

BRISTOL WATER plc

REPORT AND ACCOUNTS 2009

Registered number - 2662226

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

Bristol Water plc is a member of the Agbar group which provides water services to approximately 23 million people worldwide.

FINANCIAL HIGHLIGHTS

Year ended 31 March	2009	2008
Financial results under UK GAAP		
	£m	£m
Turnover	96.7	91.0
Operating profit	29.1	26.3
Profit before tax	17.4	17.9
Profit after tax	12.1	14.5
Regulatory Capital Value (RCV)	265.4	275.5
Net debt (excluding 8.75% irredeemable cumulative preference shares) as percentage of RCV	76%	71%

CHAIRMAN'S STATEMENT

Introduction

During the 2009 financial year, we have continued to provide an excellent service to our customers following Ofwat's OPA (Overall Performance Assessment) ranking for 2008 putting Bristol Water in third position in the industry.

We have been heavily involved in the planning process for the next periodic review. This review will determine our tariffs and service obligations for the five years beginning April 2010.

Operational performance

We are now 80% of the way through the current regulatory period 2005-10 and are continuing to make good progress in the delivery of the outputs required by Ofwat's determination of price limits for the current period. Three major capital schemes have been completed:

- A £24m project to improve the security of supply for a population of almost 200,000 in the northern and eastern parts of Bristol and its surrounding areas. This scheme has already been used three times since its completion despite the initial expectation that it would only be used very rarely. Such resilience schemes are vitally important to provide the service customers expect in a time of crisis, however it arises, and they represent an important component of our investment proposals beyond 2010.
- A £14m project to upgrade our Banwell treatment works to improve its effectiveness in dealing with a range of different raw water qualities. The complexity of the new technology being used is challenging and finalisation of commissioning and optimisation continues, although treated water has been put into supply for some time.
- A £7m project to construct a new treatment works to treat water from the River Axe providing support to customers in the south of our area.

In total, we invested £31m in capital projects during the year. We anticipate a total investment programme for the 5-year regulatory period of about £177m (in current prices, before grants and contributions), which is broadly in line with Ofwat's assumptions.

Our customer service performance remains at a high level with customer surveys consistently showing high satisfaction.

We continue to focus our efforts on enhancing our environmental performance, resulting in a reduced carbon footprint and sensitive environmentally friendly improvements to our assets within areas of outstanding natural beauty and scientific importance.

Financial performance

Operating profit increased by £2.8m to £29.1m during the year. Turnover benefited from a K factor of +3.6% following the Interim Determination from Ofwat in December 2007 but was adversely affected by a decline in industrial consumption. The exceptionally cold weather during the winter months resulted in an abnormally high level of burst mains and hence increased significantly our repair costs. Depreciation and infrastructure renewals charges continue to increase reflecting the on-going investment in our operating assets and capacity. These adverse effects have offset the benefits of determined efforts to achieve operating efficiencies.

Net interest charges, excluding those related to retirement benefits and the preference share dividend, increased by £2.0m to £10.4m. This mainly reflects the increase in net debt resulting from the financing of the capital expenditure programme and an increase in the inflationary element of the charge related to our index-linked debt. Net interest related to retirement benefits was a £0.2m charge in the year compared to income of £1.1m last year.

Profit before tax decreased by £0.5m to £17.4m. The tax charge of £5.3m represents an effective tax rate of 30% (2008: 19%). The charge in 2008 was net of a £1.9m gain due to a reduction in deferred tax liabilities (after discounting) following the reduction in corporation tax rates applicable from April 2008.

Net debt, excluding irredeemable preference shares, increased to £201.8m (31 March 2008: £196.6m) and represents approximately 76% of Regulatory Capital Value at 31 March 2009 (31 March 2008: 71%). This is in line with our projections and as previously indicated we currently anticipate that this ratio will not exceed 80% for the period to March 2010.

Submission of our Regulatory Final Business Plan

We recently submitted our Final Business Plan covering the five years ending March 2015 to Ofwat. The plan is available on our website. It follows the principles set out in our 25-year Strategic Direction Statement and is consistent with our Draft Business Plan submitted in August 2008.

We seek to address the following issues:

- To achieve sustainable levels of maintenance, following an extended period of restricting the level of investment, to avoid a deterioration in the performance of our assets and consequently in our service to customers;
- Investment to maintain water quality at the highest levels, a fundamental priority for our customers;
- Schemes to provide greater resilience in maintaining supplies should critical assets become unavailable for any reason; and
- Meeting expected growth in demand from an increasing population and the projected effects of climate change.

Addressing these issues would require a doubling in the level of investment and hence significantly increased levels of borrowing. There is also a need to increase prices to customers by approximately one third in real terms by 2015.

Our proposals, including the effect on prices, were tested in a recent independent customer survey and received strong support. However, no increase in prices is welcomed by customers and so we are proposing additional measures to help those who have genuine difficulty in paying their bills. By 2015 the average household bill, in current prices, will still remain below £4 per week.

The plan includes several major schemes that will achieve multiple objectives but will do so at the lowest cost to customers. This integrated approach is fundamental to achieving our objectives. The plan is fully supported by the Board who have had detailed involvement in its preparation. Ofwat will issue its response in late July 2009 in a draft determination.

Prospects

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

We expect that the results for the year ended 31 March 2010 may include the following material effects:

- A reduction in demand from commercial customers, an increase in the proportion of customers who are metered and an approximate 3% increase in charges
- A significant increase in energy and chemical costs
- A significant increase in bad debts reflecting the impact of the recession
- A significant reduction in interest charges related to our index-linked debt with the projected decline in RPI.

Clearly the final determination from Ofwat in November 2009 of future tariffs and service obligations will play a significant role in the future of the company.

Dividends

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

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

A final dividend of £3.2m in respect of the 2008 financial year was approved at the Annual General Meeting (AGM) in August 2008 and paid in October 2008.

During the year the following interim dividends have been paid in respect of the 2009 financial year:

- First interim for the inter-company loan interest element of £1.5m paid in September 2008
- Second interim in respect of the base level dividend of £2.7m paid in December 2008
- Third interim for the inter-company loan interest element of £1.4m paid in March 2009.

A final dividend of £3.6m in respect of 2009 will be proposed at the forthcoming AGM.

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

Board membership

The composition of the Board has evolved during the year. In May 2008, Dr Arnold Bates retired as an executive director after 18 years with the company. In July 2008, Manuel Cermerón left his executive director position in the company and is now a non-executive director. In September 2008, Trevor Smallwood retired from the Board as Deputy Chairman and independent non-executive director after 9 years service. On 31 March 2009, Manuel Navarro resigned as Chief Executive to take up a senior position within Agbar as director of its Latin American operations. He remains on the Board as a non-executive director.

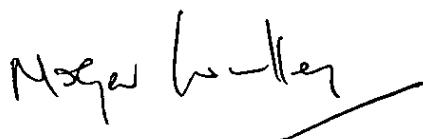
We welcome Robert Davis who was appointed as an independent non-executive director on 24 November 2008, and, Luis Garcia who was appointed as Chief Executive on 1 April 2009.

The Board sincerely thanks all of those who have recently left us for their excellent service to the company. The Board remains experienced and well balanced to meet the challenges of the future.

Thanks

I would also like to pass on to all staff the Board's appreciation of their commitment and effort.

I am sure all will join me in sharing the pleasure of our award for Innovation at the recent Water Industry Achievement Awards 2009 for our Ice-Pigging Project undertaken in collaboration with the University of Bristol.



Moger Woolley
Chairman
22 May 2009

DIRECTORS' REPORT AND BUSINESS REVIEW

For the year ended 31 March 2009

BUSINESS STRATEGY AND OBJECTIVES

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

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

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

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

The company is a regulated business and subject to economic regulation by the Water Services Regulation Authority (Ofwat) through a price cap mechanism, whereby the prices the company can charge for the majority of its services are limited to increases in inflation plus or minus a K factor (RPI+/-K). Price limits, the 'K' factors, are currently reviewed every five years. The last review was announced in December 2004 and covers the five years 2005-10. An adjustment to the K factor was made in 2007 affecting the balance of the regulatory period.

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

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

RISK AND UNCERTAINTY

The key risks and uncertainties that the company faces include:

Operational:

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

Regulatory:

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

Financial:

- loss of major customers as a result of closure of their facilities
- pensions – the company's is a member of the Water Companies' Pension Scheme (WCPS) via a separate section of the scheme. Defined benefits are provided based on final pensionable pay. The section was closed to new employees some time ago but remains open to future benefit accrual for existing members. At 31 March 2009 the scheme had a recognised surplus before taxation of £8.7m on an FRS17 basis. The funding requirements of the scheme are subject to a range of factors including longevity assumptions, investment allocation and investment returns. Additionally changes in pension regulations could have a significant impact on future company contributions.
- worsening debt collection experience, particularly in relation to household debt giving rise to increasing levels of bad debts
- inflation or deflation – operating costs, the capital investment programme and the company's £107.1m of index-linked debt are subject to inflation; potential adverse impacts of high inflation or deflation are mitigated by the index-linking of the majority of revenues through the RPI +/- K price limits
- further increases in energy prices
- changes in the taxation regime applicable to the company
- failure to meet banking covenants
- financial market turmoil, which could impact the company's ability to raise additional future finance.

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

DEVELOPMENT AND PERFORMANCE OF THE BUSINESS DURING THE YEAR

The company has completed the fourth year of the regulatory period covering the years 2005-10 and continue to make good progress towards delivery of the required outputs and efficiency targets assumed by Ofwat in its determination of price limits.

FINANCIAL PERFORMANCE

The company continues to report under UK GAAP.

Financial performance during the year was good and in line with expectations but below 2008 profit before tax. The benefit of allowed real price increases has been offset by the impact of the continuing capital programme on depreciation and borrowing costs and the adverse impact of inflation adjustments on index-linked debt.

	2009	2008
	£m	£m
Turnover	96.7	91.0
Operating profit	29.1	26.3
Net finance costs	(11.7)	(8.4)
Profit before tax	17.4	17.9
Taxation	(5.3)	(3.4)
Profit after tax	12.1	14.5
Capital investment before grants & contributions	31.3	49.5
Net debt (excluding 8.75% irredeemable cumulative preference shares) at 31 March	201.8	196.6
Ratio of net debt (excluding 8.75% irredeemable cumulative preference shares): Regulatory Capital Value (RCV)	76%	71%

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

The tax charge of £5.3m represents an effective tax rate of 30% (2008: 19%). The principal reasons for the low effective tax rate in 2008 were the reduction in the rate used to calculate deferred tax, the removal of industrial buildings allowances from the deferred tax calculation, and, the effect of discounting.

TREASURY

Net cash inflow from operating activities was £47.5m (2008: £49.4m) and the outflow from financing activities was £1.9m (2008: £7.5m inflow). Net cash used in investing activities was £29.0m (2008: £46.5m), and net cash from investment returns and servicing finance was £6.6m (2008: £5.7m).

Net interest charges and indexation in the year totalled £11.7m (2008: £8.4m) and were covered 2.5 times (2008: 3.2 times) by operating profit.

At 31 March 2009 gross debt excluding the 8.75% irredeemable cumulative preference shares was £222.4m (2008: £218.1m). Approximately 48% of this debt is index-linked and 34% is at fixed rates; the index-linked element is hedged by the company's index-linked revenue base.

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

The company maintains cash balances and committed credit facilities to meet foreseeable requirements for the remainder of the regulatory period to March 2010.

Net debt including the 8.75% irredeemable cumulative preference shares increased to £214.3m from £209.1m at 31 March 2008. This increase reflects the financing of capital investments.

At the year-end net debt excluding the 8.75% irredeemable cumulative preference shares was £201.8m (2008: £196.6m), representing approximately 76% of Regulatory Capital Value (RCV). This is in line with our projections and it is anticipated this ratio will not exceed 80% for the period to 31 March 2010. This is a key ratio which is effectively replicated within the company's banking covenants. The range that the company expects to operate within provides a headroom margin to meet adverse impacts from risks and uncertainties.

PENSIONS

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

At 31 March 2009 the gross surplus before tax under FRS17 of the company's section of WCPS was £8.7m. This represents a recognised £5.3m reduction from the £14.0m surplus at 31 March 2008 and reflects lower returns on investments following the turmoil in financial markets together with unfavourable actuarial movements. The company had previously agreed to make further additional contributions of £1.0m in 2010 and £0.9m in 2011.

The most recent triennial valuation of the pension scheme was completed during the year. As a result of actuarial advice, the company has kept the minimum level of regular contributions at 18% of pensionable salary.

DIVIDENDS

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

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

During the year, the company paid £3.2m in respect of dividends relating to 2008 and an interim dividend of £2.7m in respect of 2009, in addition to £2.9m in relation to the inter-company loan element referred to above.

A final dividend of £3.6m in respect of 2009 will be proposed at the forthcoming AGM.

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

CAPITAL STRUCTURE

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

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the company's shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the company's share capital and all issued shares are fully paid. The Articles of Association themselves may be amended by special resolution of the shareholders.

Under its Articles of Association and the Companies Acts, the company has in issue 5,998,025 ordinary shares as disclosed in note 18. All the ordinary shares are owned by Bristol Water Core Holdings Ltd, which is itself a wholly owned subsidiary of Agbar as disclosed in note 25. In addition, the company has in issue 12,500,000 8.75% irredeemable cumulative preference shares, details of which are disclosed in note 13.

NON-FINANCIAL PERFORMANCE

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

Years to 31 March	2008	2007
Performance measures		
Ofwat overall performance assessment (OPA):		
OPA score (out of 288)	283	272
OPA ranking (out of 22 companies)	3rd	14 th
Customer satisfaction survey	87%	88%

The 2009 rankings will be published by Ofwat later this year.

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

	Units	Notes	2009	2008
Environment				
Excavated materials diverted from landfill	Tonnes		19,207	16,905
Average energy used to supply 1ML of water	Kwh	1	719	806
Emission of greenhouse gases in total to supply 1 ML of water	Tonnes of CO ₂ e	1, 2, 3	0.404	0.449
Compliance with EA abstraction licences			100%	100%
Status of SSSIs – percentage favourable			100%	100%
Social				
Security of supply index			100%	100%
Water quality compliance		4, 5	99.97%	99.97%

	Units	Notes	2009	2008
Employees				
Turnover rate			2.6%	4.8%
Accidents reportable to HSE	No.	4	3	2
Assets				
Percentage of properties with interruptions to supply greater than six hours			0.50	0.13
Loss of water from supply network	MLD	5	54	53

- Notes:
- 1 ML = megalitres (1 megalitre = 1000 cubic metres)
 - 2 The "emission factor" for CO₂ associated with mains electricity has been changed several times in the last 24 months - the figures for 2008 and 2009 have been re-calculated using the most recent emission factor. If we include the fact that the company uses energy from good-quality CHP, our carbon footprint is 41% lower than the figures shown.
 - 3 CO₂e refers to "CO₂ equivalent" meaning that all emissions have been accounted for in a standard format.
 - 4 Based on 12 months to 31 December ending in the relevant accounting period
 - 5 Water quality is based on mean zonal compliance data
 - 5 MLD = megalitres per day

CORPORATE SOCIAL RESPONSIBILITY

The company is committed to acting in a responsible and sustainable manner.

Environment

The water industry has a high environmental impact. By reference to a range of sustainability measures developed by Water UK (the trade body for water companies in England and Wales), the company performs well compared to its peer group.

We:

- fulfil, and in many areas exceed, all the requirements of conservation and environmental duties set out in the Water Industry Act 1991 and codes of practice on conservation, access and recreation
- ensure that all the land we own which is classed as of special scientific interest receives the highest possible assessment by environmental regulators
- have a well established environmental policy with strong top-level commitment to sustainable management of the business. Our Environmental Management Group includes the Chief Executive, Managing Director, Executive and non-Executive Directors and all senior operational managers in the company.
- carefully assess the risks associated with the potential environmental impact of our work so that risks are mitigated and managed effectively.

Social and community

We:

- deliver high quality reliable supplies of water to over 1.1 million people and businesses
- promote the efficient use of water
- provide the best possible public access to our major reservoirs whilst seeking to maintain a balance between wildlife and recreational demands. Chew Valley Lake and Blagdon Lake, our largest reservoirs, have an international reputation for the quality of their fishing.
- undertake a structured programme of educational support including open days, access to visitor centres and school visits
- make charitable donations, sponsorships and grants to local organisations and individuals to promote good causes.

Employees

Our employees are vital to the success of the company.

We:

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

Key performance indicators

The company uses a series of KPIs to monitor environmental performance; some key measures are included in the non-financial performance section on page 8.

Further details of the company's environmental, conservation and recreation policies are available on our website www.bristolwater.co.uk.

OUTLOOK

The main drivers of future profitability will be:

- increases in charges to customers in line with the RPI+/-K price limits. The 'K' factor for next year is 0.0%.
- changes in operating costs - further efficiencies will be obtained by the company, offset by the cost of new obligations and inflation
- inflation or deflation – operating costs, the capital investment programme and the company's £107.1m of index-linked debt are subject to inflation; potential adverse impacts of high inflation or deflation are mitigated by the index-linking of the majority of revenues through the RPI +/- K price limits
- the company is a major energy user; power costs are constantly changing in line with crude oil markets. Total energy costs for 2009 reduced by 9% compared to 2008. This was partly a consequence of the wet summer weather reducing demand for water and a continuing reduction in demand from industrial customers. Despite the fact that the company has entered into an agreement which allows flexible purchases, we currently anticipate that energy costs for 2010 will further increase due to fluctuating energy prices. We expect energy costs to remain volatile in the future.
- delivery of the capital investment programme required to meet the obligations set out in Ofwat's determination of price limits. We currently anticipate delivering the capital investment programme in real terms broadly in line with Ofwat's assumptions.
- changes in pension funding assumptions.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were:

J M Woolley, *Chairman*
M Navarro, *Chief Executive until 31 March 2009, now a Non-Executive*
L Garcia, *Non-Executive from 27 January 2009 until appointed Chief Executive on 1 April 2009*
Dr A J Bates, *Director of Quality and Information Systems until 31 May 2008*
M Cermerón, *Director of Organisation and Development until 31 July 2008, now a Non- Executive*
C J Curling, *Non-Executive*
R Davis, *Non-Executive from 24 November 2008*
J A Guijarro, *Non-Executive*
A Harding, *Non-Executive*
P McIlwraith, *Non-Executive*
A Parsons, *Managing Director*
S Pellegrini, *Finance Director*
C Rozman, *Non-Executive*
T Smallwood, *Non-Executive until 23 September 2008*

Service contracts and fees

All current executive directors have service contracts with 12-month notice periods.

Other interests

Mr J M Woolley, Mr J A Guijarro Mr M Navarro, and Mr M Cermerón will offer themselves for re-election at the Annual General Meeting. Mr L Garcia and Mr R Davis will stand for election at the Annual General Meeting.

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

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

During the year Mr M Woolley and Mr A Parsons acquired interests and beneficial interests in the company's 8.75% irredeemable cumulative preference shares of £28,000 and £266,000 respectively.

ULTIMATE PARENT COMPANY

In April 2007 Suez, La Caixa and their joint venture, Hisusa, undertook to make a bid for the entire share capital of the company's ultimate parent, Sociedad General de Aguas de Barcelona S.A. (Agbar). The outcome of the mandatory bid has resulted in approximately 90.012% of the share capital of Agbar being currently controlled by the French Group GDF Suez and the Spanish savings bank La Caixa.

The outcome of this acquisition may change the identity of Bristol Water plc's ultimate holding company, which is currently considered to be Agbar for the purposes of Condition P of the company's Instrument of Appointment. Ofwat is being kept informed of material developments.

All of the company's 8.75% irredeemable cumulative preference shares are owned outside the Agbar group with the exception of those disclosed above held by Mr M Woolley and Mr A Parsons.

LAND AND BUILDINGS

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

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

It is company policy to comply with the terms of payment agreed with a supplier. Where payment terms are not negotiated, the company endeavours to adhere to the supplier's standard terms. The company pays creditors in accordance with agreed payment terms on receipt of valid invoices. At the end of the year, trade creditors represented the equivalent of 33 days purchases (2008: 34 days).

RESEARCH AND DEVELOPMENT

The company undertakes research and development projects in relation to its business. Expenditure during the year amounted to £0.1m (2008: £0.1m).

INSTRUMENT OF APPOINTMENT AND REGULATORY ACCOUNTS

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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

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

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

The company's auditors, Deloitte & Touche LLP, have changed their name to Deloitte LLP and have indicated their willingness to continue in office and are deemed to be reappointed in accordance with an elective resolution made under section 386 of the Companies Act 1985.

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

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

This confirmation is given and should be interpreted in accordance with the provisions of s234Za of the Companies Act 1985.

DIRECTORS' RESPONSIBILITIES FOR THE PREPARATION OF FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report including the financial statements. The directors have chosen to prepare the financial statements for the company in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view, in accordance with UK GAAP, of the state of affairs of the company and of the profit or loss of the company for that period and comply with UK GAAP and the Companies Act 1985. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

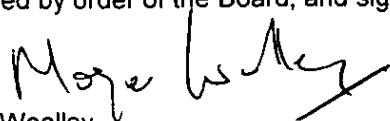
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge:

1. the financial statements, prepared in accordance with UK GAAP, give a true and fair view of the assets, liabilities, financial position and profit of the company; and
2. the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the company and its financial position, together with a description of the principal risks and uncertainties it faces.

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



Moger Woolley
Chairman
22 May 2009

DIRECTORS

John Moger Woolley DL Age 74

Non-executive Chairman, Member of Nomination Committee

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

Manuel Navarro Age 52

Former Chief Executive, Former member of Nomination Committee, now Non-Executive

Mr Navarro was appointed to the Board in June 2006 and resigned as Chief Executive on 31 March 2009. He has held a range of senior positions with Agbar since 1983. He was also Chief Executive of BWG. He has now assumed responsibility for Agbar's operations in Latin America.

Luis Garcia Age 44

Chief Executive, Member of Nomination Committee

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

Manuel Cermerón Age 39

Former Organisation and Development Director, now Non-Executive

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

Chris Curling Age 59

Non-executive, Member of Nomination and Audit Committees, Chairman of Remuneration Committee

Mr Curling was appointed to the Board in 2004. He was a director of BWG from 2005 until June 2006. He has four non-executive directorships and is a member of the Council of Bristol University. Formerly he was Senior Partner with the legal firm Osborne Clarke.

Juan Antonio Guijarro Age 44

Non-executive

Mr Guijarro was appointed to the Board in June 2006. He is General Manager of Agbar's water division and has been with Agbar since 1989. He is also a director of BWG.

Tony Harding Age 60

Non-executive

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

Peter McIlwraith Age 61

Non-executive, Chairman of Audit Committee and Member of Nomination and Remuneration Committees

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

Alan Parsons Age 60

Managing Director and Member of Nomination Committee

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

Stefano Pellegri Age 36

Finance Director

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

Ciril Rozman Age 44

Non-executive

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

Robert Davis Age 61

Non-executive Director, Member of Audit, Nomination and Remuneration Committees

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

Notes:

References to Bristol Water Group Ltd (BWG) above include predecessor companies where appropriate.

Dr Arnold Bates and Trevor Smallwood OBE were directors during the year. They retired from the Board on 31 May 2008 and 23 September 2008 respectively.

CORPORATE GOVERNANCE REPORT

DIRECTORS' STATEMENT

The Board is committed to ensuring that high standards of corporate governance are maintained by the company. In doing so it endorses the main and supporting principles and provisions set out in the Combined Code on Corporate Governance of the Financial Reporting Council (the Code) as revised in June 2008. For the year ended 31 March 2009 up to the date of approving the accounts the Board has applied the principles and complied with the provisions of Section 1 of the Code.

In assessing the going concern basis, the directors have considered the cash flow projections of the company for the foreseeable future which show that the company is fully funded to meet its existing obligations. As described in note 13, the company has repaid existing loans and replaced them with new funding repayable in 2017. In addition, the company has available a £30m undrawn committed borrowing facility which it does not expect to have to use.

The main risk areas to the business are operational problems and performance, regulatory requirements and developments and financial factors, which are unpredictable due to the present financial market turmoil and high volatility related to all main financial indicators. The company is well placed to face the near future events at 31 March 2009, with cash and cash equivalents of £20.6m and the £30.0m committed and unutilised revolving credit facility.

The company is not immune from the severe financial market uncertainties in the medium term, which have the potential to impact its ability to obtain appropriate financing to deliver the future capital programme in the next regulatory period, 2010-15. The performance of the company for the next regulatory period will much depend on the final determination from Ofwat, due in November 2009, which will set prices and indicate funding requirements for the next 5 years. The directors fully support the final business plan submitted to Ofwat and are aware of its impact on future financing needs. They are fully informed of preliminary discussions with financial institutions to meet these needs and will continue to monitor progress.

The directors report that, after making enquiries and as explained in the Directors' Report, they have a reasonable expectation that the company has adequate resources to continue in operation for the foreseeable future.

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

Board and Board Committees

At 31 March 2009 the Board of Bristol Water plc (the "Board") comprised the Chairman, three executive directors and eight non-executive directors. Three of the non-executive directors are, in the opinion of the Board, independent. This assessment has been made by the Board based on their views of their performance on the Board and taking into account their experience, character and period served.

The following table sets out the attendance of directors at Board and committee meetings during the financial year 2008/09:

		Board meetings (maximum 6)	Number of meetings attended Percentage attendance during period of appointment	Audit Committee meetings (maximum 4)	Remuneration Committee meetings (maximum 2)
Chairman	J M Woolley	6	100%		
Former Deputy Chairman, Former Senior Independent Director (until 23 September 2008)	T Smallwood	2	67%	1	
Former Chief Executive (until 31 March 2009), Non-Executive (from 1 April 2009)	M Navarro	6	100%		
Chief Executive (from 1 April 2009, former non-executive)	L Garcia	2	100%		
Independent non-executive director*	C Curling	6	100%	4	2
Independent non-executive director*	P McIlwraith	6	100%	4	2
Independent non-executive director (from 24 November 2008)*	R Davis	3	100%	1	1
Managing Director	A Parsons	6	100%		
Finance Director	S Pellegri	6	100%		
Quality Director (until 31 May 2008)	Dr A J Bates	1	100%		
Organisation and Development Director (until 31 July 2008), Non-executive director (from 1 August 2008)	M Cermerón	5	83%		
Non-executive director	J A Guijarro	4	67%		
Non-executive director	C Rozman	3	50%		
Non-executive director	A J Harding	5	83%		

* All members of the Nomination Committee attended all meetings of the Committee.

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

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

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

The Board considers the Chairman to be the principal point of reference to whom concerns of whatever nature may be conveyed. In the event that an individual does not wish to raise a concern with him, the Board has now identified Mr P McIlwraith (replacing Mr T Smallwood) from 30 September 2008 as the senior independent member of the Board to whom such concerns may be addressed.

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

Audit Committee

The Audit Committee's terms of reference include the points recommended by the Combined Code. Its duties include monitoring internal controls, approving the accounting policies and reviewing the interim and annual financial statements before submission to the Board. The Committee is chaired by Mr P McIlwraith and currently comprises two other non-executive directors Mr C Curling and Mr R Davis (replacing Mr T Smallwood). The external auditors attended all meetings in the year and the internal auditors report to this Committee on a regular basis.

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

Bristol Water plc has an Auditor Independence policy which considers services that the external auditors may and may not provide such that their independence and objectivity is not impaired, as well as establishing a formal authorisation process, including the pre-approval by the Audit Committee for allowable non-audit work that they may perform.

The Audit Committee reviews remuneration received by external auditors for audit services and non-audit services, with the aim of seeking to balance objectivity, value for money and compliance with the latest auditor independence guidance and regulations.

The Committee concluded that no conflict of interest exists between audit and non-audit work for the company and the Bristol Water group and that this was the most cost effective way of conducting the company's business.

Remuneration Committee

The role and composition of the Remuneration Committee is set out in the report on page 19.

Nomination Committee

The Nomination Committee comprises the Chairman, Mr C Curling, Mr P McIlwraith, Mr R Davis (replacing Mr T Smallwood), Mr A Parsons and Mr L Garcia (replacing Mr M Navarro). It is responsible for making recommendations to the Board on the selection, appointment and re-appointment of the company's executive and non-executive directors and considers such other matters as required. The Committee met five times during the year in connection with the resignations of Messrs Navarro, Cermerón and Smallwood, and the separate appointments of Messrs L Garcia and R Davis. All members of the Committee attended each meeting. As an independent director Mr R Davis has been given the opportunity to meet with senior representatives of Agbar to understand their views of the company.

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

All directors must retire by rotation every 3 years and any non-executive with more than 9 years' service must stand for re-election on an annual basis.

Internal Controls

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

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

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

The executive directors:

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

The company operates through a formal board structure, which:

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

The Audit Committee:

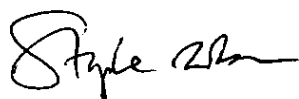
- reviews internal and external audit work plans and commissions, where appropriate, reviews of specific issues
- considers reports from management, internal and external auditors on the system of internal control and any material control weaknesses identified
- discusses with management the actions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

The Board:

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

The Board undertook its latest formal assessment of risk management and control arrangements on 27 January 2009 in order to form a view on the overall effectiveness of the system of internal control. This review included an assessment of the effectiveness of internal controls within the group's joint venture, Bristol Wessex Billing Services Limited.

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



By order of the Board
S C Robson, Secretary
22 May 2009

REMUNERATION COMMITTEE REPORT

This Report sets out the remuneration policy operated by the company in respect of the executive directors, together with disclosures on directors' remuneration to comply with the Directors' Remuneration Report Regulations 2002, (the "Regulations"). The auditors are required to report on the 'auditable' part of this Report and to state whether, in their opinion, that part of the Report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The Report is therefore divided into separate sections for audited and unaudited information.

Unaudited element of the Remuneration Committee Report

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

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

Role and Composition of the Remuneration Committee

The Remuneration Committee makes recommendations to the Board on the remuneration and other employment conditions of the executive directors and senior executives of Bristol Water plc. It consists solely of independent non-executive directors. The membership of the Committee during the year comprised Mr T Smallwood (Chairman) until his retirement, replaced by Mr R Davis, Mr P McIlwraith and Mr C Curling. Attendances at committee meetings are set out on page 16.

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

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

During the year Mr M Navarro (Chief Executive until 31 March 2009), Mr A Parsons (Managing Director) and Mr S C Robson (Company Secretary) also provided material advice and services to the Committee. No director played a part in any discussions about his own remuneration. None of the Committee has any personal financial interest or conflict of interest arising from cross-directorships or from day-to-day involvement in running the business.

Remuneration Policy

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

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

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

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

Annual bonus - based on the achievement of water quality, customer service, leakage, a range of financial targets and the overall performance of the Agbar water division, together with an assessment of personal performance, and is restricted in 2009 to a maximum (save in exceptional circumstances) of either 30% or 50% of basic salary (2008: either 30% or 50%).

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

In addition, some expatriate benefits provided to Messrs Navarro, Garcia, Pellegrini and Cermerón are borne by Bristol Water Group Ltd. These include free furnished accommodation, utilities, tax advice and private school/nursery fees where appropriate.

Annual Bonus Scheme

Annual bonus awards for the bonus year 2009 (accrued and approved but not paid as at 31 March 2009) are shown in the sections headed Details of Directors' Remuneration, Pension Benefits and Share Options.

Share Options and Long-Term Incentive Schemes

The Bristol Water Group Ltd (BWG) Executive Share Option Scheme was in place until its closure following the acquisition of BWG by Agbar. No awards were made during the year and no options were outstanding at any time during the year ended 31 March 2009.

There is currently no Long-term Incentive Scheme in place.

Service Contracts

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

	Contract date	Notice period	Unexpired term
M Navarro (resigned 31 March 2009)	28 February 2007	1 year	N/a
L Garcia (appointed 1 April 2009)	23 April 2009	1 year	rolling 1 year
A Parsons	13 July 2004	1 year	rolling 1 year
S Pellegrini	26 November 2007	1 year	rolling 1 year
Dr A J Bates (retired 31 May 2008)	7 February 2001	3 months	N/a
M Cermerón (resigned 31 July 2008)	29 January 2007	1 year	N/a

Mr M Navarro and Mr M Cermerón resigned as executive directors but remain as non-executive directors of the Board and have moved to senior posts within the Agbar group in accordance with special notice arrangements in their service contracts for intra-group transfers.

Mr Parsons has a provision in his service contract for the enhancement of his Water Companies' Pension Scheme pensionable service by a maximum of 6½ years in the event of redundancy.

Under the normal rules of the Water Companies' Pension Scheme any employee or director is entitled to a non-actuarially reduced pension if they are 50 or more years old and their service contracts were terminated in certain circumstances.

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

Directors' Pension Arrangements

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

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

Non-Executive Directors

The remuneration of the non-executive directors is determined by the Board and has been based, where appropriate, upon market evidence of fees paid to non-executive directors in companies of comparable size and on the basis of time commitments. Additional responsibilities are also taken into account.

Non-executive directors do not have contracts of service, do not participate in company pension, share or bonus schemes and do not receive any taxable benefits in kind. The terms of appointment do not entitle non-executive directors to receive compensation in the event of early termination of their appointment.

Audited element of the Remuneration Committee Report

Details of Directors' Remuneration, Pensions Benefits and Share Options

This report includes the statutory disclosures required by the Companies Act 1985, as amended by the Company Accounts (Disclosure of Directors' Emoluments) Regulations 1997 and the Directors' Remuneration Report Regulations 2002, which are subject to audit. Full details of all elements in the remuneration package of each director and share options are set out below. Details of directors' share interests are given in the Directors' Report.

(a) Directors' Remuneration		Notes	Salary / fees £000	Benefits £000	Bonus £000	2009 Total £000	2008 Total £000
J M Woolley		Non-executive	56	-	-	56	54
T Smallwood	1	Non-executive	17	-	-	17	35
C Curling		Non-executive	30	-	-	30	29
P McIlwraith		Non-executive	34	-	-	34	33
J A Gujjarro	2	Non-executive	-	-	-	-	-
A Harding	2	Non-executive	-	-	-	-	-
C Rozman	2	Non-executive	-	-	-	-	-
R Davis	3	Non-executive	10	-	-	10	-
M Navarro	4	Executive	150	9	33	192	168
L Garcia	2	Executive	-	-	-	-	-
A Parsons	4	Executive	179	12	54	245	258
Dr A J Bates	5	Executive	16	2	6	24	132
M Cernerón	4,6	Executive	42	9	9	60	110
S Pellegrini	4	Executive	89	11	25	125	45
Charge to Profit and Loss account			623	43	127	793	1,007

Notes

- 1 Resigned 24 September 2008
- 2 No remuneration has been paid by the company
- 3 From 24 October 2008
- 4 These costs represent amounts paid by and charged to Bristol Water plc, and exclude remuneration charged to Bristol Water Group Ltd, or paid by Agbar
- 5 Retired 31 May 2008
- 6 From 1 August 2008 no remuneration has been paid by the company for non-executive directorship

Benefits in kind above include the provision of a company car, medical and life insurance where applicable.

Bonus represents amounts accrued and approved, but not paid, as at 31 March 2009.

No director waived emoluments in respect of the year ended 31 March 2009.

Dr A Bates continues to receive a nominal fee for provision of consultancy services to the company.

(b) **Accrued pension scheme benefits earned by directors**

	A Parsons £000	A J Bates £000
Listing Rules disclosure		
Increase in accrued pension during 2008/09 in excess of inflation	2	(2)
Increase in accrued lump sum during 2008/09 in excess of inflation	6	(5)
Accumulated pension per annum at 31 March 2009	55	46
Accumulated lump sum at 31 March 2009	166	139
Transfer value of increase	60	28
Transfer value of increase less director's contributions	43	26
Schedule 7A disclosure		
Increase in accrued pension during 2008/09	5	-
Increase in accrued lump sum during 2008/09	14	2
Accumulated pension per annum at 31 March 2009	55	46
Accumulated lump sum at 31 March 2009	166	139
Transfer value		
As at 31 March 2008	1,195	1,143
As at 31 March 2009	1,549	1,193
Increase in transfer value	354	50
Increase in transfer value less director's contributions	337	48

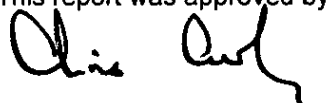
Mr Parsons' benefits include personally purchased Additional Voluntary Contributions (AVCs).

Mr Parsons, and Dr Bates until his retirement, accrued retirement benefits under the Bristol Water plc section of WCPS.

The transfer values disclosed above do not represent sums paid or payable to the individual directors; they represent a potential liability of the Bristol Water section of the pension scheme. The actuary has changed the basis of the calculation in the current year.

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

This report was approved by the Board of Directors on 22 May 2009 and signed on its behalf by:



Chris Curling
Chairman of Remuneration Committee
22 May 2009

PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2009

		2009	2008
	Note	£m	£m
Turnover	2	96.7	91.0
Operating costs	3	<u>(67.6)</u>	<u>(64.7)</u>
Operating profit		29.1	26.3
Other net interest payable and similar charges	4	(10.4)	(8.4)
Dividends on 8.75% irredeemable cumulative preference shares	4	(1.1)	(1.1)
Interest in respect of retirement benefit scheme surplus	4	(0.2)	1.1
Net interest payable and similar charges		<u>(11.7)</u>	<u>(8.4)</u>
Profit on ordinary activities before taxation		17.4	17.9
Taxation on profit on ordinary activities	5	(5.3)	(3.4)
Profit on ordinary activities after taxation	19	12.1	14.5
Earnings per ordinary share	6	201.7p	241.7p
Dividends per ordinary share	20		
- declared or proposed in respect of the period		<u>206.80p</u>	<u>152.28p</u>
- paid during the period		<u>146.78p</u>	<u>198.78p</u>

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

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

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 March 2009

		2009	2008
	Note	£m	£m
Profit attributable to Bristol Water plc shareholders		12.1	14.5
Actuarial (losses)/gains recognised in respect of retirement benefit obligations	22	(5.8)	1.1
Attributable deferred taxation	17	1.6	(0.3)
Change in the fair value of the interest rate swap	16	(1.2)	-
Attributable deferred taxation	17	0.3	-
Total recognised gains for the year		7.0	15.3

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

BALANCE SHEET

at 31 March 2009

		2009	2008
	Note	£m	£m
Fixed assets	7	251.7	244.1
Other investments - Loans to ultimate UK holding company	8	68.5	68.5
Current assets			
Stocks	9	1.1	0.9
Debtors	10	21.6	20.9
Investments	13	19.4	21.3
Cash at bank and in hand	13	1.2	0.2
		<u>43.3</u>	<u>43.3</u>
Creditors: amounts falling due within one year			
Short term borrowings	11	(2.2)	(16.9)
Other creditors	12	(25.0)	(26.2)
		<u>(27.2)</u>	<u>(43.1)</u>
Net current assets		<u>16.1</u>	<u>0.2</u>
Total assets less current liabilities		336.3	312.8
Creditors: amounts falling due after more than one year			
Borrowings and derivatives	13	(220.2)	(201.2)
Other creditors	12	(0.2)	(0.4)
		<u>(220.4)</u>	<u>(201.6)</u>
8.75% irredeemable cumulative preference shares	13	(12.5)	(12.5)
Deferred income	14	(10.2)	(10.0)
Provisions for liabilities	17	(22.8)	(20.3)
Retirement benefit surplus	22	6.3	10.1
Net assets		<u>76.7</u>	<u>78.5</u>
Capital and reserves			
Called-up share capital	18	6.0	6.0
Share premium account	19	4.4	4.4
Other reserves	19	4.9	5.8
Profit and loss account	19	61.4	62.3
Shareholders' funds		<u>76.7</u>	<u>78.5</u>

The accounts were approved by the Board on 22 May 2009 and signed on its behalf by -

A Parsons, Director



S Pellegrini, Director



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

CASH FLOW STATEMENT

for the year ended 31 March 2009

		2009	2008
	Note	£m	£m
Net cash inflow from operating activities	23(a)	47.5	49.4
Returns on investments and servicing of finance			
Interest received		5.1	5.6
Interest paid on term loans and debentures		(9.7)	(9.0)
Interest paid on finance leases		(0.9)	(1.0)
Dividends paid on 8.75% irredeemable cumulative preference shares		(1.1)	(1.1)
Net costs of issue of new loans		-	(0.2)
		<u>(6.6)</u>	<u>(5.7)</u>
Taxation			
Corporation tax paid		<u>(2.1)</u>	<u>(2.1)</u>
Capital expenditure and investing activities			
Purchase of tangible fixed assets		(32.6)	(50.5)
Contributions received		3.6	4.0
		<u>(29.0)</u>	<u>(46.5)</u>
Equity dividends paid	20	<u>(8.8)</u>	<u>(11.9)</u>
Cash inflow/(outflow) before management of liquid resources and financing		1.0	(16.8)
Management of liquid resources being decrease in short-term deposits		<u>1.9</u>	<u>6.7</u>
Financing			
New term loans		15.0	20.0
Capital element of lease repayments		(1.9)	(2.5)
Loan repayments		(15.0)	(10.0)
		<u>(1.9)</u>	<u>7.5</u>
Increase/(decrease) in cash	23(b)	1.0	(2.6)
Cash, beginning of year		0.2	2.8
Cash, end of year		<u>1.2</u>	<u>0.2</u>

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

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

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

(a) Accounting convention

The accounts of the company are prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom (UK GAAP) and with the provisions of the Companies Act 1985, except for, the treatment of certain capital contributions as explained in note (e) below, the disclosure of operating costs as explained in note 3, and, the application of fair value hedge accounting as explained in note (m) below.

The company has not adopted IFRS for its financial statements for the year ended 31 March 2009, and has no current plans to do so until UK GAAP and IFRS are fully harmonised.

(b) Going concern

The company's activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review. The Directors' Report also describes the financial position of the company, its cash flows, liquidity position and borrowing facilities, and the company's policies and objectives in managing risk.

As highlighted in note 13, the company has available £30m in undrawn committed borrowing facilities. The company does not expect to require use of these facilities in the foreseeable future as current funding levels are adequate to meet trading and capital investment until at least the end of the current regulatory period.

For these reasons and those disclosed in the Corporate Governance Report, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

(c) Turnover

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

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

(d) Tangible fixed assets and depreciation

Tangible fixed assets comprise infrastructure assets and other assets:

Infrastructure assets

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

Other assets

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

Depreciation

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

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

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

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

Assets under construction are not depreciated.

Impairment

The values of fixed assets are reviewed regularly to ensure that their carrying amounts do not exceed their fair values in use. Where such an excess is believed to exist it will be treated as an impairment loss and charged to the profit and loss account.

(e) Grants and contributions

Contributions received in respect of tangible assets, other than those received in respect of infrastructure assets, are treated as deferred income and amortised in the profit and loss account over the expected useful lives of the related assets. Contributions received in respect of enhancing the infrastructure network are not shown as deferred income but are deducted from the cost of the related fixed assets. This treatment is permitted by Statement of Standard Accounting Practice Number 4 but is a departure from the Companies Act 1985 which requires such contributions to be shown as deferred income.

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

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

(f) Leased assets

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

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

(g) Pension costs

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

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

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

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

(h) **Research and development**

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

(i) **Taxation**

The charge for taxation is computed based on the profit for the period adjusted according to tax legislation that has been substantively enacted at the balance sheet date.

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

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

(j) **Distributions to shareholders**

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

(k) **Stocks**

Stocks are valued at the lower of cost and net realisable value. Following established practice in the water industry no value is included in the accounts in respect of water held in store.

(l) **Financial instruments**

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

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

(m) **Fair Value Hedge accounting**

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

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

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

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

2. TURNOVER

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

3. OPERATING COSTS

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

(a) Operating costs comprise -

	2009	2008
	£m	£m
Wages, salaries and severance costs	13.5	12.4
Social security costs	1.1	1.1
Pension costs (note 22(b))	2.2	2.1
Total payroll cost	16.8	15.6
less charged to fixed assets	(3.7)	(3.4)
Net payroll cost	13.1	12.2
Other operating costs		
Operating lease rentals on plant and machinery	0.1	0.1
Research and development expenditure	0.1	0.1
Auditors' remuneration (note 3(e))	0.1	0.2
Raw materials, consumables, bad debts and other charges less recoveries	33.9	32.4
Total other operating costs	34.2	32.8
Depreciation of tangible fixed assets (note 7)		
On owned assets	19.5	18.2
On leased assets	1.3	2.0
Amortisation of related deferred income (note 14)	(0.5)	(0.5)
Net depreciation	20.3	19.7
Total operating costs	67.6	64.7

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

	2009	2008
Water treatment and distribution	262	238
Support services	91	94
Administration	38	36
Non-appointed activities	50	49
	<u>441</u>	<u>417</u>

- (c) Directors' emoluments -

	2009 £m	2008 £m
Aggregate emoluments of directors, being remuneration, bonus and benefits in kind	0.8	1.0
Payments to approved pension schemes, all in respect of executive directors, excluding past service costs disclosed in the Directors' Remuneration Report	<u>0.1</u>	<u>0.1</u>

Full details of directors' remuneration are disclosed in the report of the Remuneration Committee on page 21.

- (d) Depreciation

The depreciation charge for the year is stated after extending the lives of meters from 10 to 13 years and service reservoirs and water towers from 60 to 80 years. This change is necessary to better reflect their effective economic lives and has the effect of reducing the depreciation charge in the year by £0.5m (2008: £Nil).

- (e) Auditors' remuneration

	2009 £000's	2008 £000's
The analysis of auditors' remuneration is as follows:		
Fees payable to the company's auditors for the audit of the company's annual accounts	<u>53</u>	<u>53</u>
Services pursuant to legislation, principally related to regulatory returns	45	43
Tax services	13	12
Other services	7	48
Total non-audit fees	<u>65</u>	<u>103</u>

4. NET INTEREST PAYABLE AND SIMILAR CHARGES

	2009		2008	
	£m	£m	£m	£m
Other net interest payable and similar charges relate to -				
Bank borrowings		2.3		2.0
Term loans and debentures		7.2		7.1
- interest charges				
- indexation		5.0		3.7
Finance leases		0.9		1.0
		<u>15.4</u>		<u>13.8</u>
Less:				
Loan to Bristol Water Group Ltd – interest receivable	(4.0)		(4.0)	
Other external investments and deposits	<u>(1.0)</u>		<u>(1.4)</u>	
		(5.0)		(5.4)
Total other net interest payable and similar charges		<u>10.4</u>		<u>8.4</u>
Dividends on 8.75% irredeemable cumulative preference shares		1.1		1.1
Interest charge/(income) in respect of retirement benefit scheme surplus		0.2		(1.1)
		<u>11.7</u>		<u>8.4</u>

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

5. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2009	2008
	£m	£m
(a) Analysis of charge for the year, all arising in the United Kingdom:		
Current tax:		
Corporation tax at 28% (2008: 30%)	2.5	2.4
Adjustment to prior periods	<u>(0.1)</u>	<u>(0.2)</u>
	<u>2.4</u>	<u>2.2</u>
Deferred tax:		
Current year movement	2.7	3.1
Effect of corporation tax rate change	-	(2.6)
Effect of changes related to abolition of Industrial Buildings Allowances (IBA's)	-	(0.9)
Adjustment to prior periods	<u>0.1</u>	<u>0.2</u>
	<u>2.8</u>	<u>(0.2)</u>
Effect of discounting	<u>0.1</u>	<u>1.4</u>
	<u>2.9</u>	<u>1.2</u>
Tax on profit on ordinary activities	<u>5.3</u>	<u>3.4</u>

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

In 2008 a number of measures affecting the future tax charges of the company were enacted in the Finance Act 2007. The effects of the changes are disclosed within the above deferred tax charge for 2008. These relate to:

- the reduction in the corporation tax rate to 28% with effect from 1 April 2008, and,
- the withdrawal of the clawback of IBA's on disposal of an industrial building.

Discount rates have decreased during the current year. Within the effect of discounting in 2009, a decrease in the beneficial effect of discounting of £1.6m (2008: £1.0m) has been recognised in respect of the restatement of the opening balance at the new rates, increasing the overall deferred tax charge.

Factors that may affect future tax charges

ACT is recognised as an asset to the extent that it is foreseen to be recoverable in the next 12 months. There is a further £3.9m (2008: £3.9m) of unrecognised ACT carried forward at 31 March 2009.

The company also holds £3.0m (2008: £3.0m) of unrecognised capital losses, which are available to offset against any future capital gains.

(b) Reconciliation of the current tax charge

The current tax rate for the year is lower (2008: lower) than the standard rate of Corporation Tax in the United Kingdom of 28% (2008: 30%). The differences are explained below:

	2009 £m	2008 £m
Profit on ordinary activities before tax	<u>17.4</u>	17.9
Profit on ordinary activities multiplied by standard rate of Corporation Tax in the United Kingdom at 28% (2008: 30%)	4.9	5.4
Effects of:		
Expenses including 8.75% irredeemable cumulative preference share dividends not deductible for tax	0.3	0.4
Capital allowances in excess of depreciation	(2.0)	(2.2)
Additional retirement benefit contributions	(0.6)	(0.9)
Other net charges	<u>(0.1)</u>	<u>(0.3)</u>
	2.5	2.4
Adjustment to tax in respect of prior periods	<u>(0.1)</u>	<u>(0.2)</u>
Total current tax charge	<u>2.4</u>	<u>2.2</u>

6. EARNINGS PER ORDINARY SHARE

	2009 m	2008 m
Earnings per ordinary share have been calculated as follows -		
On average number of ordinary shares in issue during the year -		
Earnings attributable to ordinary shares	£12.1	£14.5
Weighted average number of ordinary shares	<u>6.0</u>	<u>6.0</u>

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

7. TANGIBLE FIXED ASSETS

(a) The movements for the year comprise –

	Freehold land & operational structures £m	Plant and equipment £m	Infra- structure assets £m	Assets under construction £m	Total £m
Cost					
At 1 April 2008	171.0	33.1	204.3	46.3	454.7
Additions	-	-	10.9	20.4	31.3
Capitalisation of completed assets	38.4	4.5	12.2	(55.1)	-
Disposals	(0.3)	(0.3)	-	-	(0.6)
Grants and contributions	-	-	(2.9)	-	(2.9)
At 31 March 2009	209.1	37.3	224.5	11.6	482.5
Depreciation					
At 1 April 2008	76.4	24.0	110.2	-	210.6
Charge for year	6.4	3.6	10.8	-	20.8
Disposals	(0.3)	(0.3)	-	-	(0.6)
At 31 March 2009	82.5	27.3	121.0	-	230.8
Net book value at 31 March 2009	126.6	10.0	103.5	11.6	251.7
At 31 March 2008	94.6	9.1	94.1	46.3	244.1

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 2009 is freehold land, not subjected to depreciation in the year, of £1.5m (2008: £1.3m).
- (c) Included above at 31 March 2009 are fixed assets held under finance leases analysed by asset type as follows:

	Freehold land & operational structures £m	Plant and equipment £m	Infra- structure assets £m	Total £m
At 31 March 2009				
Cost	37.6	6.3	1.2	45.1
Depreciation	(22.9)	(6.3)	-	(29.2)
Net book value	14.7	-	1.2	15.9
At 31 March 2008				
Cost	37.9	6.5	1.2	45.6
Depreciation	(22.0)	(6.4)	-	(28.4)
Net book value	15.9	0.1	1.2	17.2

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

- (d) The net book value of infrastructure assets is stated after the deduction of contributions of £53.5m (2008: £50.6m) as explained in note 1(e).

8. OTHER INVESTMENTS

	2009 £m	2008 £m
At 1 April 2008 and at 31 March 2009	<u>68.5</u>	<u>68.5</u>

Other investments comprise loans to the UK parent company. The loans were advanced to Bristol Water Group Ltd and details are as follows:

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

9. STOCKS

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

10. DEBTORS

Debtors comprise -	2009 £m	2008 £m
Trade debtors	10.6	9.5
Due from group and associated companies	1.8	2.5
Other debtors	0.6	0.6
Prepayments and accrued income	8.6	8.3
	<u>21.6</u>	<u>20.9</u>

The sum of £0.4m (2008: £0.4m) is included within the heading "Due from group and associated companies" in respect of amounts advanced to Bristol Wessex Billing Services Limited, a joint venture company within the BWG group, to fund the purchase of fixed assets. This amount has no fixed repayment date.

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

	2009 £m	2008 £m
Finance leases	2.2	1.9
Bank loans	-	15.0
	<u>2.2</u>	<u>16.9</u>

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

12. CREDITORS - OTHER CREDITORS DUE WITHIN ONE YEAR

Other creditors due within one year comprise:	2009 £m	2008 £m
Receipts in advance	8.8	8.7
Trade creditors	5.5	7.5
Due to group and associated companies	0.6	0.6
Tax, social security and payroll deductions	0.7	0.6
Corporation tax payable	2.0	1.7
Accruals and deposits received	7.4	7.1
	<u>25.0</u>	<u>26.2</u>
Other creditors due after one year comprise:		
Accruals and deposits received	<u>0.2</u>	<u>0.4</u>

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

	2009	2008
	£m	£m
Bank and other term loans – all secured	199.6	179.4
Debentures	1.6	1.6
Finance leases	13.4	15.6
Net unamortised premiums arising on issue of term loans	4.4	4.6
Total excluding 8.75% irredeemable cumulative preference shares and interest rate swap	219.0	201.2
Interest rate swap	1.2	-
	220.2	201.2
8.75% irredeemable cumulative preference shares	12.5	12.5
Total	232.7	213.7

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

The authorised preference share capital consists of 14,000,000 8.75% irredeemable cumulative preference shares of £1 each. Of these, 12,500,000 have been issued and are fully paid (31 March 2008: 12,500,000).

New borrowings

In October 2008 the company redeemed £15m of existing bank loans, and replaced them with a new advance of £15m repayable in December 2017. The interest charge on £10m has been fixed by a swap, which became effective at the time of drawdown, which exchanges six month LIBOR for a fixed rate of 5.025%. This swap is considered to be an effective hedge. The remaining £5m is subject to interest at three month LIBOR plus a margin.

All new borrowings are secured and have acceded to the Security Trust and Intercreditor Deed as noted on page 37.

The movements in net unamortised premiums were as follows:

	2009	2008
	£m	£m
Net unamortised premiums at 1 April 2008	4.6	4.8
Amortised during the year	(0.2)	(0.2)
Net unamortised premiums at 31 March 2009	4.4	4.6

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:

	2009 £m	2008 £m
Within one year	0.2	0.2
Between one and two years	0.2	0.2
Between two and five years	0.6	0.6
After five years	3.4	3.6
	4.4	4.6

Security for borrowings

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

In respect of the company:

- by way of first fixed charges over any of its freehold or leasehold property belonging to it now or acquired in the future (other than protected land under the Water Industry Act 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.

Net borrowings and maturities

At 31 March 2009 net borrowings comprise -

	Term loans less cash	Finance leases	Debentures and irredeemable preference shares	Interest rate swap	Total 2009	Total 2008
	£m	£m	£m	£m	£m	£m
Repayment due:						
Between one and two years	-	2.5	-	-	2.5	2.2
Between two and five years – secured, repayable 2012, variable interest at three month LIBOR plus a margin	15.0	8.2	-	-	23.2	23.5
After five years:						
Other than by instalment – term loans						
Secured, repayable 2017, variable interest at three month LIBOR plus a margin	20.0	-	-	-	20.0	5.0
Secured, repayable 2032, principal index-linked to RPI, fixed interest at 3.635%* on the indexed principal	107.1	-	-	-	107.1	101.9
Secured, repayable 2033, fixed interest at 6.01%*	57.5	-	-	-	57.5	57.5
By instalments						
Finance leases	-	2.7	-	-	2.7	4.9
Net unamortised premiums	4.4	-	-	-	4.4	4.6
Interest rate swap, exchanging six month LIBOR for a fixed rate of 5.025%	-	-	-	1.2	1.2	-
Debentures (listed on the London Stock Exchange) -						
4.00% Consolidated irredeemable 4.25%, 4.00% and 3.50% perpetual irredeemable debentures (in total, each under £0.1m individually)	-	-	1.4	-	1.4	1.4
	-	-	0.2	-	0.2	0.2
Total borrowings due after one year excluding 8.75% irredeemable cumulative preference shares	204.0	13.4	1.6	1.2	220.2	201.2
Current portion of debt	-	2.2	-	-	2.2	1.9
Current portion of bank loans	-	-	-	-	-	15.0
	204.0	15.6	1.6	1.2	222.4	218.1
Cash balances and investments	(20.6)	-	-	-	(20.6)	(21.5)
Net borrowings excluding 8.75% irredeemable cumulative preference shares	183.4	15.6	1.6	1.2	201.8	196.6
8.75% irredeemable cumulative preference shares	-	-	12.5	-	12.5	12.5
Net borrowings including 8.75% irredeemable cumulative preference shares	183.4	15.6	14.1	1.2	214.3	209.1

*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.

Borrowing facilities

Unutilised borrowing facilities are as follows:

	2009 £m	2008 £m
Expiring in more than two years	30.0	30.0

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

Minimum lease payments under finance leases

Amounts fall due as follows:

	2009 £m	2008 £m
Within one year	2.2	1.9
Between one and two years	2.5	2.2
Between two and five years	8.2	8.5
After five years	2.7	4.9
	<u>15.6</u>	<u>17.5</u>

14. DEFERRED INCOME

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

	2009 £m	2008 £m
At 1 April 2008	10.0	9.4
Contributions received	0.7	1.1
Less amortised	(0.5)	(0.5)
At 31 March 2009	<u>10.2</u>	<u>10.0</u>

15. FINANCIAL RISK MANAGEMENT

Financial risk factors

The company's main financial instruments comprise:

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

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

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

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

(a) Foreign exchange risk

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

(b) Interest rate risk of financial assets

The financial assets include cash at bank and short-term deposits which are all denominated in sterling. Cash and short-term deposits have been placed with banks (and formerly with building societies) on a rolling basis of up to one year earning interest based on LIBID equivalents. There are also interest-bearing fixed rate loans totalling £68.5m (2008: £68.5m) to Bristol Water Group Ltd.

(c) Interest rate risk of financial liabilities

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

The company's policy is to maintain the majority of its net debt on a fixed or index-linked interest basis. At the year-end 37% (2008: 40%) of the company's gross financial liabilities, including the 8.75% irredeemable cumulative preference shares, were at fixed rates, and 83% (2008: 84%) of the company's gross financial liabilities, including the 8.75% irredeemable cumulative preference shares, were at fixed or indexed rates. The residue were at floating rates.

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

(d) Credit risk

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

(e) Liquidity risk

It is company policy to maintain continuity of funding. At the year-end 88% (2008: 81%) of its financial liabilities, including 8.75% irredeemable cumulative preference shares, mature after five years or are irredeemable.

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

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

Under the terms of the Artesian loan agreements the company is required to maintain a specified sum in nominated accounts to cover estimated debt service payments arising during the following year. These funds, currently amounting to approximately £5.5m (2008: £5.5m), are therefore not available for other operational use or distribution to shareholders.

(f) Price risk

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

(g) **Covenant compliance risk**

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

Derivative financial instruments and hedge accounting

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

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

16. FINANCIAL INSTRUMENTS

Fair value estimation

The fair values of short-term deposits, 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. Fixed rate bank loans and leases have been discounted on a similar basis but to LIBOR futures. 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 2030 plus an estimated margin. Index-linked loans from Artesian Finance plc have been discounted by reference to the UK Government index-linked gilt 2032 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 Bristol Water Group Ltd have been discounted by reference to the UK Government fixed rate gilt 2030 plus an estimated margin.

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

Interest rate swap

At 31 March 2009, the company was party to one interest rate swap which was entered into on 4 March 2008, became effective on 22 October 2008 and will expire on 7 December 2017. The swap is designated against a £10m variable rate bank loan drawn in October 2008. The swap exchanges LIBOR rates on a six monthly basis for a fixed rate of 5.025%. In accordance with FRS26, the liability arising under the swap agreement was recognised in these financial statements, as follows:

Liability:	2009 £m	2008 £m
Due within one year	-	-
Due after one year	1.2	-
	<u>1.2</u>	<u>-</u>

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

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

Fair values of financial assets and financial liabilities

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

Fair values of non-current borrowings

	31 March 2009		31 March 2008	
	Book value	Fair value	Book value	Fair value
	£m	£m	£m	£m
Primary financial instruments issued to finance the company				
Long-term borrowings	(219.0)	(195.5)	(201.2)	(198.0)
8.75% irredeemable cumulative preference shares	(12.5)	(17.0)	(12.5)	(15.3)
Primary financial instruments issued to finance Bristol Water Group Ltd				
Long-term loans	68.5	56.9	68.5	62.8
Derivative financial instruments held to manage the interest rate profile:				
Interest rate swap	-	(1.2)	-	-
	<u>(163.0)</u>	<u>(156.8)</u>	<u>(145.2)</u>	<u>(150.5)</u>

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

Fair values of other financial assets and liabilities

	31 March 2009		31 March 2008	
	Book value	Fair value	Book value	Fair value
	£m	£m	£m	£m
Primary financial instruments held or issued to finance the company's operations:				
Cash at bank and short term deposits	20.6	20.6	21.5	21.5
Short-term borrowings	(2.2)	(2.2)	(16.9)	(16.9)
	18.4	18.4	4.6	4.6

17. PROVISIONS FOR LIABILITIES

	2009 £m	2008 £m
Provision for deferred tax comprises -		
Accelerated capital allowances and capital element of finance leases	39.4	37.3
Deferred income	(1.6)	(1.8)
Short term timing differences	(0.2)	(0.6)
Retirement benefit obligations	2.4	3.9
Interest rate swap	(0.3)	-
	39.7	38.8
Effect of discounting	(14.5)	(14.6)
Net provision, including deferred tax on retirement benefit obligations	25.2	24.2
Less, attributable to retirement benefit obligations	(2.4)	(3.9)
Net provision, excluding deferred tax on retirement benefit obligations	22.8	20.3

Deferred tax movement:	2009 £m	2008 £m
Provision at 1 April	24.2	22.7
Charge to Profit and Loss Account (note 5) (Credit)/charge to Statement of Total Recognised Gains and Losses in respect of:	2.9	1.2
Retirement benefit obligations	(1.6)	0.3
Interest rate swap	(0.3)	-
Provision at 31 March	25.2	24.2

18. CALLED-UP ORDINARY SHARE CAPITAL

	Authorised		Issued and fully paid	
	2009 £m	2008 £m	2009 £m	2008 £m
5,998,025 ordinary shares of £1 each	6.0	6.0	6.0	6.0

19. MOVEMENT IN SHAREHOLDERS' FUNDS

	Share capital	Share premium account	Capital redemption reserve	Hedging reserve	Profit and loss	Total 2009	Total 2008
	£m	£m	£m	£m	£m	£m	£m
At 1 April	6.0	4.4	5.8	-	62.3	78.5	75.1
Profit for the financial year	-	-	-	-	12.1	12.1	14.5
Actuarial (losses)/gains recognised in respect of retirement benefit obligations	-	-	-	-	(5.8)	(5.8)	1.1
Attributable deferred taxation	-	-	-	-	1.6	1.6	(0.3)
Fair value of interest rate swap	-	-	-	(1.2)	-	(1.2)	-
Attributable deferred taxation	-	-	-	0.3	-	0.3	-
Dividends	-	-	-	-	(8.8)	(8.8)	(11.9)
At 31 March	6.0	4.4	5.8	(0.9)	61.4	76.7	78.5

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

20. DIVIDENDS IN RESPECT OF ORDINARY SHARES

	2009 £m	2008 £m
Dividends paid		
• Dividend in respect of 2007: Final dividend of 100.03 pence per share, approved by the Board on 31 May 2007	-	6.0
• Dividend in respect of 2008: First interim dividend of 23.60 pence per share, approved by the Board on 28 September 2007	-	1.4
Second interim dividend of 51.68 pence per share, approved by the Board on 29 November 2007	-	3.1
Third interim dividend of 23.47 pence per share, approved by the Board on 27 March 2008	-	1.4
Final dividend of 53.35 pence per share, approved by the Board on 4 August 2008	3.2	-
• Dividend in respect of 2009: First interim dividend of 24.27 pence per share, approved by the Board on 26 September 2008	1.5	-
Second interim dividend of 45.02 pence per share, approved by the Board on 24 November 2008	2.7	-
Third interim dividend of 24.14 pence per share, approved by the Board on 30 March 2009	1.4	-
	8.8	11.9

On 18 May 2009 the Board proposed a final dividend of 60.02 pence per share, totalling £3.6m, in respect of the year ended 31 March 2009 (31 March 2008: 53.35p per share totalling £3.2m). In accordance with FRS21 this dividend is not recognised in these accounts as a liability.

21. COMMITMENTS AND CONTINGENCIES

- (a) Capital commitments at 31 March 2009 contracted for but not provided were £1.9m (2008: £3.9m).
- (b) Contingencies - The company is a member of a VAT group and is jointly liable for the VAT liabilities of Bristol Water Group Ltd and certain other companies within the Bristol Water Group Ltd group. Other than as shown in these accounts the directors are not aware of any other contingent liabilities that require disclosure.

22. RETIREMENT BENEFIT OBLIGATIONS

(a) Pension arrangements

Defined contribution schemes

The company operates defined contribution retirement benefit schemes for a number of employees. The total cost charged to income of £0.2m (2008: £0.2m) represents contributions payable to the scheme. As at 31 March 2009 and 31 March 2008, all contributions due have been paid over to the scheme.

Defined benefit schemes

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

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

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

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

(b) Accounting under FRS17 "Retirement Benefits"

Basis of valuation

The formal actuarial valuation of the Bristol Water plc section of the Water Companies' Pension Scheme as at 1 April 2008 was updated to 31 March 2009, by Lane, Clark & Peacock LLP, using the following major assumptions in accordance with FRS17:

	2009	2008	2007
Assumptions:			
RPI Inflation	3.1%	3.7%	3.2%
Pension increases in payment (RPI)	3.1%	3.7%	3.2%
Pension increases in payment (LPI)	3.1%	3.6%	3.1%
Salary increases	4.6%	5.2%	5.2%
Discount rate	6.4%	6.1%	5.4%

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		
	2009	2008	2007	2009 £m	2008 £m	2007 £m
Equities	8.0%	7.7%	7.8%	26.9	41.1	61.9
Bonds	4.1%	4.4%	4.7%	96.8	97.2	69.3
Cash	1.9%	3.9%	5.4%	0.1	0.2	0.1
Market value of section assets				123.8	138.5	131.3
Present value of liabilities				(106.2)	(121.9)	(120.0)
Surplus				17.6	16.6	11.3
Amount not recognised due to asset recognition limit				(8.9)	(2.6)	-
Surplus in the section				8.7	14.0	11.3
Deferred taxation at 28% (2008 and 2007: 30%)				(2.4)	(3.9)	(3.0)
Net pension asset				6.3	10.1	8.3

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 (2008: tables PMA92 and PFA92 with future improvements in line with the medium cohort projections, 2007: table PA92 with a plus one year age adjustment and medium cohort projections). These tables assume that the average life expectancy for a male pensioner currently aged 60 is 26.3 years (2008: 26.8 years) and for a female pensioner currently aged 60 is 29.7 years (2008: 29.7 years).

The allowance made for future improvements in longevity is such that a male member retiring at age 60 in 2029 (i.e. in 20 years' time) is assumed to have an increased average life expectancy from retirement of 27.9 years, whilst that for a female retiring at age 60 in 2029 is assumed to have increased to 30.7 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. An increase in the discount rate of 0.1% would, other things being equal, lead to a reduction in the value placed on the liabilities of the section of approximately £1.6m. In addition, a 5% rise in equity values would increase the pension surplus by approximately £1.3m.

Contributions

Contributions paid in the year to the section including those from Bristol Wessex Billing Services Ltd were £2.9m (2008: £2.9m). Contributions paid in the year include £1.9m of regular employer contributions and £1.0m of additional contribution as described previously. For normal employer contributions, during the year the company was required to contribute at the rates of 21% (2008: 21%) of relevant payroll costs for the main sub section and 10% (2008: 10%) for the alternative benefits sub section.

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

Analysis of charges to Profit and Loss Account:

	2009 £m	2008 £m
Analysis of the amount charged to operating profit		
Employer's part of current service cost	2.2	2.4
Past service cost	-	0.3
Unrecognised surplus used to extinguish past service cost	-	(0.3)
	<u>2.2</u>	<u>2.4</u>
Less, costs charged to Bristol Water Group Ltd	-	(0.3)
Total operating charge	<u>2.2</u>	<u>2.1</u>

Costs incurred and recovered from Bristol Water Group Ltd in 2008 related to a former director.

	2009 £m	2008 £m
Analysis of the amount (charged)/credited to other finance (cost)/income		
Expected return on pension section assets	7.1	7.5
Interest on post-retirement liabilities	(7.3)	(6.4)
Net return – (charge)/credit to other finance (cost)/income	<u>(0.2)</u>	<u>1.1</u>

	2009 £m	2008 £m
Analysis of amount recognised in the Statement of Total Recognised Gains and Losses (STRGL)		
Actual return less expected return on pension section assets	(19.6)	1.6
Experience gains arising on section liabilities	0.9	0.2
Changes in assumptions underlying the present value of section liabilities	19.2	2.2
Losses due to asset recognition limit	(6.3)	(2.9)
Actuarial (loss)/gain recognised in STRGL	<u>(5.8)</u>	<u>1.1</u>

	2009 £m	2008 £m
Movement in section pre tax financial position during the year		
Surplus in section at 1 April	16.6	11.3
Movement in year:		
Current service cost (employee and employer)	(2.2)	(2.4)
Aggregate regular contributions (employee and employer)	1.9	1.9
Additional contributions	1.0	1.0
Past service cost	-	(0.3)
(Charge)/credit to other finance (cost)/income	(0.2)	1.1
Actuarial gain recognised in STRGL	0.5	4.0
Surplus in section at 31 March, before deducting amount not recognised due to asset recognition limit	<u>17.6</u>	<u>16.6</u>

The history of experience gains and losses is:

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Market value of section assets	123.8	138.5	131.3	125.8	98.2
Present value of liabilities	(106.2)	(121.9)	(120.0)	(121.4)	(110.1)
Surplus/(deficit) in the section	<u>17.6</u>	<u>16.6</u>	<u>11.3</u>	<u>4.4</u>	<u>(11.9)</u>

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Experience adjustments on scheme liabilities – Amount (£m)	0.9	0.2	0.7	2.1	2.2
Percentage of scheme liabilities (%)	1	-	1	2	2
Experience adjustments on scheme assets – Amount (£m)	(19.6)	1.6	(0.2)	15.2	4.0
Percentage of scheme assets (%)	(16)	1	-	12	4

23. SUPPLEMENTARY CASH FLOW INFORMATION

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

	2009 £m	2008 £m
Operating profit	29.1	26.3
Depreciation, net of amortisation of deferred income	20.3	19.7
Difference between pension charges and normal contributions	0.2	0.6
Cash flow from operations	49.6	46.6
Working capital movements -		
Stocks	(0.2)	(0.1)
Debtors	(0.7)	(0.2)
Creditors and provisions	(0.2)	4.1
Additional contributions to pension scheme	(1.0)	(1.0)
Net cash inflow from operating activities	47.5	49.4

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

	2009 £m	2008 £m
Increase/(decrease) in net cash in year	1.0	(2.6)
Cash used to repay borrowings	16.9	12.5
Cash from new borrowings	(15.0)	(20.0)
Net costs of issue of loans	-	0.2
Cash from decrease in short term deposits	(1.9)	(6.7)
Indexation not affecting cash flow	1.0	(16.6)
Fair value of interest rate swap not affecting cash flow	(5.0)	(3.7)
Net borrowings at 1 April including 8.75% irredeemable cumulative preference shares	(209.1)	(188.8)
Net borrowings at 31 March including 8.75% irredeemable cumulative preference shares	(214.3)	(209.1)

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

	Opening net borrowings £m	Cash flows in year £m	Maturity profile £m	New debt not affecting cash flow* £m	Closing net Borrowings £m
Cash at bank and in hand	0.2	1.0	-	-	1.2
Short term deposits	21.3	(1.9)	-	-	19.4
Cash at bank including overnight deposits	21.5	(0.9)	-	-	20.6
Borrowings due within one year	(1.9)	1.9	(2.2)	-	(2.2)
Borrowings due after one year, including 8.75% irredeemable cumulative preference shares and net unamortised premiums in respect of loans	(228.7)	-	2.2	(5.0)	(231.5)
Change in fair value of the interest rate swap	-	-	-	(1.2)	(1.2)
Net borrowings including 8.75% irredeemable cumulative preference shares	(209.1)	1.0	-	(6.2)	(214.3)

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

24. RELATED PARTY TRANSACTIONS

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

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

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

Agbar Serco Technology Solutions Limited (ASTS), registered in England and Wales, whose year-end is 31 December. The joint venture company is owned 50% by Agbar Serveis Compartits S.A. (ASERCO), a 100% owned subsidiary of the ultimate parent company Agbar, and, 50% by Serco UK Limited. Following a competitive tendering process, ASTS was contracted to provide IT maintenance and development services to the company from 1 November 2008.

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	
	2009	2008	2009	2008
	£m	£m	£m	£m
Members of the BWG group				
Bristol Water Group plc management charges	0.7	0.6	0.1	0.4
Joint ventures of the BWG group				
BWBSL				
- management charges	-	-	2.2	2.2
- capital expenditure	-	-	0.5	0.1
- other recharges	-	-	0.3	0.2
Members of the Agbar group of companies				
ASTS				
- management charges	-	-	0.5	-
- capital expenditure	-	-	0.3	-
	0.7	0.6	3.9	2.9
	Amounts due from		Amounts due to	
	2009	2008	2009	2008
	£m	£m	£m	£m
Members of the BWG group				
Bristol Water Group plc	-	0.2	-	0.2
Joint ventures of the BWG group				
BWBSL				
	1.8	2.3	0.6	0.4
Members of the Agbar group of companies				
ASTS				
	-	-	0.4	-
	1.8	2.5	1.0	0.6

Bristol Water plc paid Wessex Water plc £0.5m (2008: £0.5m) for a share of other assets used operationally by BWBSL but capitalised by Bristol Water plc.

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

Remuneration of key management personnel

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

25. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

At 31 March 2009 the ultimate UK parent and controlling company was Bristol Water Group Ltd. The ultimate holding company is believed by the Directors to be Sociedad General de Aguas de Barcelona S.A. (Agbar), a company incorporated in Spain.

In April 2007 Suez, La Caixa and their joint venture, Hisusa, undertook to make a bid for the entire share capital of Agbar. The outcome of the mandatory bid has resulted in approximately 90.012% of the share capital of Agbar being currently controlled by the French Group GDF Suez and the Spanish savings bank La Caixa.

The outcome of this acquisition may change the identity of Bristol Water plc's ultimate holding company, which is currently considered to be Agbar for the purposes of Condition P of the company's Instrument of Appointment. Ofwat is being kept informed of material developments.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BRISTOL WATER PLC

We have audited the financial statements of Bristol Water plc for the year ended 31 March 2009 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2009 and of its profit for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



Deloitte LLP

Chartered Accountants and Registered Auditors

Bristol, United Kingdom

22 May 2009

Note: *The maintenance and integrity of the Bristol Water website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.*

FINANCIAL HISTORY

PROFIT AND LOSS ACCOUNTS	2009	2008	2007	2006	2005
Years ended 31 March	£m	£m	£m	£m	£m
Turnover	96.7	91.0	86.3	81.9	70.6
Operating profit	29.1	26.3	25.2	24.9	17.1
Interest and irredeemable preference share dividends	(11.5)	(9.5)	(7.8)	(7.4)	(7.2)
Net finance (expense)/income on retirement benefit obligations	(0.2)	1.1	1.5	0.9	0.8
Profit before taxation	17.4	17.9	18.9	18.4	10.7
Taxation	(5.3)	(3.4)	(2.5)	(6.8)	(1.6)
Profit after taxation	12.1	14.5	16.4	11.6	9.1
Dividends paid	8.8	11.9	6.3	10.2	7.3
BALANCE SHEETS	2009	2008	2007	2006	2005
At 31 March	£m	£m	£m	£m	£m
Fixed assets	251.7	244.1	218.7	197.0	195.6
Other investments	68.5	68.5	68.5	68.5	47.0
Net current assets	16.1	0.2	26.1	38.6	9.2
Total assets less current liabilities	336.3	312.8	313.3	304.1	251.8
Debt due after one year, excluding irredeemable preference shares	(220.2)	(201.2)	(204.6)	(204.2)	(148.6)
Irredeemable preference shares	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)
Other creditors due after one year	(0.2)	(0.4)	(0.3)	-	-
Deferred income	(10.2)	(10.0)	(9.4)	(9.6)	(8.6)
Provisions	(22.8)	(20.3)	(19.7)	(18.8)	(19.3)
Retirement benefit asset/(obligation)	6.3	10.1	8.3	3.1	(8.6)
Net operating assets	76.7	78.5	75.1	62.1	54.2
CASH FLOW	2009	2008	2007	2006	2005
Years ended 31 March	£m	£m	£m	£m	£m
Cash flow from operations	47.5	49.4	42.6	35.1	34.1
Net interest and irredeemable preference share dividends paid	(6.6)	(5.7)	(4.8)	(6.5)	(6.4)
Tax paid	(2.1)	(2.1)	(1.0)	(1.7)	(1.9)
Capital expenditure net of contributions	(29.0)	(46.5)	(37.7)	(19.4)	(16.4)
Loan to Bristol Water Group Ltd	-	-	-	(21.5)	-
Dividends paid on equity shares	(8.8)	(11.9)	(6.3)	(10.2)	(7.3)
Cash flow before management of liquid resources and financing	1.0	(16.8)	(7.2)	(24.2)	2.1
Management of liquid resources	1.9	6.7	11.5	(29.1)	5.4
Net (decrease)/increase in financing	(1.9)	7.5	(2.5)	52.7	(7.5)
Increase/(decrease) in cash	1.0	(2.6)	1.8	(0.6)	-

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