



**BRISTOL WATER PLC**  
Interim Results  
For the six months ended  
30 September 2003

# Highlights

## PERIOD OF CHANGE

Six months ended 30 September	2003 (unaudited) £m	2002 (unaudited) £m	% change
Turnover	36.0	35.0	3%
Operating profit	10.4	10.1	4%
Profit before tax	7.4	7.4	-%
Profit after tax	6.3	4.5	41%
Earnings per ordinary share	96.2p	65.7p	46%
Interim dividend per ordinary share	29.10p	27.73p	5%

- Turnover increased by 3% reflecting impact of 2.7% increase under RPI + K price formula
- Profit before tax maintained in spite of relatively low RPI+K price increase and with increased financing and depreciation costs from continuing capital programme
- Net capital expenditure £11.1m
- New financing arrangements completed in May
- High service levels maintained – rated fifth overall by Ofwat for 2002/03
- Low tax charge with effective tax rate of 15% reflects deferred tax credit
- Periodic Review is key focus
- Parent company has announced proposals for a £51m return of capital to shareholders

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.

# Chairman's statement

## Changes within the Group

The last eight months have been a time of major change for the Bristol Water Group.

At its AGM in July Bristol Water Holdings plc announced that it was actively reviewing methods of returning value to its shareholders and believed that, after implementing any necessary restructuring, the Board would be able to recommend the return of 135 pence per ordinary share (approximately £51m in aggregate).

The first stage of the process to allow the Group to return value to shareholders was to create a new ultimate holding company, Bristol Water Group plc. The ordinary shares of the new holding company were admitted to the Official List on 27 November 2003 following approval by Bristol Water Holdings plc shareholders and the Court and the consequent completion of the scheme of arrangement.

The Board of Bristol Water Group plc has today announced its recommendation for the return of capital to its shareholders.

In May 2003 we completed a new financing package for Bristol Water plc. This is based on a financial ringfencing of the regulated water business and provides the flexibility to substantially increase the level of gearing. The Board propose that this flexibility will be used to finance the return of capital to shareholders by Bristol Water Group plc if implemented.

## Trading and operational performance

In last year's annual report we signalled that the continued progressive build up of the capital programme, with its consequent additional financing, depreciation and operating costs, together with the relatively low level of increases in charges to customers under the RPI+K price limits to customers for 2003/04 of 2.7%, including a K factor of 0%, and a negative K factor of 1.9% in 2004/05, would constrain profits for both the current year and 2004/05.

In addition to the impact of the capital programme and the lower level of increase in charges to customers, one of our major industrial customers closed in April 2003, resulting in an annual loss of revenue of approximately £0.6m.

Against this background, the Company has performed extremely well. Turnover increased by 3%, from £35.0m to £36.0m. Profit before tax was maintained at £7.4m.

In these accounts we have accounted for pensions on a SSAP24 basis. The charge of £0.7m is broadly in line with the increased level of cash contributions, effective from April 2003, to our defined benefit schemes. The level of cash contributions was agreed with the pension scheme trustees in accordance with the latest triennial actuarial valuation at April 2002. Given adverse movements in equity markets since April 2002, if the SSAP24 charge was recalculated to reflect these changes, the charge could potentially increase significantly. The company has not yet fully adopted FRS17, however under FRS17 at 30 September 2003 the net deficit, before tax, of the schemes would have been approximately £13.1m. We will review in due course the level of contributions to the scheme in the light of actuarial advice and movements in the equity and gilt markets.

The tax charge for the six months of £1.1m was much lower than the equivalent charge for 2002. This reflects a deferred tax credit, due to two factors. The first is an increase in discount rates used to calculate our overall deferred tax liability. As required by FRS19 the discount rates applied are based on government gilts for the relevant periods and the change to some extent reverses the impact of the reduction in rates in the previous year. The second factor is a disclaimer of capital allowances in respect of a prior year allowing us to claim back ACT, which also reduces the future deferred tax liability. The effect of the changes has been spread in relation to the total expected tax charge for the year.

Net debt increased by £16.9m in the period to £91.7m, representing approximately 47% of the average Regulatory Capital Value (RCV) for 2003/04. In connection with Bristol Water Group plc's planned return of capital to its shareholders it is intended to significantly increase the level of debt in Bristol Water plc and to make an intercompany loan to Bristol Water Group plc. After this increase in debt we anticipate that the ratio of net debt to RCV will increase to approximately 67% at March 2004.

Net gearing (debt:equity) at 30 September 2003 was 132% compared to 114% at 31 March 2003.

Capital investment, including infrastructure renewals, net of grants and contributions, in the period amounted to £11.1m. The key project is the £12m project for a major upgrade of our Barrow treatment plant, with completion planned for mid 2004. We anticipate net capital expenditure for the full year of approximately £26m.

Once again we were ranked highly in Ofwat's latest report on service levels by water companies in England and Wales for 2002/03. Our position of fifth continued our record of consistently high rankings. This recognises our commitment to the delivery of high levels of service to customers.

The joint venture with Wessex Water to enable the two companies to issue combined bills to customers is continuing to progress well and beginning to deliver real efficiency gains.

The prolonged warm and dry weather over the summer and autumn has meant that surface reservoir levels have been dropping steadily. At this stage we hope to avoid significant operational difficulties but heavy winter rainfall levels are needed to recharge the reservoirs. We are actively reviewing contingency plans.

A key activity during the period was the preparation and submission to Ofwat of our draft plan for the period 2005-10. This is an important part of Ofwat's periodic review process which will determine price limits for our charges to customers for the five-year period. The outcome of this process will have a very important bearing on the company's financial prospects. We will submit our final plan in April 2004 and Ofwat is due to determine price limits in November 2004.

In May 2003 we finalised new financing arrangements. Prior to the refinancing the business had a relatively short debt maturity profile and the new structure provides a better mix and considerably longer maturity profile appropriate to the long-term nature of the assets being financed. £15m of indexed linked debt was drawn through the existing Artesian Finance plc monoline wrapped bond programme arranged by The Royal Bank of Scotland, and an equivalent £30m was drawn on a fixed interest basis through a new bond programme issued by Artesian Finance II plc. The new debt has maturities of 2032 and 2033 respectively. £20m of the new facilities was used to repay existing bank debt.

We have been discussing with Ofwat some changes to the licence of appointment. The modifications now proposed by Ofwat principally concern the ringfencing of the regulated water business, the management and conduct of the business and the role of Bristol Water Group plc as the ultimate parent. The modifications are broadly similar to those agreed by other companies who have significantly increased gearing levels. We have reached agreement in principle with Ofwat on the changes, and anticipate that Ofwat will commence the formal public consultation process in the near future.

## Summary

The business is performing well, with good operating and financial performance. Results for the six months to March 2004 will be impacted by a number of factors, including the build up of the capital programme and seasonal operating cost profiles.

The key focus over the next twelve months will be the Periodic Review process.

**Alan Parsons**  
Chairman  
Bristol Water plc  
5 December 2003

# Profit and loss account

		Six months to 30 September 2003 (unaudited) £000	Six months to 30 September 2002 (unaudited) £000	Year to 31 March 2003 £000
Turnover	Note 2	35,991	35,038	69,974
Operating costs	3	(25,552)	(24,963)	(50,613)
<b>Operating profit</b>		<b>10,439</b>	<b>10,075</b>	<b>19,361</b>
(Loss)/profit on disposals of tangible fixed assets		(43)	27	386
Net interest payable	4	(2,986)	(2,664)	(5,184)
<b>Profit on ordinary activities before taxation</b>		<b>7,410</b>	<b>7,438</b>	<b>14,563</b>
Taxation	5	(1,093)	(2,950)	(6,093)
<b>Profit on ordinary activities after taxation</b>		<b>6,317</b>	<b>4,488</b>	<b>8,470</b>
Dividends -	6			
On irredeemable preference shares		(547)	(547)	(1,094)
On ordinary shares		(1,745)	(1,663)	(15,788)
<b>Total dividends</b>		<b>(2,292)</b>	<b>(2,210)</b>	<b>(16,882)</b>
<b>Profit/(loss) retained</b>		<b>4,025</b>	<b>2,278</b>	<b>(8,412)</b>
<b>Earnings per share</b>	7	<b>96.2p</b>	<b>65.7p</b>	<b>123.0p</b>
<b>Dividend per ordinary share</b>	6	<b>29.10p</b>	<b>27.73p</b>	<b>263.2p</b>

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

# Balance sheet

		At 30 September 2003 (unaudited)	At 30 September 2002 (unaudited) restated	At 31 March 2003
	Note	£000	£000	£000
Tangible fixed assets	8	188,131	181,216	184,685
Current assets				
Stocks		592	609	634
Debtors		19,547	13,805	16,765
Cash and term deposits	9	16,463	8,496	9,661
		36,602	22,910	27,060
Creditors: amounts falling due within one year				
Short term borrowings	9	7,697	1,630	6,760
Other creditors		19,656	19,075	34,056
		27,353	20,705	40,816
Net current assets/(liabilities)		9,249	2,205	(13,756)
Total assets less current liabilities		197,380	183,421	170,929
Creditors: amounts falling due after more than one year	9	(100,469)	(81,955)	(77,724)
Deferred income		(8,482)	(8,434)	(8,429)
Provisions for liabilities and charges	10	(18,870)	(16,808)	(19,242)
Net operating assets		69,559	76,224	65,534
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		40,876	47,541	36,851
Total shareholders' funds	11	69,559	76,224	65,534
Analysed as:				
Equity shareholders' funds		57,059	63,724	53,034
Non-equity shareholders' funds		12,500	12,500	12,500

Details of restatements are set out in Note 1

# Cash flow statement

		Six months to 30 September 2003 (unaudited) £000	Six months to 30 September 2002 (unaudited) £000	Year to 31 March 2003 £000
Net cash inflow from operating activities	Note 12	13,628	14,927	29,743
<b>Returns on investments and servicing of finance</b>				
Net interest paid		(2,967)	(3,192)	(5,598)
Dividends paid on preference (non-equity) shares		(547)	(547)	(1,094)
		(3,514)	(3,739)	(6,692)
<b>Taxation paid</b>		(935)	(1,553)	(3,010)
<b>Capital expenditure and investing activities</b>				
Purchase of tangible fixed assets		(12,835)	(10,586)	(20,395)
Contributions received		1,646	1,808	3,409
Proceeds from disposal of tangible fixed assets		41	146	887
		(11,148)	(8,632)	(16,099)
<b>Dividends paid on ordinary (equity) shares</b>		(14,124)	(3,929)	(5,592)
<b>Net cash outflow before management of liquid resources and financing</b>		(16,093)	(2,926)	(1,650)
<b>Management of liquid resources</b>				
(Increase)/decrease in short term deposits		(9,500)	5,500	7,500
<b>Financing</b>				
New loans and leases		45,000	-	-
Costs of issue of new loans		(585)	-	-
Capital element of loan and lease repayments		(21,520)	(3,032)	(1,580)
Loan and bank overdraft repayments		-	(222)	(1,785)
		22,895	(3,254)	(3,365)
<b>(Decrease)/increase in cash</b>	12	(2,698)	(680)	2,485
Cash, beginning of period		3,161	676	676
<b>Cash, end of period</b>		463	(4)	3,161

# Notes to the interim results

## Note 1: Accounting policies and basis of restatement

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 2003 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 30 September 2002 results have been restated in respect of a bank overdraft of £222,000 reported within short-term borrowings. This has now been offset against cash balances held at the same bank to give a net cash position in accordance with the treatment adopted at 31 March 2003.

## Note 2: Turnover

	Six months to 30 September 2003 (unaudited) £000	Six months to 30 September 2002 (unaudited) £000	Year to 31 March 2003 £000
Turnover comprises -			
Metered water supply	13,298	12,450	25,399
Unmetered water supply	20,250	20,325	40,377
Other services	2,443	2,263	4,198
	<u>35,991</u>	<u>35,038</u>	<u>69,974</u>

## Note 3: Operating costs

Operating costs comprise -			
Payroll cost, net of recharges to fixed assets	4,590	4,743	9,029
Other operating expenses	13,552	13,208	27,616
Depreciation, net	7,410	7,012	13,968
	<u>25,552</u>	<u>24,963</u>	<u>50,613</u>

## Note 4: Net interest payable

Net interest payable and similar charges comprise -			
Interest payable and similar charges	3,408	2,934	5,672
Interest receivable and similar income	(422)	(270)	(488)
	<u>2,986</u>	<u>2,664</u>	<u>5,184</u>

# Notes to the interim results

## Note 5: Taxation

	Six months to 30 September 2003 (unaudited) £000	Six months to 30 September 2002 (unaudited) £000	Year to 31 March 2003 £000
The charge for taxation comprises -			
<b>Current tax:</b>			
Corporation Tax at 30%	1,185	1,157	2,535
Advance Corporation Tax written (back)/off	(560)	110	1,379
Adjustment to prior periods	840	221	(1,643)
Total current tax	<u>1,465</u>	<u>1,488</u>	<u>2,271</u>
<b>Deferred tax:</b>			
Current year movement	1,135	821	1,413
Adjustment to prior periods	(807)	291	1,204
Effect of discounting	(700)	350	1,205
Total deferred tax	<u>(372)</u>	<u>1,462</u>	<u>3,822</u>
Total tax on profit on ordinary activities	<u>1,093</u>	<u>2,950</u>	<u>6,093</u>

For the six months to 30 September 2002, the tax charge above has been re-analysed to reflect the analysis disclosed in the 2003 annual report.

Included within the effect of discounting credit for the six months to 30 September 2003 is £472,000 relating to the effect of the change in discount rates on the deferred tax balance brought forward. This credit is increased by £228,000, representing the net effect of discounting on the current and prior year movements recognised above.

## 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 2003 and amounted to £547,000. The Board has declared an interim dividend of 29.10 pence (2002 – 27.73 pence) on each Ordinary share amounting to £1,745,000 (2002 - £1,663,000), payable on 5 December 2003.

## Note 7: Earnings per share

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

	Six months to 30 September 2003 (unaudited) 000	Six months to 30 September 2002 (unaudited) 000	Year to 31 March 2003 000
On average number of shares in issue:			
Earnings	£5,770	£3,941	£7,376
Number of ordinary shares in issue	<u>5,998</u>	<u>5,998</u>	<u>5,998</u>

# Notes to the interim results

## Note 8: Movement in tangible fixed assets

	Six months to 30 September 2003 (unaudited) £000	Six months to 30 September 2002 (unaudited) £000	Year to 31 March 2003 £000
The movement in tangible fixed assets comprises -			
Net book value, beginning of period	184,685	179,426	179,426
Additions	12,734	10,873	23,429
Disposals	(84)	(119)	(501)
Grants and contributions	(1,646)	(1,808)	(3,409)
Depreciation	(7,558)	(7,156)	(14,260)
Net book value, end of period	<u>188,131</u>	<u>181,216</u>	<u>184,685</u>

## Note 9: Net debt

	Six months to 30 September 2003 (unaudited) £000	Six months to 30 September 2002 (unaudited) £000	Year to 31 March 2003 £000
Net debt comprises -			
Debt due after one year	100,469	81,955	77,724
Debt due within one year	7,697	1,630	6,760
Less cash balances and short term deposits	(16,463)	(8,496)	(9,661)
Net debt	<u>91,703</u>	<u>75,089</u>	<u>74,823</u>

## Note 10: Provisions for liabilities and charges

	Six months to 30 September 2003 (unaudited) £000	Six months to 30 September 2002 (unaudited) £000	Year to 31 March 2003 £000
Deferred taxation provision			
Deferred tax liability	32,570	30,661	32,241
Effect of discounting	(13,700)	(13,853)	(12,999)
	<u>18,870</u>	<u>16,808</u>	<u>19,242</u>

# Notes to the interim results

## Note 11: Shareholders' funds

	Six months to 30 September 2003 (unaudited) £000	Six months to 30 September 2002 (unaudited) £000	Year to 31 March 2003 £000
Movement in shareholders' funds -			
Beginning of period	65,534	73,946	73,946
Profit for the period	6,317	4,488	8,470
Dividends	(2,292)	(2,210)	(16,882)
End of period	<u>69,559</u>	<u>76,224</u>	<u>65,534</u>

Following resolutions passed at the Annual General Meeting on 21 July 2003:

- all non-voting ordinary shares of £1 each were reclassified as ordinary shares of £1 each
- the authorised share capital of the company was reduced to £19,998,025 by the cancellation of all of the 5,770,250 authorised but unissued 6.75 percent cumulative convertible preference shares of £1 each

## Note 12: Supplementary cashflow information

	Six months to 30 September 2003 (unaudited) £000	Six months to 30 September 2002 (unaudited) £000	Year to 31 March 2003 £000
<b>a) Reconciliation of operating profit to net cash inflow from operating activities</b>			
Operating profit	10,439	10,075	19,361
Depreciation, net	7,410	7,012	13,968
Cashflow from operations	<u>17,849</u>	<u>17,087</u>	<u>33,329</u>
Working capital movements	(4,221)	(2,160)	(3,586)
Net cash inflow from operating activities	<u>13,628</u>	<u>14,927</u>	<u>29,743</u>
<b>b) Reconciliation of net cashflow to movement in net debt -</b>			
(Decrease)/increase in cash in the period	(2,698)	(680)	2,485
Cash used to repay borrowings	21,520	3,254	3,365
Cash from new borrowings	(45,000)	-	-
Costs of issue of new loans	585	-	-
Cash outflow/(inflow) from management of liquid resources	<u>9,500</u>	<u>(5,500)</u>	<u>(7,500)</u>
Increase in net borrowings arising from cash flows	(16,093)	(2,926)	(1,650)
New debt not affecting cash flow	(775)	(659)	(1,669)
Amortisation of issue costs of new loans	(12)	-	-
Net debt, beginning of period	<u>(74,823)</u>	<u>(71,504)</u>	<u>(71,504)</u>
Net debt, end of period	<u>(91,703)</u>	<u>(75,089)</u>	<u>(74,823)</u>

# Notes to the interim results

## Note 13: Pensions

Pension arrangements for the majority of the company's employees are provided through the group'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 separate sections. These pension sections are closed to new entrants.

The most recent triennial actuarial valuation at 1 April 2002 showed the market value of section assets relating to the company as £97 million and that the actuarial value of these assets represented 107% of accrued benefits allowing for future earnings increases.

The charge to the Profit and Loss account for the period is calculated in accordance with SSAP24 based on the 1 April 2002 valuation. Given adverse movements in equity markets since 1 April 2002, if the SSAP24 charge was recalculated to reflect these changes, the charge to Profit and Loss could potentially increase significantly.

Full implementation of FRS17 "Retirement Benefits" in the primary financial statements will not be mandatory for the Company until the year ending 31 March 2006. Transitional disclosures will continue to be included within the full year accounts. Under FRS17 at 30 September 2003 the net deficit, before tax, of the schemes would have been approximately £13.1m.

## Note 14: Post Balance Sheet events

On 27 November 2003, by way of a scheme of arrangement under Section 425 of the Companies Act 1985, the former ultimate parent company, Bristol Water Holdings plc, became a wholly owned subsidiary of Bristol Water Group plc. This company is the new ultimate parent company of Bristol Water plc.

On 5 December 2003, Bristol Water Group plc announced proposals for the return of capital of 135 pence per ordinary share (approximately £51m in aggregate) to its shareholders. To effect this, it is intended to significantly increase the level of debt within Bristol Water plc and for Bristol Water plc to make an inter-company loan to Bristol Water Group plc.

## Note 15: 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 which comprises Profit and Loss Account, Balance Sheet, Cash Flow Statement and related notes, for the six months ended 30 September 2003. 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. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## 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 2003.

PricewaterhouseCoopers LLP  
Chartered Accountants  
Bristol  
5 December 2003

## 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.



Bristol Water plc  
PO Box 218 Bridgwater Road Bristol BS99 7AU  
Tel 0117 953 6470 Fax 0117 953 6471  
[www.bristolwater.co.uk](http://www.bristolwater.co.uk)