					
Loans receivable	88,912	106,127	(106,127)	4d	88,912
Derivative contract assets	5,933				5,933
Equity accounted investments	73,997				73,997
Capital assets	483,652	458,128	33,981	3, 4a	975,761
Post employment obligations	—	45,240			45,240
Intangible assets	132,933	4,028			136,961
Goodwill	—	—	139,012	3, 4a	139,012
Deferred income tax assets	15,884				15,884
Total assets	942,655	781,622	36,867		1,761,143
CURRENT LIABILITIES					
Accounts payable and other liabilities	68,360	37,648			106,008
Current portion of derivative contract liabilities	3,079	—			3,079
Loans payable	58,098				58,098
Current portion of finance lease obligations	124	4,338			4,462
Current portion of long-term debt	93,722				93,722
	223,383	41,986	—		265,369
LONG-TERM LIABILITIES					
Accounts payable and other liabilities	—	12,239			12,239
Derivative contract liabilities	14,814	2,014			16,828
Deferred income tax liabilities	64,643	99,155	1,985	3, 4a	165,784
Electricity supply and gas purchase contracts	5,716				5,716
Finance lease obligations	65	12,239			12,304
Long-term debt	251,738	406,691	144,890	3, 4a&c	803,319
Liability for asset retirement obligation	2,301				2,301
Total liabilities	562,660	574,326	146,875		1,283,861
Equity					
Equity attributable to owner's of the parent	379,995	207,296	(142,146)		445,145
Non-controlling interests			32,138		32,138
Total Equity	379,995	207,296	(110,009)	3, 4a-c	477,283
Total liabilities and equity	942,655	781,622	36,867		1,761,143

CAPSTONE INFRASTRUCTURE CORPORATION

NOTES TO PRO FORMA FINANCIAL STATEMENTS

(in thousands of Canadian dollars except per share information)
(Unaudited)

1. DESCRIPTION OF TRANSACTION

Effective October 5, 2011, Capstone Infrastructure Corporation ("Capstone") acquired a 70% interest in Bristol Water plc ("Bristol Water"), a regulated water utility in the United Kingdom, from SUEZ ENVIRONNEMENT through its subsidiary, AGBAR (Sociedad General de Aguas de Barcelona), for approximately $214,000. The purchase price was funded through a combination of existing credit facilities, cash on hand and a new $150,000 senior debt facility.

Capstone intends to raise $75,000 through the issuance of common shares pursuant to a short form prospectus dated October 25, 2011 which will be used to finance the acquisition of Bristol Water.

In addition to the above transactions, on March 31, 2011, Capstone's acquired a 33% equity investment in Värmevärden, a Swedish district heating business. For purposes of these pro forma financial statements, this significant acquisition has also been reflected.

2. BASIS OF PRESENTATION

The accompanying unaudited pro forma consolidated statements of income of Capstone for the year ended December 31, 2010 and the six months ended June 30, 2011 have been prepared to give effect to the investment in Värmevärden, acquisition of Bristol Water and the issuance of common shares as if these transactions had occurred at January 1, 2010. The accompanying pro forma consolidated statement of financial position as at June 30, 2011 has been prepared to give effect to the acquisition of Bristol Water and the issuance of common shares under this short form prospectus as if they were completed on June 30, 2011.

The unaudited pro forma consolidated financial statements have been prepared for this prospectus relating to the issuance of common shares to finance Capstone's acquisition of a 70% indirect interest in Bristol Water. In the opinion of management, the unaudited pro forma consolidated financial statements include all adjustments necessary for fair presentation.

The accounting policies applied in the unaudited pro forma consolidated financial statements have been prepared on a basis consistent with Capstone's IFRS accounting policies as reported in Capstone's unaudited interim consolidated financial statements as at and for the period ended March 31, 2011. For the preparation of these unaudited pro forma consolidated financial statements, the principles of IFRS 3R, Business Combinations have been applied.

The unaudited pro forma consolidated financial statements have been prepared using the following historical financial statements and financial information of Capstone, Bristol Water and Värmevärden:

a) Historical audited consolidated financial statements of Capstone, prepared in accordance with Canadian GAAP basis as at and for the fiscal year ended December 31, 2010 and incorporated by reference into this short form prospectus;

b) Historical unaudited interim consolidated financial statements of Capstone, prepared in accordance with IFRSs, including IAS 34, *Interim Financial Reporting*, and IFRS 1, *First Time Adoption of IFRSs* as at and for the six months ended June 30, 2011 and incorporated by reference into this short form prospectus;

c) Unaudited IFRS adjustments to Capstone's consolidated statement of income for the fiscal year ended December 31, 2010 (refer to note 5 in Capstone's unaudited interim consolidated financial statements as at and for the three months ended March 31, 2011);

d) Audited financial statements of Bristol Water as at and for the fiscal year ended March 31, 2011 prepared in accordance with IFRS and incorporated by reference into this short form prospectus;

e) Unaudited financial information of Bristol Water as at and for the three-month period ended March 31, 2011 and unaudited interim consolidated financial statements of Bristol Water for the three-month period ended June 30, 2011, prepared in accordance with IFRS;

f) Audited financial statements of Värmevärden as at and for the year ended December 31, 2010 prepared in accordance with IFRS have been used to calculate the equity income.

g) Unaudited financial information of Värmevärden as at and for the three-month periods ended March 31, 2011 and June 30, 2011 prepared in accordance with IFRS have been used to calculate the equity income. The Värmevärden business had net income of SEK 31,413 ($4,833) for the three month period ended March 31, 2011 and an unaudited net loss of SEK 28,277 ($4,364) for the three month period ended June 30, 2011, which was used in the calculation of Capstone's equity accounted income before transaction costs.

For purposes of the unaudited pro forma consolidated statement of financial position as at June 30, 2011, the assets, liabilities and shareholders' equity of Bristol Water were translated from UK Pounds sterling to Canadian dollars at a rate of 1.55 (representing the conversion rate at June 30, 2011). For the purposes of the unaudited pro forma consolidated statement of income, Bristol Water's

2. BASIS OF PRESENTATION (Continued)

consolidated statements of income were translated from UK Pounds sterling to Canadian dollars at a rate of 1.58 and 1.59 (representing the average conversion rates for the six-month period ended June 30, 2011 and for the year ended December 31, 2010, respectively).

For purposes of the unaudited pro forma consolidated statement of financial position as at June 30, 2011, the equity accounted investment in Värmevärden was included in Capstone's unaudited interim consolidated financial statements, as the equity investment occurred on March 31, 2011. However, for purposes of the unaudited pro forma consolidated statement of income, equity accounted income for Värmevärden has been calculated from the audited financial statements of Värmevärden for the year ended December 31, 2010, translated from SEK to Canadian dollars at a rate of 6.98 for the twelve-month period ended December 31, 2010. For the three-month period ended March 31, 2011 representing the period prior to which Capstone acquired Värmevärden, the equity accounted income was calculated from the unaudited interim financial statements of Värmevärden for the three months ended March 31, 2011 and translated from SEK to Canadian dollars at a rate of 6.5. These rates represent the average conversion rates for the respective periods.

These unaudited pro forma consolidated financial statements do not reflect any potential financial benefits from items such as cost savings arising from the acquisition. The unaudited pro forma consolidated financial statements are for information purposes only and are not necessarily indicative of the results of operations or the financial position that would have resulted had the above transactions been effected on the dates indicated, or the results that may be obtained in the future.

With respect to the preliminary fair value of the Bristol Water acquisition, the unaudited pro forma financial statements have been prepared using the acquisition method of accounting as if the Bristol Water acquisition had been completed as of January 1, 2010 for the purposes of the unaudited pro forma consolidated statements of income, and as of June 3, 2011 for the purposes of the unaudited pro forma consolidated statement of financial position. Under the acquisition method of accounting, the estimated fair value of the underlying tangible and intangible assets acquired and liabilities assumed is determined as of the date of the acquisition. Any excess purchase consideration is allocated to goodwill. The allocation of the purchase price has been reflected in the unaudited pro forma financial statements based upon the historical carrying values of the assets acquired and liabilities assumed as if the acquisition of Bristol Water had been completed as of the above dates. The application of the acquisition method is preliminary and has been made solely for the purpose of developing the unaudited pro forma consolidated financial statements. We have commenced the process necessary to estimate the fair values of the tangible and intangible assets acquired and liabilities assumed and the related allocation of the purchase price at the closing of the Bristol Water acquisition. When we complete the necessary steps to finalize the required purchase price allocation which will be based on the fair values as of the actual closing date of the Bristol Water acquisition, the final allocation of the purchase price will be determined. The final purchase price allocation may be different than that reflected in the pro forma purchase price allocation and those differences may be material.

The unaudited pro forma consolidated statement of income for the year ended December 31, 2010 has been constructed from the audited consolidated statement of income of Capstone Infrastructure Corporation for the year December 31, 2010 and the audited statement of income Bristol Water for the year ended March 31, 2011.

The unaudited pro forma consolidated financial statements should be read in conjunction with "Recent Developments", "Bristol Water", "Use of Proceeds", "Details of the Offering" and all of the historical financial statements and the notes thereto, which are incorporated by reference or included in this short form prospectus.

3. ACCOUNTING FOR THE ACQUISITION

The acquisition on October 5, 2011 was accounted for using the acquisition method of accounting. The total consideration transferred of $220,100 consists of cash purchase consideration paid on closing of $214,000 and acquisition costs of $6,100, which are expensed. The cash consideration was funded through a combination of $34,000 from existing credit facilities, $30,000 of cash on hand and a new $150,000 senior debt facility. IFRS requires that Capstone recognize the identifiable assets acquired and liabilities assumed at their fair values. Goodwill is then recognized for the excess of the consideration paid over the net of the identifiable assets acquired and liabilities assumed measured at their fair values. The non-controlling interest has only been calculated on the fair value of the net identifiable assets.

(in thousands of Canadian dollars except per share information)

3. ACCOUNTING FOR THE ACQUISITION (Continued)

Assuming the transaction had occurred on June 30, 2011, the preliminary allocation of the purchase price to the assets and liabilities acquired is as follows:

Purchase Consideration:	214,000
Allocation:	
Cash and cash equivalents	31,761
Short-term investments	92,648
Accounts receivable	41,831
Other assets	1,859
Capital assets	492,109
Intangible assets	4,028
Goodwill	139,012
Post employment obligations	45,240
Accounts payable and other liabilities	(37,648)
Current portion of finance lease obligations	(4,338)
Long-term accounts payable and other liabilities	(12,239)
Derivative contract liabilities	(2,014)
Deferred income tax liabilities	(101,141)
Finance lease obligations	(12,239)
Long-term debt	(432,731)
Non-controlling interest	(32,138)
Net assets acquired	214,000

Capstone expects to finalize the allocation of the purchase price during fiscal 2012 and the preliminary allocation may change and these changes may be material. The fair value increments on capital assets along with separately identifiable intangibles will be amortized to income over the useful lives.

4. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS

The unaudited pro forma consolidated statement of income for the fiscal year ended December 31, 2010, the six months ended June 30, 2011 and the unaudited pro forma statement of financial position at June 30, 2011 include the following adjustments.

Adjustments to the Unaudited Pro forma Consolidated Statement of Financial Position:

a) Adjustments to recognize estimated fair value of identifiable net assets acquired and the estimated transaction costs of $6,100 with an adjustment to retained earnings as detailed previously in note 3.

b) The equity of Bristol Water was eliminated on consolidation.

c) The proceeds from the issuance of common shares in connection with this short form prospectus have been used to reduce amounts outstanding under the new senior debt facility incurred on acquisition.

The net adjustments to the statement of financial position for the acquisition of Bristol Water and the use of proceeds from the issuance of common shares under this short form prospectus are: cash was reduced by $30,000, equity was increased by $71,250 ($75,000 less transaction costs) for the issue of 12,000 shares (excluding any potential over-allotment option being exercised) and long-term debt was increased by balance of $118,850 representing the new facility and the CPC-Cardinal facility, net of the proceeds of $71,250. Transaction costs of $6,100 incurred in connection with the Bristol Water acquisition also increase long-term debt.

d) $106,127 of long term loans to Bristol Water's UK parent company was eliminated on consolidation.

Adjustments to the Unaudited Pro forma Consolidated Statement of Income:

e) The operating expenses have been increased by $1,590 for the period ending December 31, 2010. This adjustment represents the minimum annual required payment under the Operational and Maintenance agreement executed in conjunction with the acquisition of Bristol.

4. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS (Continued)

f) The operating expenses have been increased by $795 for the period ending June 30, 2011. This adjustment represents a pro rata portion of the minimum bi-annual required payment under the Operational and Maintenance agreement executed in conjunction with the acquisition of Bristol.

g) Amortization of capital assets has been increased by $1,359 for the fiscal year ended December 31, 2010. Amortization expense related to the capital assets is computed on a straight-line basis over the estimated useful life of 25 years.

h) Amortization of capital assets has been increased by $680 for the six months ended June 30, 2011. Amortization expense related to the capital assets is computed on a straight-line basis over the estimated useful life of 25 years.

i) Interest income of $450 was decreased for the year ended December 31, 2010 and $225 for the six months ended June 30, 2011 to reflect a reduction in interest earned on cash used in connection with the acquisition.

j) Inter-company interest income related to the long term loans with Bristol Water's UK parent company was reduced by $6,360 for the period ending December 31, 2010 as a result of the corresponding elimination of the related inter-company receivable.

k) Inter-company interest income related to the long term loans with Bristol Water's UK parent company was reduced by $3,160 for the period ending June 30, 2011 as a result of the corresponding elimination of the related inter-company receivable.

l) Interest expense of $6,707 was increased for the year ended December 31, 2010 and $3,353 for the six months ended June 30, 2011. (utilizing an estimated weighted average interest rate of 5.6% related to the outstanding credit facilities).

m) Interest expense of $3,500 was increased for the year ended December 31, 2010 related to the accretion under the effective interest method of transaction costs associated with the new debt facility of $150,000.

n) The interest expense related to the long-term debt within Bristol Water was decreased by $1,132 for the period ending December 31, 2010 for the fair value increment. The estimated impact on interest expense was determined based on the expected repayments of Bristol's long-term debt, using a revised interest rate.

o) The interest expense related to the long-term debt within Bristol Water was decreased by $566 for the period ending June 30, 2011 for the fair value increment. The estimated impact on interest expense was determined based on the expected repayments of Bristol's long-term debt, using a revised interest rate.

p) Income tax adjustments for the six months ended June, 30, 2011 are on the fair value increments and statement of income adjustments for interest expense and income. All adjustments to income tax for 2011 relate to companies resident in the UK, as such, Capstone tax affected these adjustments at an estimated general corporate tax rate of 25%. Adjustments affecting Capstone's Canadian entities would have had no tax affect in 2011 as there is a full valuation allowance against these tax assets.

q) Income tax adjustments for the year ended December, 31, 2010 are on the fair value increments and statement of income adjustments for interest expense and income. All adjustments to income tax for 2010 relate to companies resident in the UK, as such, Capstone tax affected these adjustments at an estimated general corporate tax rate of 25%. Adjustments affecting Capstone's Canadian entities would have had no tax affect in 2010 because during this period Capstone was a Specified Investment Flow Through ("SIFT") entity, which distributed all income to its investors and as a result, did not pay current income tax.

(in thousands of Canadian dollars except per share information)

5. BRISTOL WATER — STATEMENTS OF INCOME

For the year ended March 31, 2011

	Pounds Sterling	F/X Rate	Canadian Dollars
Revenue	100,700	1.59	160,121
Costs and expenses			
Operating expenses	46,300	1.59	73,621
Administrative expenses	10,600	1.59	16,855
Depreciation of capital assets	10,500	1.59	16,696
Amortization of intangible assets	1,100	1.59	1,749
	68,500		108,920
	32,200		51,201
Other income and expenses			
Interest income	4,200	1.59	6,678
Interest expense	(15,200)	1.59	(24,169)
Income before income taxes	21,200		33,710
Income tax recovery (expense)			
Current	(900)	1.59	(1,431)
Deferred	(1,100)	1.59	(1,749)
Total income tax expense	(2,000)		(3,180)
Net income	19,200	1.59	30,529

For the three months ended March 31, 2011

	Pounds Sterling	F/X Rate	Canadian Dollars
Revenue	25,100	1.58	39,640
Costs and expenses			
Operating expenses	10,200	1.58	16,109
Administrative expenses	2,000	1.58	3,159
Depreciation of capital assets	2,700	1.58	4,264
Amortization of intangible assets	300	1.58	474
	15,200		24,005
	9,900		15,635
Other income and expenses			
Interest income	1,100	1.58	1,737
Interest expense	(4,100)	1.58	(6,475)
Income before income taxes	6,900		10,897
Income tax recovery (expense)			
Current	(400)	1.58	(632)
Deferred	600	1.58	948
Total income tax recovery	200		316
Net income	7,100		11,213

(in thousands of Canadian dollars except per share information)

5. BRISTOL WATER — STATEMENTS OF INCOME (Continued)

For the three months ended June 30, 2011

	Pounds Sterling	F/X Rate	Canadian Dollars
Revenue	26,800	1.58	42,325
Costs and expenses			
Operating expenses	11,200	1.58	17,688
Administrative expenses	2,600	1.58	4,106
Depreciation of capital assets	2,800	1.58	4,422
Amortization of intangible assets	200	1.58	316
	16,800		26,532
	10,000		15,793
Other income and expenses			
Interest income	1,200	1.58	1,895
Interest expense	(4,700)	1.58	(7,423)
Income before income taxes	6,500		10,265
Income tax recovery (expense)			
Current	(200)	1.58	(316)
Deferred	(1,500)	1.58	(2,369)
Total income tax expense	(1,700)		(2,685)
Net income	4,800		7,581

(in thousands of Canadian dollars except per share information)

6. BRISTOL WATER — STATEMENT OF FINANCIAL POSITION

As at June 30, 2011	Pounds Sterling	F/X Rate	Canadian Dollars
Current assets			
Cash and cash equivalents	20,500	1.55	31,761
Short-term investments	59,800	1.55	92,648
Accounts receivable	27,000	1.55	41,831
Other assets	1,200	1.55	1,859
	108,500		168,099
Non-current assets			
Loans receivable	68,500	1.55	106,127
Capital assets	295,700	1.55	458,128
Post employment obligations	29,200	1.55	45,240
Intangible assets	2,600	1.55	4,028
Total assets	504,500		781,622
Current liabilities			
Accounts payable and other liabilities	24,300	1.55	37,648
Current portion of finance lease obligations	2,800	1.55	4,338
	27,100		41,986
Long-term liabilities			
Accounts payable and other liabilities	7,900	1.55	12,239
Derivative contract liabilities	1,300	1.55	2,014
Deferred income tax liabilities	64,000	1.55	99,155
Finance lease obligations	7,900	1.55	12,239
Long-term debt	262,500	1.55	406,693
Total liabilities	370,700		574,326
Shareholders' equity	133,800	1.55	207,296
Total liabilities and shareholders' equity	504,500		781,622

CERTIFICATE OF THE ISSUER

October 27, 2011

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces and territories of Canada.

CAPSTONE INFRASTRUCTURE CORPORATION

By: (Signed) MICHAEL BERNSTEIN President and Chief Executive Officer	By: (Signed) MICHAEL SMERDON Executive Vice President and Chief Financial Officer

On behalf of the Board of Directors of Capstone Infrastructure Corporation:

By: (Signed) V. JAMES SARDO Director	By: (Signed) FRANÇOIS R. ROY Director

CERTIFICATE OF THE UNDERWRITERS

October 27, 2011

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces and territories of Canada.

TD SECURITIES INC.	RBC DOMINION SECURITIES INC.
By: (Signed) PETER GIACOMELLI	By: (Signed) DAVID DAL BELLO

MACQUARIE CAPITAL MARKETS CANADA LTD.	CIBC WORLD MARKETS INC.	SCOTIA CAPITAL INC.
By: (Signed) PAUL HUEBENER	By: (Signed) DAVID H. WILLIAMS	By: (Signed) THOMAS I. KURFURST

BMO NESBITT BURNS INC.	NATIONAL BANK FINANCIAL INC.
By: (Signed) JAMES A. TOWER	By: (Signed) IAIN WATSON

CANACCORD GENUITY CORP.	CORMARK SECURITIES INC.	M PARTNERS INC.
By: (Signed) ALAN POLAK	By: (Signed) MARC MURNAGHAN	By: (Signed) THOMAS KOFMAN

CAPSTONE
INFRASTRUCTURE

MERRILL
CORPORATION CANADA
Printed In Canada
11-28280-1