

BRISTOL WATER plc
INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2002

Bristol Water plc is a subsidiary of Bristol Water Holdings plc which is also reporting its results today

HIGHLIGHTS

PROGRESSING ACCORDING TO PLAN

Six months ended 30 September	2002 (unaudited) £m	2001 Restated (unaudited) £m	% change
Turnover	35.0	34.0	3 %
Operating profit	10.1	10.0	1 %
Profit before tax	7.4	8.0	(6)%
Profit after tax	4.5	5.7	(21)%
Earnings per ordinary share	<u>65.7p</u>	<u>85.1p</u>	(23)%
Before application of FRS19 deferred tax:			
Profit after tax	6.1	6.4	(5)%
Earnings per ordinary share	<u>91.9p</u>	<u>97.2p</u>	(5)%
Interim dividend per ordinary share	<u>27.73p</u>	<u>26.40p</u>	5 %

- Turnover increased by 3% reflecting impact of RPI + K price formula
- Profit before tax down by 6% - as anticipated due to relatively low RPI+K price increase of 1.9% together with increased financing and depreciation costs from continuing capital programme
- Joint billing with Wessex Water now fully operational
- Net capital expenditure £9.1m
- High service levels maintained — rated third overall by Ofwat for 2001/02
- Effective tax rate of 40%, including non-cash adverse impact of discounting rate changes on deferred tax compared to positive impact in 2001/02 full year
- Interim ordinary dividend increased by 5%

The company is one of the largest independent water supply companies in the country, providing an average of 300 million litres of water each day through 6,500 kilometres of mains.

It is responsible for supplying over one million people and businesses in an area of almost 2,400 square kilometres, centred on Bristol.

The area served covers Bristol and surrounding parts of Somerset, Gloucestershire and Wiltshire.
Bristol Water plc Interim Results

CHAIRMAN'S STATEMENT

I am pleased to announce another good performance - the company has delivered a good financial result in line with expectations whilst maintaining high levels of service to customers.

In last year's Annual Report we signalled that the progressive build up of the regulated business's capital programme, with its consequent additional financing, depreciation and operating costs, together with the relatively low level of increase in charges under the RPI+K price limits of 1.9%, would have a significant impact on profits.

During the period we have continued to consolidate the considerable cost reductions made in recent years.

A major focus has been the continued development of the joint venture with Wessex Water to enable the two companies to issue combined bills to customers. The first joint bills for unmetered customers were issued in April 2002 with the first metered bills currently being issued. With the billing system now fully operational this will allow us to achieve the significant planned efficiency savings during 2003, together with the provision of a simplified and improved service to customers. High standards of service to customers have been maintained throughout this complex process.

Operating profits increased by 1% to £10.1m reflecting the permitted increase in charges to customers offset by the impact of inflation on costs.

In the next six months, operating costs are expected to increase during the winter operating conditions. Depreciation and interest costs will also increase further as a result of the continuing investment programme.

Capital investment, including infrastructure renewals, net of grants and contributions in the period, totalled £9.1m. Key projects included the installation of a barrier to remove cryptosporidium oocysts at the Chelvey water treatment works, bringing the total of smaller works with such barriers to eight. We have recently commenced a £12m project for a major upgrade of our Barrow treatment plant, with completion planned for March 2004. In accordance with the Drinking Water Inspectorate's protocol, we have not yet commenced the lead pipe replacement programme that was incorporated in Ofwat's price determination, pending the results of orthophosphate dosing trials currently in progress. These are currently demonstrating substantial compliance with the standard that comes into force in 2013.

The results include a total effective tax charge of some 40%. This includes a deferred tax charge of £1.6m (2001 — £0.7m) in addition to the underlying current tax charge of £1.4m. The deferred tax element is unusually high because of a reduction in the discount rates used to calculate our overall deferred tax liability. As required by FRS19, the discount rates applied are based on government gilts for relevant periods. The effect of the change in rates has been spread in relation to the expected total tax charge for the year, and essentially reverses a corresponding gain made in the second half of the previous year when discount rates increased. Before deferred tax, net profits declined by 5% to £6.1m.

Earnings per share for the six months were 65.7p (2001 — 85.1p), the equivalent figure before deferred tax was 91.9p (2001 — 97.2p).

Net debt increased by £3.6m in the period to £75.1m, this represents approximately 43% of the average Regulatory Capital Value for 2002/03. Net gearing before the deferred tax provision increased to 81% compared to 80% at 31 March 2002. Taking the deferred tax provision into account net gearing increased to 99% from 97% at 31 March 2002.

We have received the provisional results of the April 2002 actuarial review of our defined benefit pension schemes. As at April 2002, these show, measured on an ongoing actuarial basis, a surplus of £6.3m. These schemes are closed to new entrants.

We have declared a 5% increase in the interim ordinary dividend. This reflects the good underlying performance of the business.

Ofwat have set out details of the planned Periodic Review process that will set price limits for the 5th years from 2005 to 2010. Ofwat's process will take almost two years to complete and the outcome will of course be important to the business.

We were pleased by our ranking in the recent Ofwat report on service levels by water companies in 2001/02. We were ranked third of all water companies in England and Wales. We have been the most consistently highly rated company over the past few years. This recognises our commitment to the delivery of high levels of service to customers.

Summary

The business has continued to deliver high quality services to customers while making further operational efficiency gains and putting in place key initiatives that will form the basis of future success. The full year result is expected to reflect an increase in operating costs during the winter operating conditions. Depreciation and interest costs will also increase further as a result of the continuing investment programme.

As previously highlighted the continued progressive build up of the capital programme together with the low level of permitted increases under the RPI+K price limits, with K s of 0% in 2003/04 and —1.9% in 2004/05, will have a significant impact on profits for those years.

Alan Parsons
Chairman
28 November 2002

PROFIT & LOSS ACCOUNT

	Note	Six months to 30 September 2002 (unaudited) £000	Six months to 30 September 2001 (unaudited) Restated £000	Year to 31 March 2002 £000
Turnover	2	35,038	34,025	68,013
Operating costs	3	(24,963)	(24,030)	(50,272)
Operating profit		10,075	9,995	17,741
Profit on disposals of tangible fixed assets		27	303	760
Net interest payable	4	(2,664)	(2,344)	(4,598)
Profit on ordinary activities before taxation		7,438	7,954	13,903
Taxation	5	(2,950)	(2,304)	(3,622)
Profit on ordinary activities after taxation		4,488	5,650	10,281
Dividends -	6			
On irredeemable preference shares		(547)	(547)	(1,094)
On ordinary shares		(1,663)	(1,583)	(5,512)
Total dividends		(2,210)	(2,130)	(6,606)
Profit retained		2,278	3,520	3,675
Earnings per share	7	65.7p	85.1p	153.2p
Earnings per share before application of FRS19 deferred tax		91.9p	97.2p	174.5p
Dividend per ordinary share	6	27.73p	26.40p	91.9p

The profit on ordinary activities after taxation includes all recognised gains and losses.

Details of restatements are set out in Note 1.

SUMMARISED BALANCE SHEET

		At 30 September 2002 (unaudited) £000	At 30 September 2001 (unaudited) Restated £000	At 31 March 2002 Restated £000
	Note			
Tangible fixed assets	8	<u>181,216</u>	<u>175,263</u>	<u>179,426</u>
Current assets				
Stocks		609	566	437
Debtors		13,805	12,448	12,311
Cash and term deposits	9	<u>8,496</u>	<u>13,844</u>	<u>14,454</u>
		<u>22,910</u>	<u>26,858</u>	<u>27,202</u>
Creditors: amounts falling due within one year				
Short term borrowings	9	1,630	1,756	3,133
Other creditors		<u>19,075</u>	<u>21,193</u>	<u>23,092</u>
		<u>20,705</u>	<u>22,949</u>	<u>26,225</u>
Net current assets		<u>2,205</u>	<u>3,909</u>	<u>977</u>
Total assets less current liabilities		<u>183,421</u>	<u>179,172</u>	<u>180,403</u>
Creditors: amounts falling due after more than one year	9	(81,955)	(83,253)	(82,825)
Deferred income		(8,434)	(8,428)	(8,396)
Provisions for liabilities and charges	10	(16,808)	(13,700)	(15,236)
Net operating assets		<u>76,224</u>	<u>73,791</u>	<u>73,946</u>
Shareholders funds				
Called up share capital		18,498	18,498	18,498
Share premium account		4,415	4,415	4,415
Other reserves		5,770	5,770	5,770
Profit and loss account		47,541	45,108	45,263
Total shareholders funds	11	<u>76,224</u>	<u>73,791</u>	<u>73,946</u>
<i>Analysed as:</i>				
<i>Equity shareholders funds</i>		63,724	61,291	61,446
<i>Non-equity shareholders funds</i>		12,500	12,500	12,500

Details of restatements are set out in Note 1

SUMMARISED CASH FLOW STATEMENT

	Note	Six months to 30 September 2002 (unaudited) £000	Six months to 30 September 2001 (unaudited) Restated £000	Year to 31 March 2002 Restated £000
Net cash inflow from operating activities	12	14,927	13,149	28,869
Returns on investments and servicing of finance				
Net interest paid		(3,192)	(2,881)	(4,615)
Dividends paid on preference (non-equity) shares		(547)	(547)	(1,094)
		<u>(3,739)</u>	<u>(3,428)</u>	<u>(5,709)</u>
Taxation paid		(1,553)	(989)	(1,995)
Capital expenditure and investing activities				
Purchase of tangible fixed assets		(10,586)	(14,166)	(26,237)
Contributions received		1,808	912	2,588
Proceeds from disposal of tangible fixed assets		146	384	888
		<u>(8,632)</u>	<u>(12,870)</u>	<u>(22,761)</u>
Dividends paid on ordinary (equity) shares		(3,929)	(3,568)	(5,151)
Net cash outflow before management of liquid resources and financing		(2,926)	(7,706)	(6,747)
Management of liquid resources				
Decrease/(increase) in short term deposits		5,500	(5,200)	(5,200)
Financing				
New loans and leases		-	13,159	13,159
Capital element of loan and lease repayments		(3,032)	(1,078)	(1,427)
		<u>(3,032)</u>	<u>12,081</u>	<u>11,732</u>
Decrease in cash	12	(458)	(825)	(215)
Cash, beginning of period		454	669	669
Cash, end of period		(4)	(156)	454

Details of restatements are set out in Note 1.

NOTES TO THE INTERIM RESULTS

Note 1: Accounting policies

The financial information contained in this interim announcement does not constitute statutory accounts within the meaning of s.240 of the Companies Act 1985. The interim results, which have not been audited but have been reviewed by the company's auditors, have been prepared on the basis of the accounting policies adopted by Bristol Water plc for the year ended 31 March 2002 as set out in the Annual Report and Accounts. Those accounts (on which the auditors gave an unqualified report) have been delivered to the Registrar of Companies.

The accounts for the six months ended 30 September 2001 have been restated to reflect a change in the basis of recognition of turnover from metered supplies which was incorporated for the first time into the results for the year ended 31 March 2002. The impact of the restatement is to increase turnover by £234,000, increase profit after tax by £209,000, increase accrued income in the balance sheet by £2,199,000 and increase net assets after provision for tax by £1,979,000.

The 31 March 2002 results have been restated in respect of a bank overdraft of £222,000 previously reported within short term borrowings. This has now been offset against cash balances held at the same bank to give a net cash position.

The 30 September 2001 results have been restated to treat capital expenditure of £433,000, payable on deferred terms, as a loan not affecting cash flow, in accordance with the treatment adopted for the 31 March 2002 results, rather than as working capital.

Note 2: Turnover

	Six months to 30 September 2002 (unaudited)	Six months to 30 September 2001 (unaudited) Restated	Year to 31 March 2002
	£000	£000	£000
Turnover comprises -			
Metered water supply	12,450	11,884	23,865
Unmetered water supply	20,325	20,200	40,765
Other services	2,263	1,941	3,383
	<u>35,038</u>	<u>34,025</u>	<u>68,013</u>

Note 3: Operating costs

Operating costs comprise -

Payroll cost, net of recharges to fixed assets	4,743	5,227	10,078
Other operating expenses	13,208	12,153	26,464
Depreciation, net	7,012	6,650	13,730
	<u>24,963</u>	<u>24,030</u>	<u>50,272</u>

Note 4: Net interest payable

Net interest payable and similar charges comprise -

Interest payable and similar charges	2,934	2,791	5,441
Interest receivable and similar income	(270)	(447)	(843)
	<u>2,664</u>	<u>2,344</u>	<u>4,598</u>

NOTES TO THE INTERIM RESULTS (Continued)

Note 5: Taxation

	Six months to 30 September 2002 (unaudited) £000	Six months to 30 September 2001 (unaudited) Restated £000	Year to 31 March 2002 £000
The charge for taxation comprises -			
Current tax:			
Corporation Tax at 30%	1,157	2,291	4,202
Less Advance Corporation Tax set off	-	(717)	(473)
Adjustment to prior periods	221	-	(1,389)
Total current tax	<u>1,378</u>	<u>1,574</u>	<u>2,340</u>
Deferred tax:			
Current year movement	821	(67)	(176)
Advance Corporation Tax movement	110	717	-
Adjustment to prior periods	291	-	2,851
Effect of discounting	350	80	(1,393)
Total deferred tax	<u>1,572</u>	<u>730</u>	<u>1,282</u>
Total tax on profit on ordinary activities	<u>2,950</u>	<u>2,304</u>	<u>3,622</u>

Included within the effect of discounting charge for the six months to 30 September 2002 is £796,000 relating to the effect of the change in discount rates since 31 March 2002, offset by other discounting movements of £446,000.

Note 6: Dividends

The dividend on the 8.75% Irredeemable Preference Shares for the first half of the financial year was paid on 1 October 2002 and amounted to £547,000. The Board has declared an interim dividend of 27.73 pence (2001 — 26.40 pence) on each Ordinary share amounting to £1,663,000 (2001 - £1,583,000), payable on 28 November 2002.

Note 7: Earnings per share

Earnings per share attributable to ordinary shares have been calculated as follows:

	Six months to 30 September 2002 (unaudited) 000	Six months to 30 September 2001 (unaudited) Restated 000	Year to 31 March 2002 000
On average number of shares in issue:			
Earnings	£3,941	£5,103	£9,187
Earnings before application of FRS19 deferred tax	£5,513	£5,833	£10,469
Number of ordinary shares in issue	<u>5,998</u>	<u>5,998</u>	<u>5,998</u>

NOTES TO THE INTERIM RESULTS (Continued)

Note 8: Movement in tangible fixed assets

	Six months to 30 September 2002 (unaudited) £000	Six months to 30 September 2001 (unaudited) £000	Year to 31 March 2002 £000
The movement in tangible fixed assets comprises -			
Net book value, beginning of period	179,426	170,029	170,029
Additions	10,873	12,987	26,076
Disposals	(119)	(51)	(78)
Grants and contributions	(1,808)	(912)	(2,588)
Depreciation	(7,156)	(6,790)	(14,013)
Net book value, end of period	<u>181,216</u>	<u>175,263</u>	<u>179,426</u>

Note 9: Net debt

	Six months to 30 September 2002 (unaudited) £000	Six months to 30 September 2001 (unaudited) £000	Year to 31 March 2002 Restated £000
Net debt comprises -			
Debt due after one year	81,955	83,253	82,825
Debt due within one year	1,630	1,756	3,133
Less cash balances and short term deposits	<u>(8,496)</u>	<u>(13,844)</u>	<u>(14,454)</u>
Net debt	<u>75,089</u>	<u>71,165</u>	<u>71,504</u>

Note 10: Provisions for liabilities and charges

	Six months to 30 September 2002 (unaudited) £000	Six months to 30 September 2001 (unaudited) £000	Year to 31 March 2002 £000
Deferred taxation provision			
Deferred tax liability	30,661	26,430	29,439
Effect of discounting	(13,853)	(12,730)	(14,203)
	<u>16,808</u>	<u>13,700</u>	<u>15,236</u>

Note 11: Shareholders funds

	Six months to 30 September 2002 (unaudited) £000	Six months to 30 September 2001 (unaudited) Restated £000	Year to 31 March 2002 £000
Movement in shareholders funds -			
Beginning of period	73,946	70,271	70,271
Profit for the period	4,488	5,650	10,281
Dividends	(2,210)	(2,130)	(6,606)
End of period	<u>76,224</u>	<u>73,791</u>	<u>73,946</u>

NOTES TO THE INTERIM RESULTS *(Continued)*

Note 12: Supplementary cashflow information

	Six months to 30 September 2002 (unaudited) £000	Six months to 30 September 2001 (unaudited) Restated £000	Year to 31 March 2002 Restated £000
a) Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit	10,075	9,995	17,741
Depreciation, net	7,012	6,650	13,730
Cashflow from operations	<u>17,087</u>	<u>16,645</u>	<u>31,471</u>
Working capital movements	(2,160)	(3,496)	(2,602)
Net cash inflow from operating activities	<u>14,927</u>	<u>13,149</u>	<u>28,869</u>
b) Reconciliation of net cashflow to movement in net debt -			
(Decrease) in cash in the period	(458)	(825)	(215)
Cash used to repay borrowings	3,032	1,078	1,427
Cash from new borrowings	-	(13,159)	(13,159)
Cash (inflow)/outflow from management of liquid resources	(5,500)	5,200	5,200
Increase in net debt in period	<u>(2,926)</u>	<u>(7,706)</u>	<u>(6,747)</u>
New debt not affecting cash flow	(659)	(433)	(1,731)
Net debt, beginning of period	(71,504)	(63,026)	(63,026)
Net debt, end of period	<u>(75,089)</u>	<u>(71,165)</u>	<u>(71,504)</u>

Note 13: Pensions

We have received provisional results of the April 2002 actuarial review of our defined benefit schemes. As at April 2002, these show, measured on an ongoing actuarial basis, a surplus of £6.3m. These schemes are closed to new entrants.

We will be making the appropriate disclosures under FRS17, the new accounting standard on pensions, in the full year accounts and following recent ASB announcements we are reviewing the timing of the full adoption of the standard.

Note 14: Circulation

This interim announcement is being sent to all shareholders and debenture holders. Copies are available to the public from the Company's registered office at PO Box 218, Bridgwater Road, Bristol BS99 7AU and on the Bristol Water web site : <http://www.bristolwater.co.uk>.

INDEPENDENT REVIEW REPORT TO BRISTOL WATER PLC

Introduction

We have been instructed by the company to review the financial information, for the six months ended 30th September 2002, set out on pages 4 to 10. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2002.

PricewaterhouseCoopers
Chartered Accountants
Bristol
28 November 2002

Notes:

- (a) The maintenance and integrity of the Bristol Water group 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 interim report since it was initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.