

STRONG FINANCIAL PERFORMANCE

Year ended 31 March	2002		2001		% change Before exceptional items %
	Before exceptional items £m	After exceptional items £m	Before exceptional items Restated £m	After exceptional items Restated £m	
Group turnover	129.1	129.1	101.5	101.5	27%
Total operating profit	19.0	19.0	16.5	14.1	15%
Pre-tax profit	14.8	15.6	12.5	10.4	18%
Earnings per ordinary share					
Shares in issue	138.3p	148.7p	107.0p	78.3p	29%
Fully diluted	137.2p	147.5p	106.6p	78.0p	29%
Dividend per ordinary share		67.2p		64.0p	5%

- Strong financial performance -
 - Regulated business doing well
 - Non regulated businesses contributing 11% of group profit
 - 5% increase in dividends, in line with interim increase
 - Dividend covered 2.2 times after adopting new deferred tax standard

- Excellent operational performance -
 - High service standards maintained in Bristol Water plc
 - Joint Billing arrangement with Wessex Water going well
 - Lawrence and BWS performing well
 - Peripheral business sold allowing concentration on core skills
 - Excellent base for moving forward

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CHAIRMAN'S STATEMENT

Review of the year

I am pleased to be able to announce a strong financial performance across the group. We have built on September's promising interim results, and have achieved excellent financial results from both the regulated water company and from our other businesses.

For the regulated water business, the price limits set by Ofwat in 1999 meant that we needed to deliver substantial efficiency gains. At the end of 1999/2000 we launched a major restructuring programme which was successfully implemented while still maintaining our high standards of service to customers and even improving them in some areas. We have continued to seek further efficiency improvements whilst maintaining our service standards.

In July 2001, following an extensive procurement process by the regulated business, the group established a joint venture with Wessex Water to provide a combined billing and customer contact service initially for the customers of the two regulated businesses. When fully operational, this will eliminate significant duplicated costs and provide a simplified and better service to customers. Initial feedback from customers has demonstrated their support for the change and the success of the first phase.

The capital expenditure programme established to deliver the outputs set by Ofwat for the five years 2000-05 is now well under way. A major element relates to a £20m programme for the replacement of lead pipes. Although we planned to spread this cost evenly throughout the period, the Drinking Water Inspectorate wishes to see the optimisation of the recent chemical dosing programmes before supporting pipe replacement activity. It is increasingly likely that the actual spend during the five year period will be at a relatively low level.

The UK water industry is continuing to go through a period of change, with competition becoming increasingly significant. At the same time, new financing and operational structures are being introduced. We have continued to monitor these developments.

Our non-regulated businesses have made good progress.

Lawrence, the contracting division, has built on last year's promising result recording a significant increase in turnover and a profit before tax of £1.1m. The company has a strong forward order book and has established excellent working relationships with a range of major customers.

Our international division (BWS) is performing well. We are now two years into the nine-year Selangor project in Malaysia. This project for the reduction of water losses, which is being carried out by our joint venture company PABW, has met all its performance targets. Further opportunities in Malaysia are being developed.

We have recently established a new company in the USA which we see as an attractive future market for our water loss reduction skill base. At the end of 2001 BWS and its consortium partners were awarded a consultancy study contract to identify performance indicators and best practice methodologies related to water loss reduction across North America.

During the year we sold Operational UK, the environmental company based in Runcorn that we acquired in January 2000. The sale was to a party related to the original vendors and as part of the sale agreement we agreed to waive warranty claims arising from our original acquisition. The acquisition was extremely disappointing, but the disposal now brings the issue to a close.

Profit before tax and exceptional items for the year was £14.8m compared to £12.5m in 2000/01. After exceptionals, profit before tax was £15.6m, compared to £10.4m in the previous year.

We have declared a 5% increase in the final dividend, bringing the total dividend for the year to 67.2p, a 5% increase from 2000/01. The final dividend of 47.0p will be paid on 1 October 2002.

Outlook

The progressive build up of the regulated business's capital programme, with its consequent additional financing, depreciation and operating cost implications, together with the relatively low level of increase in charges under the RPI+K price limits to customers for 2002/03 of 1.9% and Ks of 0% in 2003/04 and -1.9% in 2004/05 will have a significant impact on profits over the next three years.

The regulated business has put in place initiatives that will form the basis of future success and will continue to deliver high quality services to customers while making further operational efficiency gains.

The other businesses in the group are now making a contribution to group profits with the real prospect of further growth. The integrated business platform, based on core skills that we have been working hard to build, is now showing its value.

Other developments

During the year Vivendi, who had been a shareholder since 1989, sold their 24.6% stake in the company to a new investment trust, Ecofin Water and Power Opportunities plc. We welcome them as shareholders.

I am also pleased to announce the appointment of Peter McIlwraith, a former partner of PricewaterhouseCoopers, as a non-executive director of the Board.

My thanks go to all our employees who have contributed so successfully to delivering such a strong performance.

Moger Woolley
Chairman
29 May 2002

CHIEF EXECUTIVE'S REPORT

Bristol Water plc – the regulated business

During the year we made further operating improvements consolidating the considerable cost reductions made during the previous year. Our primary focus during the year has been on two key initiatives that will enable us to make further efficiency gains in due course.

The first of these initiatives has been a major project to install a new integrated financial and works management IT system (SAP) to replace a number of older systems. A key objective for this development was to reduce future maintenance and development costs of our old systems. This project was successfully implemented and went live on 1 October 2001.

The second initiative has been the creation of a joint venture with Wessex Water to enable the two companies to issue combined bills to customers. The joint venture is owned on a 50/50 basis with Wessex Water and during the year the existing billing and customer contact staff of both companies transferred to the new company. A new billing system was also successfully implemented during the year and the first joint bills were issued to unmeasured customers during March 2002. Work is in hand to bring measured customers onto the same system later this year. The new arrangement will benefit customers by improving convenience and will deliver significant efficiency gains from 2003/04.

An important operational issue during the year was the damage caused by a major water main burst on the A4 Portway in the confines of the Avon Gorge. Working together with Bristol City Council we were able to get the road quickly back into service and avoided any significant disruption to water supplies. Permanent repairs are currently in progress, but the complex nature of the site means that it will take some months to complete.

Water resources were a concern during the year, with the increasingly variable weather patterns that we are experiencing making forecasting extremely difficult. During November and December, normally a key time for the refilling of reservoirs, there was a prolonged dry spell with minimal recorded rainfall which raised concerns about the supply position for 2002. This was then followed by a sustained period of rain during February and March and reservoirs are now back to normal levels. The situation will continue to be monitored closely.

The Ofwat report on service levels by water companies in 2000/01 confirms that we have maintained or improved on our already high levels of service to customers.

We were pleased to see that our ranking in Ofwat's relative operating efficiency report for 2000/01, using econometric models, showed a significant improvement. This was due to a combination of our continuing cost reduction programme and recognition by Ofwat that their models did not fully reflect our true performance. We are continuing to discuss with Ofwat a number of diverse factors that still adversely affect our rankings in their models.

Our capital programme for the five years to 2005, as set out in the Final Determination (May 1999 prices), amounts to £125m. As explained in the Chairman's statement, this includes £20m for the replacement of lead communication pipes of which we have only spent a small amount to date.

The capital programme for the year included four major projects. One, completion of the installation of cryptosporidium barriers at seven smaller treatment works, has progressed well and all sites are now operational with this added protection in place. The second significant project is ongoing mains renovation. During the year we completed 105 km of relined or replaced mains, adding to the previous year's 88 km, at below budgeted cost. The remaining two projects were the SAP IT development and the new joint billing system.

Overall net capital expenditure was £23.5m after contributions from developers, compared to £18.2m in the previous year.

As highlighted in the Chairman's statement, profits for the next three years will be influenced by a range of additional costs, in particular the financing, depreciation and operating cost implications of the continuing capital programme. We will continue to seek further operational efficiency gains to offset these additional costs, whilst ensuring that we do not compromise our high standards of service.

Other businesses

Following the disposal of Operational UK, our strategy for other business is clearly based around core skills, with the two businesses, Lawrence and BWS, taking major steps forward. Overall the non regulated portfolio contributed some 11% of pre tax profits.

Lawrence

The new management team at Lawrence is now well established and has continued the turnaround in trading performance. Profit before tax for the year was £1.1m compared to £0.4m last year.

Lawrence's relationship as one of Transco's 'tier 1' contractors has continued to develop well. The company made excellent progress on a range of pipeline projects including Aberdeen to St Fergus and Peterstow to Gilwern, both of which were carried out in partnership with the Dutch company NACAP. Inevitably progress was hampered during the summer by the 'foot and mouth' outbreak, but the logistical issues were overcome.

We anticipate a lower level of pipeline turnover next year and our aim is to ensure that Lawrence has a balanced mix of work with a range of clients, whilst maintaining profit levels.

Going into 2002/03 the company has a strong and balanced order book, amounting to £37m at the end of March 2002.

Bristol Water Services(BWS)

BWS is our international division providing network management services, specialising in leakage reduction.

Together with our joint venture partner, Premier Ayer Sdn Bhd, we are now two years into phase 2 of the nine year Selangor project in Malaysia. This project for reduction of water losses has met all performance targets to date.

A similar pilot project has recently been completed in the State of Kedah in the north of Malaysia. We are finalising a contract for additional work.

The recent consultancy study contract to identify performance indicators and methodologies for water loss reduction across North America provides an excellent start for our new USA company.

Alan Parsons
Chief Executive
29 May 2002

OPERATING AND FINANCIAL REVIEW

Summary of profit before tax

	2002		2001 Restated	
	Before exceptional items £m	After exceptional items £m	Before exceptional items £m	After exceptional items £m
Regulated business	13.1	13.9	12.5	13.3
Other business	1.7	1.7	-	(2.9)
Total	14.8	15.6	12.5	10.4

Overview

Total turnover increased from £106.1m to £136.0m. This largely reflects a significant increase in turnover from non-regulated activities in the Lawrence contracting business.

The results represent a strong underlying performance with profit before tax increasing by £5.2m to £15.6m compared to £10.4m in 2001. The 2001 results included an exceptional write down of unamortised goodwill on Operational UK of some £2.9m offset by other non recurring gains. Before exceptional items, profit before tax for the year was £14.8m compared to £12.5m in 2001 - a net improvement of £2.3m.

The group results include for the first time the impact of FRS19, the new accounting standard on deferred tax, using a discounting methodology. At 31 March 2002 the discounted balance sheet provision amounts to £14.9m. The net profit and loss account effect of FRS19 is to increase the deferred tax charge for the year by £1.3m and the current tax charge by £0.7m relating to ACT. The profit and loss charge is net of a £1.4m discounting gain. The effective total tax rate for the year is 23%, without the discounting gain it would be 32%. The results for 2001 have been restated accordingly.

Profit after tax and exceptional items was £12.1m, an increase of £5.2m from 2001.

The Board proposes a total dividend for the year of 67.2p, a 5% increase from 2001. As a result, a final dividend of 47.0p is being recommended. It will be paid on 1 October 2002 to shareholders on the register on 6 September 2002. Dividend cover was 2.2 compared to 1.2 times last year.

In the full statutory accounts the appropriate transitional disclosures required under FRS17, the new accounting standard on pensions, are made. These show that the group's sub funds within the Water Companies' Pension Scheme would be represented on the balance sheet as an asset net of tax of £10.1m (£14.4m before deferred tax).

An actuarial review of the sub funds as at 31 March 2002 is currently in progress. The sub funds are currently invested primarily in equities. When the results of the actuarial review are available, subject to the agreement of the trustees, we will examine carefully a reduction in the proportion of equities with a corresponding increase in investments in bonds and other fixed income securities.

Regulated activities – Bristol Water plc

In November 1999, Ofwat issued the Periodic Review Final Determination. This set maximum price limits for charges to customers for the five years 2000-05. The limits, known as K factors, plus movements in the RPI index, determine the allowed increase or decrease in overall charges each year. For 2001/02 the K factor was 1%, which together with an RPI movement of 3.2% meant an average increase in charges to customers of some 4.2%.

Overall turnover increased by some £3.1m, mainly due to the RPI+K increase.

Operating costs before depreciation increased by £2.3m. This reflects the impact of inflation, the new climate levy charge of £0.4m, an increased bad debt charge and the non-recurrence of an exceptional insurance premium rebate of £0.6m in the previous year.

We have increased the bad debt charge, reflecting a deteriorating collection experience following a government decision to prohibit domestic disconnections. The charge for the year was £1.6m compared to £0.8m in the previous year.

Depreciation increased by £0.7m reflecting the commissioning of new assets and the decision to accelerate the depreciation charge for other assets.

The net effect of the increases in turnover, operating costs and depreciation together with an increase in the net proceeds from property disposals of £0.5m was to increase profit before tax by £0.5m to £13.9m.

Net capital investment in the year after grants and contributions from developers was £23.5m, a significant increase on 2000/01 (£18.2m) reflecting the progressive build-up of the capital programme for the five years 2000-05.

Non-regulated activities

There has been a strong improvement in trading performance from 2001 with a profit before tax of £1.7m compared to the loss of £2.9m in 2001. The 2001 result included net exceptional losses of £2.9m, primarily relating to the write down of unamortised goodwill relating to the purchase of Operational UK.

Lawrence: Turnover increased substantially from £36.9m to £63.5m, mainly reflecting an increase in the value of gas pipeline projects carried out for Transco, both on a sole basis and through a joint arrangement with a Dutch contractor NACAP. Profit before tax was £1.1m compared to £0.4m in 2001.

Bristol Water Services: Turnover, including the share of joint ventures, decreased from £6.7m to £4.5m. After further investment in business development activities, the division recorded a net profit before tax of £0.3m compared to £0.1m in 2001.

Operational UK: The company was acquired in January 2000 for a total consideration of £4.4m, including goodwill of £3.3m. All the goodwill was written down during 2001, reflecting the poor trading performance of the company. The company was sold at the end of March and in these accounts a net gain on disposal, after legal costs, of £3,000 is recognised. Under the sale agreement there is the potential for additional purchase consideration dependent upon the realisation of certain trading gains. As part of the sale arrangements, warranty and other claims against the original vendors of the company have been waived.

Purton Carbons: We provided against the cost of our investment in this joint venture in 2000 due to the difficult market conditions it faced and continues to face. This year our share of profits amounted to £98,000.

Brunel Insurance was a joint arrangement with Wessex Water. The company was wound up during the year with all liabilities being either reinsured or returned to the insured.

Treasury

Net borrowings increased from £54.6m to £61.5m during the year.

During the year the second £5m tranche of a £10m five year term loan was drawn down. During May 2001 two leasing agreements for a total of £9m were completed.

At the year end, net gearing (net debt/equity) was 72% compared to 70% (restated) in 2001. Net debt and gearing levels are expected to increase during 2002 as the level of capital investment in the regulated business increases. Before the adoption of FRS19, the new standard on deferred tax, net gearing was 61% (2001 restated - 60%).

The group uses interest rate derivatives to manage exposures to fluctuations in interest rates. Positions on hedges are deferred and matched to the underlying transaction.

Net interest charges in the year totalled £4.2m and were covered 4.5 times.

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2002

	2002	2002	2002	2001	2001	2001
	Before	Exceptional	Total	Restated	2001	Restated
	exceptional	items	Total	Before	Exceptional	Total
	items	£000	£000	exceptional	items	£000
	£000	£000	£000	£000	£000	£000
Note						
Turnover including share of joint ventures	136,015	-	136,015	106,060	-	106,060
Less: share of turnover of joint ventures	(6,897)	-	(6,897)	(4,572)	-	(4,572)
Group turnover	129,118	-	129,118	101,488	-	101,488
Operating costs	2&3 (110,252)	-	(110,252)	(85,183)	(2,410)	(87,593)
Group operating profit/(loss)	18,866	-	18,866	16,305	(2,410)	13,895
Share of operating profit of joint ventures	157	-	157	200	-	200
Total operating profit/(loss): group and share of joint ventures	19,023	-	19,023	16,505	(2,410)	14,095
Profit on disposal of tangible fixed assets	3 -	753	753	-	297	297
Profit on disposal of businesses	3 -	23	23	-	83	83
Net interest payable and similar charges	(4,224)	-	(4,224)	(4,036)	-	(4,036)
Profit/(loss) on ordinary activities before taxation	14,799	776	15,575	12,469	(2,030)	10,439
Taxation on profit/(loss) on ordinary activities	4 (3,515)	(10)	(3,525)	(3,498)	(84)	(3,582)
Profit/(loss) on ordinary activities after taxation	11,284	766	12,050	8,971	(2,114)	6,857
Minority shareholders' non-equity interest	(1,094)	-	(1,094)	(1,094)	-	(1,094)
Profit/(loss) attributable to Bristol Water Holdings plc shareholders	10,190	766	10,956	7,877	(2,114)	5,763
Dividends	5 (4,965)	-	(4,965)	(4,711)	-	(4,711)
Profit/(loss) retained for the year	5,225	766	5,991	3,166	(2,114)	1,052
Earnings per share -						
On average number of ordinary shares in issue	6 138.3p	10.4p	148.7p	107.0p	(28.7)p	78.3p
On fully diluted basis	6 137.2p	10.3p	147.5p	106.6p	(28.6)p	78.0p

All of the turnover and operating costs above relate to continuing operations.

GROUP BALANCE SHEET

at 31 March 2002

	Note	2002 £000	2001 Restated £000
Fixed assets			
Intangible fixed assets		23	40
Tangible fixed assets	7	180,770	171,554
Investments in joint ventures -			
Share of gross assets		6,289	2,487
Share of gross liabilities		(5,957)	(2,282)
Total		<u>332</u>	<u>205</u>
Total fixed assets		<u>181,125</u>	<u>171,799</u>
Current assets			
Stocks		512	676
Debtors		21,447	15,089
Cash at bank and on deposit	8	24,513	21,078
		<u>46,472</u>	<u>36,843</u>
Creditors: amounts falling due within one year			
Short term borrowings	8	3,138	4,628
Other creditors		33,249	32,439
		<u>36,387</u>	<u>37,067</u>
Net current assets/(liabilities)		10,085	(224)
Total assets less current liabilities		<u>191,210</u>	<u>171,575</u>
Creditors: amounts falling due after more than one year	8	(82,825)	(71,098)
Deferred income		(8,396)	(8,467)
Provisions for liabilities and charges	9	(14,926)	(13,283)
Net assets		<u>85,063</u>	<u>78,727</u>
Capital and reserves			
Called up share capital		7,397	7,361
Share premium		6,023	5,714
Other non-distributable reserves		4,024	4,024
Profit and loss account		55,119	49,128
Total equity shareholders' funds	10	<u>72,563</u>	<u>66,227</u>
Minority shareholders' non-equity interest		12,500	12,500
		<u>85,063</u>	<u>78,727</u>

GROUP CASH FLOW STATEMENT

for the year ended 31 March 2002

	Note	2002 £000	2001 £000
Net cash inflow from operating activities	11(a)	29,671	32,062
Returns on investments and servicing of finance			
Interest received		1,282	1,145
Interest paid		(4,233)	(3,485)
Interest paid on finance leases		(1,287)	(1,393)
Dividends paid to minorities		(1,094)	(1,094)
		(5,332)	(4,827)
Taxation			
Corporation tax paid		(2,183)	(3,192)
Capital expenditure			
Purchase of tangible fixed assets		(26,444)	(18,201)
less contributions received		2,588	2,373
Proceeds from disposal of tangible fixed assets		957	639
		(22,899)	(15,189)
Acquisitions and disposals			
Proceeds/(costs incurred) on disposal of subsidiary		173	(76)
(Cash)/overdraft eliminated on disposal of subsidiary		(60)	8
		113	(68)
Dividends paid on equity shares		(4,786)	(4,579)
Cash (outflow)/inflow before management of liquid resources and financing		(5,416)	4,207
Management of liquid resources			
being increase in short term deposits		(295)	(15,901)
Financing			
Issue of shares		345	-
New term loans		5,000	5,000
Cash inflow from refinancing assets under new finance leases		8,159	-
Capital element of lease repayments		(1,430)	(1,919)
Capital element of loan repayments		(3,223)	(260)
		8,851	2,821
Increase/(decrease) in cash		3,140	(8,873)
Cash, beginning of year		2,373	11,246
Cash, end of year		5,513	2,373

SEGMENTAL ANALYSIS

for the year ended 31 March 2002

	2002	2001
	£000	Restated £000
Turnover -		
Water supply and related activities	68,013	64,887
Contracting and other services		
Group	70,005	44,345
Joint ventures	6,897	4,572
Intra-group sales	(8,900)	(7,744)
Turnover including share of joint ventures	136,015	106,060

Turnover of £6,023,000 (2001 - £5,382,000) was derived from services provided outside the United Kingdom, primarily South East Asia. The maximum level of prices the principal subsidiary, Bristol Water plc, may levy for the majority of its charges is controlled by the Director General of the Office of Water Services.

	2002	2002	2002	2001	2001	2001
	Before	Exceptional	Total	Restated	Exceptional	Restated
	exceptional	items	£000	Before	items	Total
	items	£000	£000	exceptional	£000	£000
Operating profit/(loss) of group and share of joint ventures -						
Water supply and related activities	17,741	-	17,741	17,029	600	17,629
Contracting and other services	1,282	-	1,282	(524)	(3,010)	(3,534)
Group total	19,023	-	19,023	16,505	(2,410)	14,095
Profit/(loss) on ordinary activities before taxation -						
Water supply and related activities	13,143	760	13,903	12,486	868	13,354
Contracting and other services	1,656	16	1,672	(17)	(2,898)	(2,915)
Group total	14,799	776	15,575	12,469	(2,030)	10,439

	2002	2001
	£000	Restated £000
Net assets employed -		
Water supply and related activities	73,946	70,272
Contracting and other services	11,117	8,455
Group total	85,063	78,727

	2002	2001
Number of employees (average full time equivalents) -		
Water supply and related activities	430	463
Contracting and other services	510	390
Group total	940	853

NOTES

1. BASIS OF PREPARATION AND CIRCULATION

These preliminary statements do not constitute the statutory accounts for the year ended 31 March 2002. The statutory accounts have been reported on by the auditors without qualification but have not yet been delivered to the Registrar of Companies. The comparative figures for 2001 have been extracted from the accounts of Bristol Water Holdings plc for the year ended 31 March 2001 upon which the auditors' report was unqualified and which have been delivered to the Registrar of Companies subject to restatement in respect of:

- A change to the basis of recognition of turnover from metered supplies, following a general review of the appropriateness of accounting policies as occasioned by Financial Reporting Standard FRS18 'Accounting Policies'. Income from metered supplies is based upon volumes of water invoiced plus estimated volumes of uninvoiced water delivered to customers during the year. In previous years this income was based upon actual volumes of water invoiced to customers during the year. The accounts for the year ended 31 March 2001 have been restated on the new basis. The impact of the restatement is to increase turnover by £98,000 (2001 - £46,000), increase profit after tax by £88,000 (2001 - £41,000), increase accrued income in the balance sheet by £2,063,000 (2001 - £1,965,000), and to increase net assets after provision for tax in the balance sheet by £1,857,000 (2001 - £1,769,000).
- The application of FRS19 Accounting for Deferred Tax. Deferred tax has been 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 recognised 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. The accounts for the year ended 31 March 2001 have been restated on this basis. The impact of FRS19 is to reduce profits for the year by £1,956,000 (2001 - £1,010,000) and net assets by £14,926,000 (2001 - £12,970,000).

The Annual Report and Accounts will be posted to shareholders on or before 20 June 2002. Copies will be available to the public from the registered office at PO Box 218, Bridgwater Road, Bristol BS99 7AU. The Annual General Meeting will be held at The Holiday Inn, Victoria Street, Bristol, on Monday 22 July 2002 at 11.00 am.

2. OPERATING COSTS BEFORE EXCEPTIONAL ITEMS

	2002	2001
	£000	£000
Net payroll cost	26,796	21,251
Other operating expenses	69,463	50,260
Depreciation, net	13,993	13,672
Total operating costs	110,252	85,183

3. EXCEPTIONAL ITEMS

Exceptional operating costs comprise the following -

	2002	2001
	£000	£000
(a) Exceptional operating items –		
Contracting and other services severance payments	-	(235)
Release of insurance claims reserve	-	750
Unamortised goodwill arising on the purchase of Operational UK Limited, written off	-	(2,925)
	<hr/>	<hr/>
	-	(2,410)

The 2001 release of the insurance claim reserve relates to the termination of Bristol Water plc's customer compensation policy with Brunel Insurance.

(b) Profit on disposals comprises the following -

Profit on disposal of tangible fixed assets	753	297
	<hr/>	<hr/>
Profit on disposal of trading division of a subsidiary	20	-
Profit on disposal of Operational (UK) Ltd	3	-
Profit on disposal of Gas Engineering Services Limited	-	83
	<hr/>	<hr/>
	23	83

The profit on disposal of tangible fixed assets is mainly from vehicles and property sold by Bristol Water plc amounting to £760,000 (2001 - £268,000).

4. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

Analysis of the charge for the year –

	2002	2001
	£000	Restated £000
Current tax:		
UK Corporation tax at 30% (2001 – 30%)	4,984	4,303
Advanced Corporation Tax written back/(off)	(1,027)	46
Adjustment to prior periods	(1,813)	(534)
	<hr/>	<hr/>
UK Corporation tax liability	2,144	3,815
Foreign taxation	89	78
	<hr/>	<hr/>
Total current tax	2,233	3,893
Deferred tax:		
Current year movement	(176)	(53)
Adjustment to prior periods	2,851	(460)
Effect of discounting	(1,383)	202
	<hr/>	<hr/>
Total deferred tax	1,292	(311)
	<hr/>	<hr/>
Total tax on profit on ordinary activities	3,525	3,582

The adjustments to prior periods mainly relate to the effects of an agreement with the Inland Revenue to accelerate certain capital allowances.

5. DIVIDENDS

	2002 £000	2001 £000
On ordinary (equity) shares -		
Paid at interim - 20.2p (2001 - 19.2p)	1,488	1,413
Proposed for final – 47.0p (2001 - 44.8p)	3,477	3,298
	<hr/> 4,965	<hr/> 4,711

The Board is recommending a final dividend of 47.0 pence per ordinary share to be paid on 1 October 2002 to shareholders on the Register as at 6 September 2002.

6. EARNINGS PER SHARE

Earnings per share have been calculated as follows -

	2002 000	2001 Restated 000
On average number of ordinary shares in issue during the year -		
Earnings before exceptional items attributable to ordinary shares	£10,190	£7,877
Earnings after exceptional items	£10,956	£5,763
Weighted average number of ordinary shares	7,365	7,361
On fully diluted basis -		
Earnings before exceptional items attributable to ordinary shares	£10,190	£7,877
Earnings after exceptional items	£10,956	£5,763
Weighted average number of fully diluted ordinary shares	7,426	7,387

7. TANGIBLE FIXED ASSETS

	2002 £000	2001 £000
Net book value, beginning of year	171,554	166,930
Additions	26,263	20,862
Disposal of subsidiary	(47)	-
Disposals	(153)	(267)
Contributions	(2,588)	(2,373)
Depreciation	(14,259)	(13,598)
Net book value, end of period	<hr/> 180,770	<hr/> 171,554

8. NET BORROWINGS

	2002 £000	2001 £000
Cash and short term deposits	24,513	21,078
Debt due within one year	(3,138)	(4,628)
Debt due after one year	(82,825)	(71,098)
Net borrowings	<hr/> (61,450)	<hr/> (54,648)

9. PROVISION FOR LIABILITIES AND CHARGES

Total provisions and charges are as follows -

	2002	2001
	£000	Restated £000
Restructuring costs	-	313
Deferred taxation	14,926	12,970
	14,926	13,283
<hr/>		
Analysis of deferred taxation liability -		
Accelerated capital allowances and capital element of finance leases		
	32,840	30,092
Deferred income	(2,519)	(2,540)
Short term timing differences	(698)	(604)
Unrelieved Advanced Corporation Tax	(504)	(1,168)
	29,119	25,780
Effect of discounting	(14,193)	(12,810)
	14,926	12,970
<hr/>		
Net provision for Deferred Taxation	14,926	12,970
<hr/>		

10. MOVEMENT IN SHAREHOLDERS' FUNDS

	2002	2001
	£000	Restated £000
Beginning of year;		
Balance per previous financial statements		75,407
Effect of prior year restatements -		
Income from metered supplies, net of tax effect		1,728
FRS19 Accounting for Deferred Tax		(11,960)
		<hr/>
Restated balance at beginning of the year	66,227	65,175
Issue of new shares	345	-
Profit for the year	10,956	5,763
Dividends	(4,965)	(4,711)
	72,563	66,227
End of year	72,563	66,227
<hr/>		

The share capital of the company at 31 March 2002 comprised 7,256,087 ordinary shares and 141,430 non-voting ordinary shares.

11. ADDITIONAL CASHFLOW INFORMATION

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

	2002	2001
	£000	Restated £000
Operating profit	18,866	13,895
Depreciation and amortisation	13,993	16,597
Cash flow from operations	32,859	30,492
Working capital movements -		
Stocks	146	170
Debtors	(6,660)	448
Creditors	3,639	1,548
Provisions	(313)	(596)
Net cash inflow from operating activities	29,671	32,062

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

	2002	2001
	£000	£000
Decrease in cash in year	3,140	(8,873)
Cash used to repay leases	1,430	1,919
Cash used to repay loans	3,223	260
Cash from new borrowings	(13,159)	(5,000)
Cash used to increase liquid resources	295	15,901
(Increase)/decrease in net borrowings resulting from cash flows	(5,071)	4,207
Debt eliminated on disposal of subsidiaries	-	16
New loans not affecting cash flow	(1,731)	-
Net borrowings, beginning of year	(54,648)	(58,871)
Net borrowings, end of year	(61,450)	(54,648)