BRISTOL WATER HOLDINGS plc
INTERIM RESULTS

for the six months ended 30 September 2001

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for the six months ended 30 September 2001

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HIGHLIGHTS

STRONG OPERATIONAL AND FINANCIAL PERFORMANCE

Six months ended 30 September	2001 (unaudited) £m	2000 (unaudited) £m	% change
Group turnover	72.1	50.5	43%
Profit before tax			
Regulated activities	7.7	6.9	12%
Non-regulated activities	0.9	-	100%
Total profit before tax	8.6	6.9	25%
Profit after tax	5.9	4.7	26%
Profit after tax before application of FRS19 deferred tax	6.7	5.2	27%
Earnings per ordinary share			
Shares in issue	73.2p	56.5p	30%
Fully diluted	72.7p	56.4p	29%
Earnings per ordinary share before application of deferred tax			
Shares in issue	83.1p	63.7p	30%
Fully diluted	82.6p	63.5p	30%
Interim dividend per ordinary share, net	20.2p	19.2p	5%

Highlights

- **Regulated business**
  - **Operating profits increased by 9%, reflecting RPI+K formula and continued efficiency gains**
  - **Profit before tax increased by 12%**
  - **Net capital expenditure £12.1m**
  - **Successful implementation of major new integrated IT system**
  - **Good progress in new venture with Wessex Water for joint billing of customers**
  - **High service levels maintained**
- **Other businesses**
  - **Strong return to profitability – profit before tax £0.9m**
  - **Lawrence performing well - £19.7m increase in turnover, profit before tax £0.7m**
- **Interim ordinary dividend increase of 5%**

CHAIRMAN'S STATEMENT

I am very pleased to be able to announce a strong performance across the group. We have achieved excellent financial results from the regulated water company and a very encouraging performance from our other businesses.

Overall Group results
Group turnover increased by £21.6m (43%) to £72.1m. This includes an increase in regulated business turnover of £1.5m resulting from the overall 4.2% uplift in charges to customers under the RPI+/-K formula, and a near £20m increase from seasonal pipeline work at Lawrence, our contracting business.

Profit before tax increased by £1.7m (25%) to £8.6m. This reflects a £0.8m (12%) increase from the regulated business to £7.7m together with an improvement in the performance of other businesses, from a breakeven position at this time last year, to a profit of £0.9m.

The group results include for the first time the impact of FRS19, the new accounting standard on deferred tax. The effect of this is to increase the tax charge by £0.7m but more significantly requires a balance sheet provision at 30 September 2001 of £13.7m. The relevant comparative figures for the six months to 30 September 2000 and year to 31 March 2001 have been restated in accordance with the standard.

We will be making the appropriate disclosures under FRS17, the new accounting standard on pensions, in the full year accounts and, in accordance with the provisions of the standard, will fully adopt it in 2003/04.

On a fully diluted basis, earnings per share for the six months were 72.7p (2000 - 56.4p), an increase of 29%. The equivalent figure before the application of FRS19 was 82.6p (2000 - 63.5p).

Net debt increased by £2.8m in the period to £57.4m. Net gearing before the deferred tax provision is unchanged from 61% at 31 March 2001. Taking the deferred tax provision into account net gearing remains at 71%.

Interim dividend
We have declared a 5% increase in the interim dividend. This reflects the strong underlying performance across the group and a prudent expectation of the full year results.

The interim dividend of 20.2 pence per ordinary share will be paid on 6 February 2002 to shareholders on the register on 18 January 2002.

Bristol Water plc, our regulated water business
During the period we made further improvements consolidating the considerable cost reductions the previous year. Our primary focus over the last six months has been on two key initiatives that will enable us to make further 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. This project was successfully implemented and went live on 1 October.

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. When fully operational this will eliminate significant duplicated costs and provide a simplified and better service to customers. This complex project is progressing well with a target to issue the first joint bills next year.

An important operational issue during the period 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 quickly get the road back into service. Permanent repairs are currently in progress but will take some months to complete.

Operating profits increased by £0.8m to £9.8m reflecting the permitted increase in charges to customers offset by the impact of inflation on costs.

In the next six months to March, operating costs are expected to increase during the winter operating conditions and interest costs will increase as a result of the financing of the continuing investment programme and lower interest rates on cash balances.

Capital investment, including infrastructure renewals, net of grants and contributions, in the period totalled £12.1m. This was significantly higher than the net investment of £6.0m at the same stage last year. The increase reflects a progressive build-up of the investment programme. Key projects included the SAP scheme, the completion of installation, at September, of cryptosporidium barriers at four of our water treatment works with another three due for completion shortly, and the renovation of some 57 km of water mains. In accordance with the Drinking Water Inspectorate's protocol, to date we have not commenced the lead pipe replacement programme, that was incorporated in Ofwat's price determination, pending the results of orthophosphate dosing trials currently in progress.

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

Other businesses
The overall result of a profit before tax of £0.9m is particularly encouraging given the trading difficulties reported during the previous two financial years and represents over 10% of group profit. Profits in the next six months are expected to be lower. Looking at the major businesses in turn:

Lawrence
The new management team at Lawrence is now well established and has continued the turnaround in trading performance. Profit before tax for the period was £0.7m compared with a breakeven position at the same stage last year.

Lawrence's relationship as one of Transco's 'tier 1' contractors has continued to develop well and we have made good progress on the gas pipeline projects including Aberdeen to St Fergus and Peterstow to Gilwern. Inevitably the Foot and Mouth outbreak has had an impact on the laying of cross country pipelines but the logistical issues have now been largely overcome. The seasonal nature of pipeline projects means that, as planned, both turnover and operating costs in the next six months will be substantially lower.

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, while maintaining profit levels. Over the last few months the company has successfully secured a number of key contracts including projects for the MOD on Ascension Island, for Esso at Heathrow Airport and the construction of a sewage treatment plant for Wessex Water.

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 18 months into phase 2 of the nine year Selangor project in Malaysia. This project for non-revenue water reduction is being carried out by our joint venture company PABW and continues to meet all performance targets. Similar good progress continues on a smaller contract in Kedah State.

Overall, after adoption of prudent profit recognition policies, reflecting the long term nature of the Selangor project, the division made a small net contribution to pre-tax profits of £14,000, after continued investment in marketing and business development.

We are pleased to announce that BWS and its consortium partners have just been awarded a consultancy study contract to identify performance indicators and methodologies for leakage across North America.

Operational UK
Trading conditions in its Energy Division remain difficult but we are pleased to report a small profit before tax for the period of £32,000. As identified in last years Annual Report a claim under the purchase agreement has been made against the vendors. We are still pursuing this but no recovery has been credited in these accounts.

Other activities
We have formed a consortium with AWG plc to bid for the British Waterways' Watergrid project and are one of the shortlisted bidders still involved. In this project British Waterways are seeking a partner to use the canal network for the transportation and supply of water to a range of customers. This is a particularly interesting opportunity given the increasing pressure for retail competition in the water sector and one which is directly related to our core skill base.

Summary
The regulated 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. We continue closely to monitor developments in the sector regarding capital restructuring

The other businesses in the group are now making a meaningful 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.

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

Moger Woolley
Chairman
28 November 2001

GROUP PROFIT & LOSS ACCOUNT

	Note	**Six months to 30 September 2001 (unaudited) £000**	Six months to 30 September 2000 (unaudited) Restated £000	Year to 31 March 2001 Restated £000
Turnover including share of joint ventures		**73,932**	52,574	106,014
less: share of turnover of joint ventures		**(1,827)**	(2,062)	(4,572)
Group turnover		**72,105**	50,512	101,442
Operating costs	2	**(61,608)**	(41,996)	(87,593)
Group operating profit		**10,497**	8,516	13,849
Share of joint venture operating profit/(loss)		**(4)**	235	200
Total operating profit: group and share of joint ventures		**10,493**	8,751	14,049
Profit on disposal of tangible fixed assets		**319**	194	297
Profit/(loss) on disposal of businesses - net		**-**	(23)	83
Net interest payable	3	**(2,190)**	(2,012)	(4,036)
Profit on ordinary activities before taxation		**8,622**	6,910	10,393
Taxation	4	**(2,689)**	(2,207)	(3,577)
Profit on ordinary activities after taxation		**5,933**	4,703	6,816
Minority interests	6	**(547)**	(547)	(1,094)
Profit attributable to Bristol Water Holdings plc shareholders		**5,386**	4,156	5,722
Dividends on ordinary shares	6	**(1,488)**	(1,413)	(4,711)
Profit retained		**3,898**	2,743	1,011
Earnings per share	7			
On basis of shares in issue		**73.2p**	56.5p	77.7p
Fully diluted basis		**72.7p**	56.4p	77.5p
Earnings per share before application of FRS19 deferred tax	7			
On basis of shares in issue		**83.1p**	63.7p	91.5p
Fully diluted basis		**82.6p**	63.5p	91.1p
Dividend per ordinary share	6	**20.2p**	19.2p	64.0p

The profit on ordinary activities after taxation includes all recognised gains and losses.
Comparative figures have been restated to include deferred tax.

SUMMARISED GROUP BALANCE SHEET

	Note	**At 30 September 2001 (unaudited) £000**	At 30 September 2000 (unaudited) Restated £000	At 31 March 2001 Restated £000
Fixed assets -				
Intangible fixed assets		**31**	3,143	40
Tangible fixed assets	8	**176,736**	165,866	171,554
Investments in joint ventures -				
Share of gross assets		**3,148**	1,701	2,487
Share of gross liabilities		**(2,986)**	(1,496)	(2,282)
		162	205	205
Total fixed assets		**176,929**	169,214	171,799
Current assets -				
Stocks		**597**	826	676
Debtors		**28,213**	16,981	13,124
Cash and term deposits	9	**28,216**	21,297	21,078
		57,026	39,104	34,878
Creditors: amounts falling due within one year -				
Short term borrowings	9	**2,361**	1,514	4,628
Other creditors		**45,345**	36,191	32,243
		47,706	37,705	36,871
Net current assets / (liabilities)		**9,320**	1,399	(1,993)
Total assets less current liabilities		**186,249**	170,613	169,806
Creditors: amounts falling due after more than one year	9	**(83,255)**	(70,209)	(71,098)
Accruals and deferred income		**(8,428)**	(8,526)	(8,467)
Provisions for liabilities and charges	10	**-**	(698)	(313)
Provision for deferred tax	5	**(13,700)**	(12,490)	(12,970)
Net operating assets		**80,866**	78,690	76,958
Bristol Water Holdings plc shareholders' interests	11	**68,366**	66,190	64,458
Minority shareholders' interest		**12,500**	12,500	12,500
		80,866	78,690	76,958

SUMMARISED GROUP CASH FLOW STATEMENT

	Note	**Six months to 30 September 2001 (unaudited)**	Six months to 30 September 2000 (unaudited)	Year to 31 March 2001
		£000	£000	£000
Net cash inflow from operating activities	12	**15,022**	16,734	32,062
Returns on investments and servicing of finance -				
Net interest paid		**(2,718)**	(1,595)	(3,733)
Dividends paid on preference (non-equity) shares		**(547)**	(547)	(1,094)
		(3,265)	(2,142)	(4,827)
Taxation paid		**(944)**	(1,043)	(3,192)
Capital expenditure and investing activities -				
Purchase of tangible fixed assets		**(14,946)**	(6,818)	(18,201)
Contributions received		**912**	1,231	2,373
Proceeds from disposals of tangible fixed assets		**459**	483	639
		(13,575)	(5,104)	(15,189)
Acquisitions and disposals		**-**	-	(68)
Dividends paid on ordinary (equity) shares		**-**	-	(4,579)
Net cash inflow / (outflow) before management of liquid resources and financing		**(2,762)**	8,445	4,207
Management of liquid resources, being increase in term deposits		**(5,695)**	(3,997)	(15,901)
Financing –				
Issue of shares		**10**	-	-
New loans and leases		**13,592**	-	5,000
Debt and lease repayments		**(3,702)**	(1,198)	(2,179)
		9,900	(1,198)	2,821
Increase/(decrease) in cash	12	**1,443**	3,250	(8,873)
Cash, beginning of period		**2,373**	11,246	11,246
Cash, end of period		**3,816**	14,496	2,373

SEGMENTAL ANALYSIS

	Six months to 30 September 2001 (unaudited)	Six months to 30 September 2000 (unaudited)	Year to 31 March 2001
	£000	£000	£000
Group turnover -			
Metered water supply	**11,650**	10,700	21,712
Unmeasured water supply	**20,200**	19,650	39,497
Other services	**1,941**	1,904	3,632
Water supply and related activities	**33,791**	32,254	64,841
Contracting and other services	**41,922**	21,743	44,345
Intra-group sales	**(3,608)**	(3,485)	(7,744)
Total	**72,105**	50,512	101,442
Total operating profit: group and share of joint ventures -			
Water supply and related activities	**9,761**	8,935	17,583
Contracting and other services	**732**	(184)	(3,534)
Total	**10,493**	8,751	14,049
Profit before taxation -			
Water supply and related activities	**7,720**	6,906	13,308
Contracting and other services	**902**	4	(2,915)
Total	**8,622**	6,910	10,393
Average number of employees (average full time equivalents) -			
Water supply and related activities	**446**	483	463
Contracting and other services	**603**	362	390
Total	**1,049**	845	853

	At 30 September 2001 (unaudited)	At 30 September 2000 (unaudited) Restated	At 31 March 2001 Restated
	£000	£000	£000
Net assets employed -			
Water supply and related activities	**71,812**	67,586	68,503
Contracting and other services	**9,054**	11,104	8,455
Total	**80,866**	78,690	76,958

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 Holdings plc for the year ended 31 March 2001 as set out in the Annual Report and Accounts, subject to the incorporation of the new accounting standard FRS19 Deferred Tax. Those accounts (on which the auditors gave an unqualified report) have been delivered to the Registrar of Companies. The impact of FRS19 is to reduce profit for the period by £0.7m (2000 £0.5m) and net assets by £13.7m (2000 £12.5m), and is set out in notes 4 and 5. Comparatives have been restated to include deferred tax.

Note 2: Operating costs

	Six months to 30 September 2001 (unaudited)	Six months to 30 September 2000 (unaudited) Restated	Year to 31 March 2001 Restated
	£000	£000	£000
Operating costs comprise -			
Payroll cost, net of recharges	**15,066**	9,934	21,251
Other operating expenses	**39,566**	25,150	50,260
Depreciation and amortisation	**6,976**	6,912	13,672
Exceptional items:			
Restructuring costs	**-**	-	235
Release of insurance claims reserve	**-**	-	(750)
Unamortised goodwill arising on purchase of Operational UK Limited written off	**-**	-	2,925
	61,608	41,996	87,593

Note 3: Interest payable

Interest payable and similar charges comprise -			
Interest payable and similar charges	**2,877**	2,588	5,209
Interest income	**(687)**	(576)	(1,173)
	2,190	2,012	4,036

Note 4: Taxation

The charge for taxation comprises -			
Corporation tax at 30%	**2,642**	2,434	3,807
Less Advance Corporation Tax set off	**(783)**	(812)	(1,338)
Foreign taxation	**61**	-	78
	1,920	1,622	2,547
Joint ventures	**39**	55	20
Total before deferred tax adjustment under FRS19	**1,959**	1,677	2,567
FRS19 deferred tax adjustment	**(133)**	(392)	(538)
Advance Corporation Tax set off	**783**	812	1,338
Effect of discounting	**80**	110	210
	2,689	2,207	3,577

NOTES TO THE INTERIM RESULTS

(continued)

Note 5: Deferred taxation provision

	At 30 September 2001 (unaudited)	At 30 September 2000 (unaudited) Restated	At 31 March 2001 Restated
	£000	£000	£000
Deferred tax liability	**26,430**	25,400	25,780
Effect of discounting	**(12,730)**	(12,910)	(12,810)
Net provision	**13,700**	12,490	12,970

Note 6: Dividends

The minority interest represents the dividend payable on the 8.75% Irredeemable Preference Shares issued by the Company's principal subsidiary, Bristol Water plc.

The Board has declared an interim dividend of 20.2 pence (2000 - 19.2 pence) on each Ordinary Share amounting to £1,488,000 (2000 - £1,413,000), payable on 6 February 2002.

Note 7: Earnings per share attributable to ordinary shares

	Six months to 30 September 2001 (unaudited)	Six months to 30 September 2000 (unaudited) Restated	Year to 31 March 2001 Restated
	000	000	000
Earnings per share have been calculated as follows:			
on average number of ordinary shares in issue			
Earnings	**£5,386**	£4,156	£5,722
Earnings before application of FRS19 deferred tax	**£6,116**	£4,686	£6,732
Weighted average number of ordinary shares	**7,362**	7,361	7,361
on fully diluted basis			
Earnings	**£5,386**	£4,156	£5,722
Earnings before application of FRS19 deferred tax	**£6,116**	£4,686	£6,732
Weighted average number of ordinary shares	**7,408**	7,375	7,387

NOTES TO THE INTERIM RESULTS
(continued)

Note 8: Movement in tangible fixed assets

	Six months to 30 September 2001 (unaudited)	Six months to 30 September 2000 (unaudited)	Year to 31 March 2001
	£000	£000	£000
The movement in tangible fixed assets comprises -			
Net book value, beginning of period	**171,554**	166,930	166,930
Additions	**13,316**	7,136	20,862
Disposals	**(115)**	(312)	(267)
Contributions	**(912)**	(1,037)	(2,373)
Depreciation	**(7,107)**	(6,851)	(13,598)
Net book value, end of period	**176,736**	165,866	171,554

Note 9: Net debt

	At 30 September 2001 (unaudited)	At 30 September 2000 (unaudited)	At 31 March 2001
	£000	£000	£000
Net debt comprises -			
Term deposits	**24,400**	6,801	18,705
Cash less overdrafts	**3,816**	14,496	2,373
Debt due within one year	**(2,361)**	(1,514)	(4,628)
Debt due after one year	**(83,255)**	(70,209)	(71,098)
Net debt	**(57,400)**	(50,426)	(54,648)

Note 10: Provisions for liabilities and charges

Restructuring costs	**-**	(698)	(313)

Note 11: Shareholders' funds

	Six months to 30 September 2001 (unaudited)	Six months to 30 September 2000 (unaudited) Restated	Year to 31 March 2001 Restated
	£000	£000	£000
Movement in shareholders' funds -			
Beginning of period	**64,458**	63,447	63,447
Issue of shares	**10**	-	-
Attributable profit for the period	**5,386**	4,156	5,722
Dividends	**(1,488)**	(1,413)	(4,711)
End of period	**68,366**	66,190	64,458

At the date of this announcement, the issued share capital of the Company comprises 7,222,251 Ordinary Shares and 141,430 Non-Voting Ordinary Shares.

NOTES TO THE INTERIM RESULTS

(continued)

Note 12: Supplementary cash flow information

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

	Six months to 30 September 2001 (unaudited)	Six months to 30 September 2000 (unaudited)	Year to 31 March 2001
	£000	£000	£000
Operating profit	**10,497**	8,516	13,849
Depreciation and amortisation	**6,976**	6,912	16,597
Cashflow from operations	**17,473**	15,428	30,446
Working capital movements	**(2,451)**	1,306	1,616
Net cash inflow from operating activities	**15,022**	16,734	32,062

b) Reconciliation of net cash flow to movement in net debt -

Increase/(decrease) in cash in the period	**1,443**	3,250	(8,873)
Cash used to reduce debt	**3,702**	1,198	2,179
Cash from new financing	**(13,592)**	-	(5,000)
Cash outflow from management of liquid resources	**5,695**	3,997	15,901
(Increase)/decrease in net borrowings arising from cashflows	**(2,752)**	8,445	4,207
Debt eliminated on disposal of subsidiaries	**-**	-	16
Net debt, beginning of period	**(54,648)**	(58,871)	(58,871)
Net debt, end of period	**(57,400)**	(50,426)	(54,648)

Note 13: Pensions

The group is currently analysing the impact of the new accounting standard FRS17 and will be making the appropriate disclosures in the accounts for the year to 31 March 2002. The group will fully adopt the standard in 2003/04.

Note 14: Circulation

This interim announcement is being sent to all shareholders. 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 HOLDINGS PLC

Introduction

We have been instructed by the company to review the financial information, for the six months ended 30 September 2001, set out on pages 7 to 14. 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 2001.

PricewaterhouseCoopers
Chartered Accountants
Bristol
28 November 2001

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.