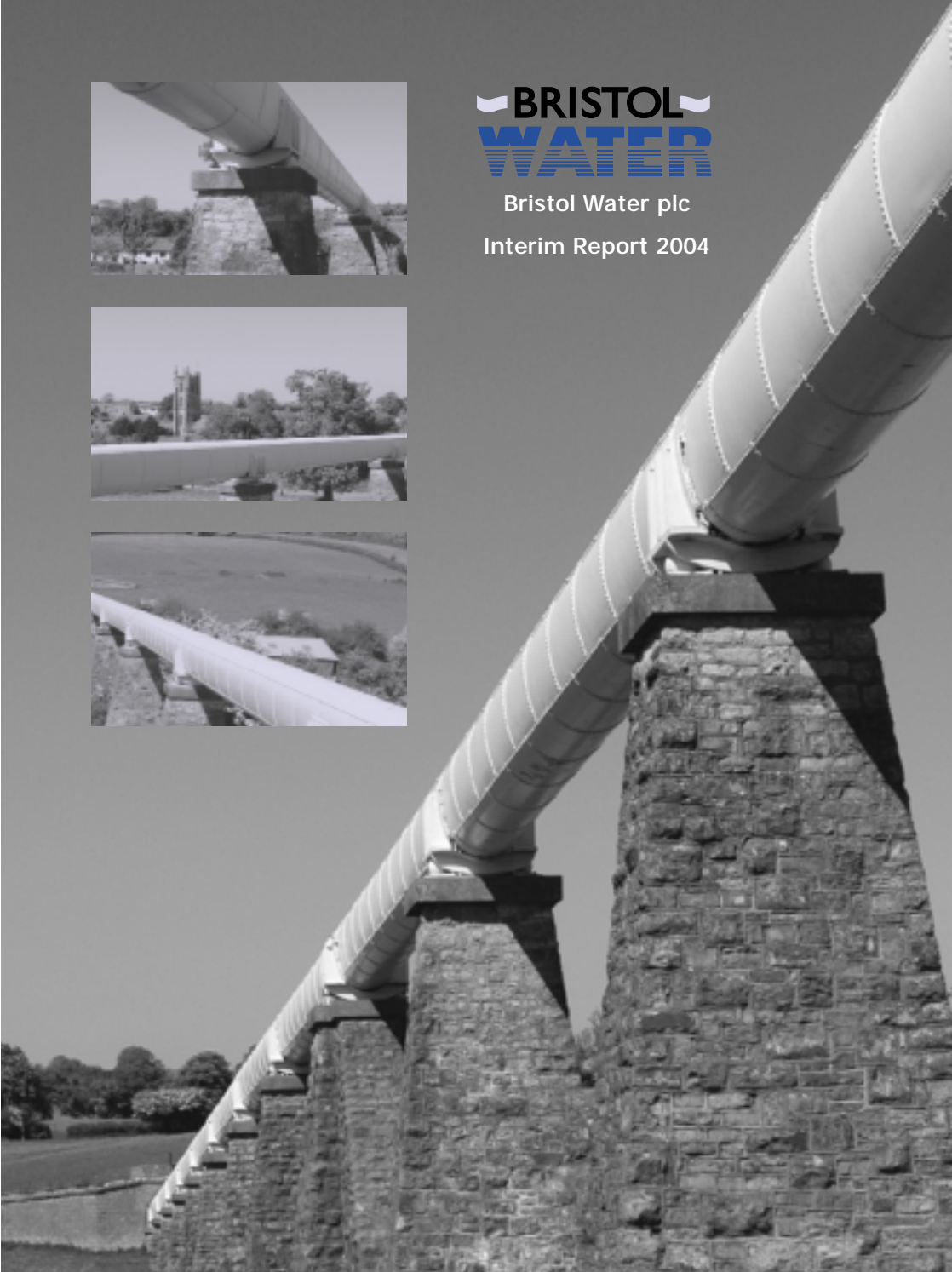




Bristol Water plc
Interim Report 2004



Highlights

Six months ended 30 September	2004 (unaudited) £m	2003 (unaudited) £m	% change
Turnover	35.3	36.0	-2%
Operating profit	9.4	10.4	-10%
Profit before tax	6.2	7.4	-17%
Profit after tax	5.0	6.3	-21%
Earnings per ordinary share	73.9p	96.2p	-23%

- PBT reduction of 17% reflecting negative K factor of 1.9%
- Net capital investment of £8.1m in period
- Net debt of £142.8m – approx 64% of average Regulatory Capital Value for 2004/05
- PR04 final determination – K factor of 13.8% for 2005/06, average K's for 2005-10 of 3.2%

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

Cover: This feat of Victorian water supply engineering at its best is still very much in use today. It's part of the 'Line of Works', a 16 kilometre conduit carrying water from the Mendips to the outskirts of Bristol at Barrow.

Chairman's statement

Introduction

On 2nd December, Ofwat issued its final determination of prices for the five years 2005/06 to 2009/10. We will be allowed to increase prices in real terms by an average of 3.2% per annum with an initial K factor of 13.8% for 2005/06. This is less than we had sought as Ofwat have taken a more challenging approach to future efficiency targets, excluded some proposed capital schemes and have dealt with a number of issues by use of their Notified Item process which could trigger interim price determinations within the period. The price limits assume a capital programme of £117m (2002/03 prices) over the five year period.

We are studying the documentation provided by Ofwat and the service obligations that will be required of us. Our initial conclusions are that the package of price caps and obligations is challenging. We are continuing to review the position in detail and have an opportunity to ask the Competition Commission to review Ofwat's conclusions if appropriate. Following the conclusion of our review we will make a further announcement in due course.

Capital Structure and Dividends

In February 2004 the company made a £47m interest bearing loan to the ultimate parent company Bristol Water Group plc (BWG). Together with other cash balances BWG used this to finance a £51m return of capital to shareholders. To finance the loan the company borrowed long term funds and increased the level of debt relative to Regulatory Capital Value.

The objective of these transactions was to increase the capital efficiency of both the company and BWG.

As part of the arrangements the company intends to increase the level of ordinary dividends it pays to its immediate parent company by an amount equivalent to the interest receivable on the intercompany loan net of tax relief.

Accordingly the interim ordinary dividend for 2004/05 compared to 2003/04 is:

	Interim	2003/04 Final	Total	2004/05 Interim
	£m	£m	£m	£m
Base dividend level	1.8	4.1	5.9	1.9
Additional dividend equivalent to interest receivable on intercompany loan net of tax relief	-	0.3	0.3	1.0
Total	1.8	4.4	6.2	2.9

The overall interim ordinary dividend of 47.15 pence per share represents a 5% increase in the 'base' dividend plus the additional dividend equivalent to the interest receivable on the intercompany loan net of tax.

The new financial structure has no impact on prices charged to customers for 2004/05. For 2005-10 there will be a benefit to customers as Ofwat have set price limits taking into account the tax relief obtained on the additional debt raised by the company.

Trading performance

As previously signalled, the allowed price increase under the RPI+K formula was just 0.6% (RPI of 2.5% less a real price reduction of 1.9%). This is significantly lower than inflationary increases on our operating cost base and therefore profits were reduced. Income from our main water supply charges fell by £0.7m to £32.9m, this represents the net effect of the price increase (£0.2m) and new connections (£0.3m) offset by lower consumption levels by metered customers during the poor summer weather compared to the previous year and the net effect of meter optants.

Consequently the company has recorded an operating profit of £9.4m compared to £10.4m in 2003.

In these accounts we have dealt with pensions on a SSAP24 basis. The last formal actuarial valuation of the final salary scheme was as at 1 April 2002, the next valuation is due at 1 April 2005. The accounts reflect an updated interim valuation as at 1 April 2003, prepared for SSAP24 purposes only and used for the 2003/04 statutory accounts. This reflects the significant change in the equity markets since the last formal valuation. The company has not yet fully adopted FRS17, however under FRS17 at 30 September 2004 the net deficit, after tax, of the scheme would have been approximately £9.8m. 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.

Profit before tax reduced by £1.2m to £6.2m reflecting the lower operating profit and increased interest charges.

The tax charge for the six months is £0.1m higher than the equivalent charge for 2003. This reflects a number of factors; the reduction in profit before tax together with disclaimers of capital allowances in respect of prior years in both 2003 and the current year, offset by the net effect of changes in the discount rates used to calculate deferred tax liabilities. The total tax charge of £1.2m represents an effective tax rate of 19% (2003 – 15%). This is in line with the current estimated full year effective rate, however the full year rate remains dependent upon any further changes in discount rates affecting the deferred tax liability.

Earnings per share on a fully diluted basis for the six months were 73.9p (2003 – 96.2p).

The result for the full year will reflect two significant additional charges; an increase in electricity tariffs of more than 40% from October and the first depreciation charges related to the Barrow treatment plant upgrade.

Capital investment, including infrastructure renewals, net of grants and contributions, in the period amounted to £8.1m. The major upgrade of our Barrow treatment plant is now complete. We anticipate net capital expenditure for the full year of approximately £19m.

Net debt increased by £2.5m in the period to £142.8m at 30 September 2004, representing approximately 64% of the average Regulatory Capital Value (RCV) for 2004/05.

PR04

The key issue for the future is Ofwat's PR04 final determination of price limits for the five years, 2005/06 to 2009/10. The price limits under the RPI+K formula are higher than in Ofwat's draft determination but still lower than we proposed. The K factors, the overall adjustment to tariffs before inflationary effects are taken into account, are:

	Final determination	Company business plan proposal
2005/06	13.8%	20%
2006/07	2.8%	6%
2007/08	1.5%	6%
2008/09	0.7%	0%
2009/10	-2.3%	0%

The main reasons for the difference are:

- A smaller capital expenditure programme of £117m compared to the £156m we proposed (2002/03 price base). This reflects the deletion of a number of schemes, mainly related to improvements to the security of supply for customers, together with more challenging efficiency assumptions.
- An operating cost efficiency target of 2.5% compared to the 0.8% p.a. we proposed.
- The final determination deals with a number of uncertainties through Ofwat's Notified Item process which could trigger interim price determinations within the period. In our business plan we had built a number of these uncertainties into the proposed K factors.

The average annual household water bill for our customers in the current year is £108, some 9% lower than the industry average of £117. Under the new price limits by 2009/10 the average household water bill for our customers will increase to £122 (2004/05 prices) remaining well below the expected industry average of £140.

The new price limits and obligations represent a challenging package which we are now reviewing in detail. Following the conclusion of our review we will make a further announcement in due course.

Alan Parsons

Chairman

Bristol Water plc

9 December 2004

Profit and loss account

		Six months to 30 September 2004 (unaudited)	Six months to 30 September 2003 (unaudited)	Year to 31 March 2004
	Note	£m	£m	£m
Turnover	2	35.3	36.0	70.6
Operating costs	3	(25.9)	(25.6)	(51.1)
Operating profit		9.4	10.4	19.5
Profit on disposal of tangible fixed assets		-	-	0.2
Net interest payable	4	(3.2)	(3.0)	(6.2)
Profit on ordinary activities before taxation		6.2	7.4	13.5
Taxation on profit on ordinary activities	5	(1.2)	(1.1)	(2.4)
Profit on ordinary activities after taxation		5.0	6.3	11.1
Dividends -	6			
On irredeemable preference shares (non-equity)		(0.5)	(0.5)	(1.1)
On ordinary shares (equity)		(2.9)	(1.8)	(6.2)
Total dividends		(3.4)	(2.3)	(7.3)
Profit retained		1.6	4.0	3.8
Earnings per share	7	73.9p	96.2p	166.0p
Dividend per ordinary share	6	47.15p	29.10p	103.37p

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

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

Balance sheet

		At 30 September 2004 (unaudited) £m	At 30 September 2003 (unaudited) £m	At 31 March 2004 £m
Tangible fixed assets	Note 8	194.5	188.1	193.8
Investment - Loan to ultimate holding company		47.0	-	47.0
Current assets				
Stocks		0.6	0.5	0.7
Debtors		20.8	19.5	19.6
Cash at bank and on deposit	9	11.9	16.5	17.4
		33.3	36.5	37.7
Creditors: amounts falling due within one year				
Short term borrowings	9	(5.4)	(7.7)	(6.9)
Other creditors		(21.8)	(19.7)	(24.3)
		(27.2)	(27.4)	(31.2)
Net current assets		6.1	9.1	6.5
Total assets less current liabilities		247.6	197.2	247.3
Creditors: amounts falling due after more than one year	9	(149.3)	(100.4)	(150.8)
Deferred income		(8.5)	(8.5)	(8.5)
Provisions for liabilities and charges	10	(18.9)	(18.8)	(18.7)
Net assets		70.9	69.5	69.3
Capital and reserves				
Called up share capital		18.5	18.5	18.5
Share premium		4.4	4.4	4.4
Other reserves		5.8	5.8	5.8
Profit and loss account		42.2	40.8	40.6
Total shareholders' funds	11	70.9	69.5	69.3
<i>Analysed as:</i>				
<i>Total shareholders' funds (excluding non-equity interests)</i>		58.4	57.0	56.8
<i>Non-equity interests</i>		12.5	12.5	12.5

Cash flow statement

		Six months to 30 September 2004 (unaudited) £m	Six months to 30 September 2003 (unaudited) £m	Year to 31 March 2004 £m
Net cash inflow from operating activities	Note 12	15.6	13.6	33.0
Returns on investments and servicing of finance				
Net interest paid		(3.0)	(2.9)	(6.0)
Non-equity dividends paid		(0.6)	(0.6)	(1.1)
Net costs of issue of new loans		-	(0.6)	(0.7)
		(3.6)	(4.1)	(7.8)
Corporation tax paid		(1.6)	(0.9)	(3.0)
Capital expenditure and investing activities				
Purchase of tangible fixed assets		(10.1)	(12.8)	(28.0)
Contributions received		2.0	1.6	3.4
Proceeds on disposal of tangible fixed assets		0.1	-	0.4
Loan advanced to ultimate holding company		-	-	(47.0)
		(8.0)	(11.2)	(71.2)
Equity dividends paid		(4.4)	(14.1)	(15.9)
Cash outflow before management of liquid resources and financing		(2.0)	(16.7)	(64.9)
Management of liquid resources				
being decrease/(increase) in short term deposits		4.5	(9.5)	(9.4)
Financing				
New term loans		-	45.0	98.5
Capital element of loan and lease repayments		(3.5)	(21.5)	(25.8)
		(3.5)	23.5	72.7
Decrease in cash	12	(1.0)	(2.7)	(1.6)
Cash, beginning of period		1.6	3.2	3.2
Cash, end of period		0.6	0.5	1.6

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 2004 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.

We said in the statutory accounts for the year ended 31 March 2004, that in line with the EU regulations, the company intended to adopt International Financial Reporting Standards (IFRS) as the basis upon which it would report its financial statements in the year ending 31 March 2006.

Our current understanding is that as the company does not prepare consolidated accounts it will not be mandatory for the company to adopt IFRS, we are therefore reconsidering the potential impact and the intentions of other companies in the water sector before making a final decision.

The International Accounting Standards Board has undertaken an extensive exercise to develop new standards and improve existing ones throughout 2004. At present, it is expected many of the standards will be endorsed by the EU by early 2005, however uncertainty remains with regard to some of the standards currently in issue.

Our initial assessment of the accounting policies that would materially differ under IFRS's (if adopted) remain those set out in the 31 March 2004 Annual Report and Accounts.

If the company does not adopt IFRS then it is required to fully adopt FRS17 for its financial statements for the year ending 31 March 2006.

Note 2: Turnover

	Six months to 30 September 2004 (unaudited) £m	Six months to 30 September 2003 (unaudited) £m	Year to 31 March 2004 £m
Turnover comprises -			
Metered water supply	13.1	13.3	26.1
Unmetered water supply	19.8	20.3	40.2
Other services	2.4	2.4	4.3
	35.3	36.0	70.6

Note 3: Operating costs

Operating costs comprise -			
Payroll cost, net of recharges to fixed assets	5.5	4.6	9.5
Other operating expenses	13.2	13.6	26.7
Depreciation, net of amortisation of deferred income	7.2	7.4	14.9
	25.9	25.6	51.1

Notes to the interim results

Note 4: Net interest payable

	Six months to 30 September 2004 (unaudited) £m	Six months to 30 September 2003 (unaudited) £m	Year to 31 March 2004 £m
Net interest payable and similar charges comprise -			
Interest payable and similar charges	5.0	3.4	7.3
Interest income	(1.8)	(0.4)	(1.1)
	3.2	3.0	6.2

Note 5: Taxation on profit on ordinary activities

The charge for taxation comprises -

Current tax:

Corporation Tax at 30%	1.0	1.2	3.0
Advance Corporation Tax written back	(0.6)	(0.6)	(0.7)
Adjustment to prior periods	0.6	0.9	1.1
Receipts in respect of group relief	-	-	(0.4)
Total current tax	1.0	1.5	3.0

Deferred tax:

Current period movement	1.0	1.1	1.0
Adjustment to prior periods	(0.6)	(0.8)	(1.0)
Effect of discounting	(0.2)	(0.7)	(0.6)
Total deferred tax	0.2	(0.4)	(0.6)

Total taxation on profit on ordinary activities

1.2	1.1	2.4
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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 2004 and amounted to £0.5m. The Board has declared an interim dividend of 47.15 pence (2003 interim – 29.10 pence) on each ordinary share amounting to £2.9m (2003 interim- £1.8m), payable on 9 December 2004.

Note 7: Earnings per share attributable to ordinary shares

	Six months to 30 September 2004 (unaudited) m	Six months to 30 September 2003 (unaudited) m	Year to 31 March 2004 m
Earnings per share have been calculated as follows:			
Earnings	£4.5	£5.8	£10.0
Weighted average number of ordinary shares in issue	6.0	6.0	6.0

Notes to the interim results

Note 8: Movement in tangible fixed assets

	Six months to 30 September 2004 (unaudited) £m	Six months to 30 September 2003 (unaudited) £m	Year to 31 March 2004 £m
The movement in tangible fixed assets comprises -			
Net book value, beginning of period	193.8	184.7	184.7
Additions	10.1	12.7	28.0
Disposals	-	(0.1)	(0.3)
Grants and contributions	(2.0)	(1.6)	(3.4)
Depreciation	(7.4)	(7.6)	(15.2)
Net book value, end of period	194.5	188.1	193.8

Note 9: Net debt

Net debt comprises -			
Debt due after one year	149.3	100.4	150.8
Debt due within one year	5.4	7.7	6.9
Less cash balances and short term deposits	(11.9)	(16.5)	(17.4)
Net debt	142.8	91.6	140.3

Debt due after one year is stated net of unamortised issue costs of £0.6m (30 September 2003 – £Nil, 31 March 2004 - £0.6m).

Note 10: Provisions for liabilities and charges

Deferred taxation provision

Deferred tax liability	32.6	32.5	32.3
Effect of discounting	(13.7)	(13.7)	(13.6)
Net provision	18.9	18.8	18.7

Note 11: Total shareholders' funds

Movement in shareholders' funds -			
Beginning of period	69.3	65.5	65.5
Profit for the period	5.0	6.3	11.1
Dividends	(3.4)	(2.3)	(7.3)
End of period	70.9	69.5	69.3

Notes to the interim results

Note 12: Supplementary cashflow information

	Six months to 30 September 2004 (unaudited) £m	Six months to 30 September 2003 (unaudited) £m	Year to 31 March 2004 £m
a) Reconciliation of operating profit to net cash inflow from operating activities -			
Operating profit	9.4	10.4	19.5
Depreciation, net of amortisation of deferred income	7.2	7.4	14.9
Cash flow from operations	16.6	17.8	34.4
Working capital movements	(1.0)	(4.2)	(1.4)
Net cash inflow from operating activities	15.6	13.6	33.0
b) Reconciliation of net cash flow to movement in net debt -			
Decrease in cash in the period	(1.0)	(2.7)	(1.6)
Cash used to repay borrowings	3.5	21.5	25.8
Cash from new borrowings	-	(45.0)	(98.5)
Costs of issue of new loans	-	0.6	0.7
(Decrease)/increase in short term deposits	(4.5)	9.5	9.4
Increase in net borrowings	(2.0)	(16.1)	(64.2)
Movement in net debt not affecting cash flow – indexation of existing debt	(0.5)	(0.7)	(1.3)
Net debt, beginning of period	(140.3)	(74.8)	(74.8)
Net debt, end of period	(142.8)	(91.6)	(140.3)

Notes to the interim results

Note 13: Pensions

Pension arrangements

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. Bristol Water plc's membership of WCPS is through a separate section. 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 WCPS. The section has been closed to new entrants and all new eligible employees are offered stakeholder pensions.

In addition to providing benefits to employees and ex-employees of Bristol Water plc, the section provides benefits to ex-employees of Bristol Water Holdings plc 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 based on triennial valuations using the projected unit method. The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return on section investments and the rate of increase in salaries, wages, pensions and dividends.

The most recent triennial actuarial valuation at 1 April 2002 assumed that investment returns would be 7.2% pa pre-retirement and 5.2% pa post-retirement, salaries would increase on average by 4.8% pa, and pensions by 2.8% pa. The actuarial valuation at 1 April 2002 showed the market value of section assets relating to the company as £97.0m and that the actuarial value of these assets represented 107% of accrued benefits allowing for future earnings increases.

The section is currently invested mainly in equities. The investment strategy has been carefully examined and it has been concluded that the appropriate long term strategy is to reduce the proportion of equities with a corresponding increase in investments in bonds and other fixed income securities. The timing of implementation of this change remains under consideration. This policy has been agreed with the trustees.

The estimated cash contributions for 2004/05 are approximately £1.4m.

Note 13: Pensions (continued)

Accounting under SSAP24

Pension costs charged to the profit and loss account are computed in accordance with Statement of Standard Accounting Practice Number 24 to spread the cost of pensions over the employees' expected working lives with the company.

For SSAP24 purposes only, an updated interim valuation was carried out as at 1 April 2003 to recognise the significant change in the funding level following the downturn in the equity markets since 1 April 2002. The interim valuation assumed that investment returns would be 7.5% pa pre-retirement and 5.5% pa post-retirement. General salary increases were assumed to be 4.5% pa and pensions to be 2.5% pa. The assets were brought in at 112% of their market value to anticipate part of the subsequent upturn in the equity markets over the year to 31 March 2004. The interim valuation showed the market value of section assets relating to the company as £82.8m and that these represented 97% of accrued benefits allowing for future earnings increases.

The SSAP24 charge has been based on the updated interim valuation.

Accounting under FRS17 "Retirement Benefits"

The company currently accounts for pensions in accordance with SSAP24. On a UK GAAP basis, FRS17 will become mandatory for accounting periods starting on or after 1 January 2005, which for the company will be the year ending 31 March 2006. As explained in Note 1, the company has not yet decided if it will adopt IFRS. If the company does adopt IFRS, then it would expect to adopt IAS 19 "Employee Benefits" on transition to IFRS.

IAS 19 requires the net financial position of the company's defined benefit pension scheme's assets and scheme liabilities to be included on the balance sheet either in full at the date of transition, or by means of the 'corridor' approach i.e. spreading actuarial gains and losses over the expected average remaining working lives of participating employees. Assuming the proposed amendments to IAS 19 are adopted, actuarial gains and losses will be taken to reserves. In some respects these treatments and the related disclosures replicate the requirements of FRS17. As the company will not report on an IFRS basis until 2006, it will continue to provide the transitional disclosures under FRS17 in the intervening period. These disclosures are included in the full year accounts.

The actuarial valuation of the Bristol Water plc section of the WCPS as at 1 April 2002 was updated to 31 March 2004, by an independent qualified actuary. At 31 March 2004 the company's net pension liability, as disclosed in the Annual Report and Accounts, was £12.4m. Since the Accounts were published the actuary has reviewed his figures and reassessed the FRS17 deficit as at 31 March 2004 at £9.4m net of tax.

Under FRS17 as at 30 September 2004 the net deficit, after tax, of the section would have been approximately £9.8m (30 September 2003 - £12.4m, 31 March 2004 - £9.4m as restated).

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 website: <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 the Profit and Loss Account, Balance Sheet, Cash Flow Statement and related notes, for the six months ended 30 September 2004. 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 2004.

PricewaterhouseCoopers LLP
Chartered Accountants
Bristol
9 December 2004

Notes:

- (a) 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 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.