



Bristol Water Group plc

BRISTOL WATER GROUP PLC

Bristol Water Holdings plc

Interim Results

For the six months ended

30 September 2003

The logo for Bristol Water Group plc is a rectangular box with a light purple top half and a dark blue bottom half. The text "Bristol Water Group plc" is written in white, sans-serif font across the top half of the box.

Bristol Water Group plc

Bristol Water Group owns one of the largest independent water supply companies in the country, providing around 300 million litres of water each day through 6,500 kilometres of mains. Bristol Water plc is responsible for supplying over one million people and businesses in an area of almost 2,400 square kilometres centred on Bristol.

Highlights

PERIOD OF CHANGE

Six months ended 30 September	2003 (unaudited) £m	2002 (unaudited) £m	% change
Group turnover			
Regulated water business	36.0	35.0	3 %
Other businesses	19.9	25.4	(22)%
Total group turnover	<u>55.9</u>	<u>60.4</u>	(8)%
Profit before tax			
Regulated water business	7.4	7.4	- %
Other businesses	(0.4)	0.6	(175)%
Total profit before tax and exceptional item	<u>7.0</u>	<u>8.0</u>	(13)%
Exceptional item – capital restructuring	(1.5)	-	na
Total profit before tax	<u>5.5</u>	<u>8.0</u>	(31)%
Profit after tax	<u>4.3</u>	<u>4.9</u>	(12)%
Earnings per ordinary share of 20p each		Restated*	
Shares in issue	10.1p	11.7p	(14)%
Fully diluted	<u>10.0p</u>	<u>11.6p</u>	(14)%
Before exceptional item:			
Profit after tax	<u>5.8</u>	<u>4.9</u>	18 %
Earnings per ordinary share of 20p each		Restated*	
Shares in issue	14.1p	11.7p	21 %
Fully diluted	<u>14.0p</u>	<u>11.6p</u>	21 %
Interim dividend per ordinary share of 20p each	<u>4.16p</u>	<u>4.16p</u>	- %

*Restated for effect of 5 for 1 share split

Highlights

- In accordance with the dividend strategy announced in October, Bristol Water Group share holders will receive an interim dividend of 4.16p per share which will be paid on 4 February 2004 to holders of ordinary shares in Bristol Water Group plc
- Capital restructuring and return of 135 pence per ordinary share to shareholders (approximately £51m in aggregate)
 - Stage 1 complete
 - Stage 2 launched today – subject to shareholder and court approval and the raising of the required finance, anticipated return of value in February 2004
 - £1.5m exceptional cost for Stage 1, Stage 2 costs will be reflected in full year
- **Regulated water business**
 - PBT maintained – despite 0% K factor and 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
 - Periodic Review is key focus
- **Other businesses**
 - Discussions with interested parties re Lawrence sale continuing
 - Loss before tax of £0.4m reflects losses on two contracts at Lawrence and closure of GDC
- Effective tax rate before exceptional item of 17% - reflects deferred tax credit



Chairman's statement

Changes within the group

The last eight months have been a time of major change for the group and these accounts are the last set of consolidated figures for Bristol Water Holdings plc prior to its reconstruction as Bristol Water Group plc.

At the AGM in July shareholders approved a number of changes to the share capital structure of Bristol Water Holdings plc and to its Articles of Association. An important change was a five for one share split which became effective from 28 July 2003.

In line with our increasing focus on our core water skills we have been looking at ways to increase shareholder value through improving the group's capital efficiency. At the AGM in July we announced that we were actively reviewing methods of returning value to shareholders and that we 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 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 shareholders and the Court and the consequent completion of the scheme of arrangement.

Details of the second stage of the process are set out in the shareholder circular which is expected to be posted to shareholders of Bristol Water Group plc today.

In May 2003 we completed a new financing package for the regulated water business. This is based on a financial ringfencing of the regulated water business and provides the flexibility to substantially increase the level of gearing. This flexibility will be used to finance the proposed return of capital to shareholders, if implemented.

Dividends

In October the Board announced its belief that, in the absence of unforeseen circumstances, it would recommend an unchanged annual dividend of 14.12p per share in respect of each of the years ending 31 March 2004 and 31 March 2005. This would represent a significant underlying increase in the dividend per share for the year ending 31 March 2005, given the reduction in the equity base of approximately £51 million, should the return of capital be implemented.

It also announced that it remained the Board's intention to pursue a sustainable dividend cover policy broadly in line with other companies in the sector in due course and, whilst dividend payments in the year ending 31 March 2006 and beyond will be clearly dependent upon the outcome of Ofwat's periodic review for the five years 2005-2010, which will not be known until November 2004 at the earliest, the Board anticipated being able to recommend dividends of at least £5.0 million per annum throughout the period covered by the next Ofwat periodic review as compared with the current level of £5.23 million.

Whilst actual dividends declared or recommended in due course will also depend, inter alia, on the trading performance of the group, pension charges, the cost of debt and the effect of the implementation of International Accounting Standards, it remains the Board's intention to pursue the above dividend strategy.

Bristol Water Holdings plc has declared an interim dividend of 4.16p for the period. In accordance with its stated dividend policy Bristol Water Group plc has declared an interim ordinary dividend of 4.16 pence per share, which will be paid on 4 February 2004 to shareholders in Bristol Water Group plc on the register at 5 January 2004. Shares will go ex-dividend on 31 December 2003.

Trading performance

In last year's annual report we signalled that the continued progressive build up of the regulated business's capital programme, with its consequent additional financing, depreciation and operating costs, together with the relatively low level of 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.

Against this background the regulated water business has performed extremely well. However the overall operating performance of our other businesses has been disappointing, primarily reflecting problems experienced by Lawrence on two significant network maintenance contracts.

Group turnover reduced by £4.5m (8%) to £55.9m. As anticipated, the main factor in the reduction was a lower level of activity within Lawrence.

Profit before tax and exceptional item reduced by £1.0m to £7.0m. After an exceptional charge of £1.5m in respect of stage 1 of the capital restructuring of the group, profit before tax reduced by £2.5m to £5.5m.

In these accounts we have accounted for pensions on a SSAP24 basis. The charge of £0.8m 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 Group 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 £15.5m. 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 £1.2m 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.

Consequently profit after tax and exceptional item reduced by £0.6m to £4.3m. Earnings per share on a fully diluted basis for the six months were 10.0p (2002 – 11.6p), a decrease of 1.6p. Before the exceptional item earnings per share increased by 21%.

Net debt increased by £6.3m in the period to £71.2m. Net gearing (debt:equity) increased from 73% to 78%. At 30 September 2003 the regulated water business had net debt of £91.7m representing approximately 47% of the average Regulatory Capital Value (RCV) for 2003/04. After the planned return of capital to shareholders we anticipate that this will increase to approximately 67% of RCV at March 2004.

Regulated water business

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 regulated water business has performed extremely well with profit before tax of £7.4m, in line with 2002.

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 the regulated water business's 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 Group'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 for the regulated water business. 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 through financial restructuring. 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.

Other businesses

The overall result for our other businesses, after interest on group cash balances, of a loss before tax of £0.4m compares to the profit before tax of £0.6m in 2002. The deterioration mainly relates to Lawrence and GDC.

Lawrence - Trading performance for the six months was affected by problems experienced on two significant network maintenance contracts, for which full recognition of the anticipated losses has been made in these results. This offsets the overall positive contribution from other contracts and the company recorded a net loss before tax of £0.2m compared to a profit in the previous year of £0.4m.

As previously announced we are considering the sale of Lawrence and have received preliminary offers for the purchase of the company. We are in detailed discussions with one of the bidders. We have decided to close the Gas Design Consultancy subsidiary created to work alongside Lawrence. This reflects the preference of potential purchasers of Lawrence not to include GDC in the sale process. Including provision for closure costs, GDC recorded a loss for the period of £0.3m (2002 – £Nil).

Bristol Water Services (BWS) - is our international division providing network management services specialising in leakage reduction. BWS continues to make progress. We are now three and a half 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 performance targets to date. Our new company in the USA is also making promising progress. After development costs, the division has recorded a loss before tax of £0.1m.

Watergrid - The Bristol Water/AWG consortium was selected as British Waterways' partner for the Watergrid project in November 2002. The project is now in market development mode. We see this as a good long-term opportunity to work with our partners using our core water skills as the largest UK user of canal water for water supply purposes.

Summary

We believe that, subject to shareholder and Court approval and the raising of additional finance, the return of capital together with our future dividend policy will significantly improve the capital efficiency of the new Bristol Water Group plc and increase shareholder value.

The focus of the group is very clearly on core water skills. The regulated business is performing well, although results for the six months to March will be impacted by a number of factors including the build up of the capital programme and seasonal operating cost profiles. Overall the Group is well placed to continue to deliver shareholder value.

Moger Woolley

Chairman

Bristol Water Holdings plc

5 December 2003

Group 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 including share of joint ventures		59,599	64,659	120,836
less: share of turnover of joint ventures		(3,713)	(4,296)	(8,504)
Group turnover		55,886	60,363	112,332
Operating costs	2	(46,253)	(49,928)	(92,087)
Group operating profit		9,633	10,435	20,245
Share of joint venture operating profit/(loss)		63	(13)	164
Total operating profit: group and share of joint ventures		9,696	10,422	20,409
(Loss)/profit on disposal of tangible fixed assets		(42)	36	402
Exceptional capital restructuring costs		(1,500)	-	-
Profit on disposal of businesses		-	50	143
Net interest payable	3	(2,669)	(2,502)	(4,861)
Profit on ordinary activities before taxation		5,485	8,006	16,093
Taxation	4	(1,196)	(3,139)	(6,448)
Profit on ordinary activities after taxation		4,289	4,867	9,645
Minority interests	5	(547)	(547)	(1,094)
Profit attributable to Bristol Water Holdings plc shareholders		3,742	4,320	8,551
Dividends on ordinary shares	5	(1,557)	(1,541)	(5,230)
Profit retained		2,185	2,779	3,321
Earnings per share before exceptional item	6		Restated	Restated
On basis of shares in issue		14.1p	11.7p	23.1p
Fully diluted basis		14.0p	11.6p	22.9p
Earnings per share after exceptional item	6		Restated	Restated
On basis of shares in issue		10.1p	11.7p	23.1p
Fully diluted basis		10.0p	11.6p	22.9p

The profit on ordinary activities after taxation includes all recognised gains and losses other than a gain of £12,000 (2002 – loss of £31,000) in respect of the foreign exchange adjustment on the revaluation of the net assets of the group's foreign subsidiaries.

Group balance sheet

		At 30 September 2003 (unaudited) £000	At 30 September 2002 (unaudited) £000	At 31 March 2003 £000
	Note			
Fixed assets				
Intangible fixed assets		-	14	6
Tangible fixed assets	7	189,105	182,270	185,769
Investments in joint ventures -				
Share of gross assets		5,609	6,307	6,878
Share of gross liabilities		(5,221)	(6,092)	(6,477)
		388	215	401
Total fixed assets		189,493	182,499	186,176
Current assets				
Stocks		606	626	683
Debtors		31,402	27,712	26,199
Cash and term deposits	8	37,041	17,850	19,658
		69,049	46,188	46,540
Creditors: amounts falling due within one year				
Short term borrowings	8	7,697	1,636	6,760
Other creditors		31,826	32,109	32,136
		39,523	33,745	38,896
Net current assets		29,526	12,443	7,644
Total assets less current liabilities		219,019	194,942	193,820
Creditors: amounts falling due after more than one year				
	8	(100,534)	(81,955)	(77,771)
Accruals and deferred income		(8,498)	(8,434)	(8,429)
Provisions for liabilities and charges	9	(18,817)	(16,681)	(19,189)
Net operating assets		91,170	87,872	88,431
Capital and reserves				
Called up share capital		7,485	7,404	7,404
Share premium		6,541	6,077	6,080
Other non distributable reserves		4,024	4,024	4,024
Profit and loss account		60,620	57,867	58,423
Total equity shareholders' funds	10	78,670	75,372	75,931
Minority interests		12,500	12,500	12,500
Capital employed		91,170	87,872	88,431

Group 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 11	9,229	9,586	28,537
Dividends received from joint ventures		117	129	129
Returns on investments and servicing of finance				
Net interest paid		(2,692)	(3,054)	(5,281)
Dividends paid to minorities		(547)	(547)	(1,094)
		(3,239)	(3,601)	(6,375)
Taxation paid				
		(871)	(1,378)	(2,978)
Capital expenditure and investing activities				
Purchase of tangible fixed assets		(12,925)	(10,751)	(20,748)
Contributions received		1,646	1,808	3,409
Proceeds from disposal of tangible fixed assets		48	464	1,215
		(11,231)	(8,479)	(16,124)
Acquisitions and disposals				
Proceeds on disposal of subsidiary		-	50	93
Investment in joint venture		(77)	-	(80)
		(77)	50	13
Dividends paid on ordinary (equity) shares				
		-	-	(5,020)
Net cash outflow before management of liquid resources and financing				
		(6,072)	(3,693)	(1,818)
Management of liquid resources				
being (increase)/decrease in term deposits		(21,500)	3,000	5,500
Financing				
Issue of shares		542	61	64
New loans and leases		45,018	-	47
Costs of issue of new loans		(585)	-	-
Capital element of loan and lease repayments		(21,520)	(3,031)	(3,148)
		23,455	(2,970)	(3,037)
(Decrease)/increase in cash	Note 11	(4,117)	(3,663)	645
Cash, beginning of period		6,158	5,513	5,513
Cash, end of period		2,041	1,850	6,158

Segmental analysis

	Six months to 30 September 2003 (unaudited) £000	Six months to 30 September 2002 (unaudited) £000	Year to 31 March 2003 £000
Turnover including share of joint ventures			
Water supply and related activities	35,991	35,038	69,974
Contracting and other services -			
Group	24,181	30,658	53,146
Joint ventures	3,713	4,296	8,504
Intra-group sales	(4,286)	(5,333)	(10,788)
Total	59,599	64,659	120,836
Total operating profit: group and share of joint ventures			
Water supply and related activities	10,439	10,075	19,361
Contracting and other services	(743)	347	1,048
Total	9,696	10,422	20,409
Profit before taxation			
Water supply and related activities	7,410	7,438	14,563
Contracting and other services	(425)	568	1,530
	6,985	8,006	16,093
Exceptional cost of capital restructuring	(1,500)	-	-
Total	5,485	8,006	16,093
Net assets employed			
Water supply and related activities	69,559	76,224	65,534
Contracting and other services	21,611	11,648	22,897
Total	91,170	87,872	88,431
Average number of employees (average full time equivalents)			
Water supply and related activities	417	428	422
Contracting and other services	423	492	396
Total	840	920	818

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 Holdings 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 dividend per share and earnings per share disclosed for the comparative periods have been restated to allow for the 5 for 1 division of £1 ordinary shares into 20p ordinary shares as set out in note 10.

Note 2: Operating costs

	Six months to 30 September 2003 (unaudited) £000	Six months to 30 September 2002 (unaudited) £000	Year to 31 March 2003 £000
Operating costs comprise -			
Payroll cost, net of recharges to fixed assets	12,599	12,412	23,691
Other operating expenses	26,044	30,348	54,109
Depreciation and amortisation	7,610	7,168	14,287
	<u>46,253</u>	<u>49,928</u>	<u>92,087</u>

Note 3: Interest payable

Interest payable and similar charges comprise -

Interest payable and similar charges	3,433	2,964	5,741
Interest income	(764)	(462)	(880)
	<u>2,669</u>	<u>2,502</u>	<u>4,861</u>

Notes to the interim results

Note 4: 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 -			
Current tax:			
Corporation tax at 30%	1,238	1,325	3,005
Adjustments to prior periods	840	55	(2,068)
Advance Corporation Tax written (back)/off	(560)	301	1,699
Foreign taxation	14	41	53
	<u>1,532</u>	<u>1,722</u>	<u>2,689</u>
Joint ventures	36	(37)	-
Total current tax	<u>1,568</u>	<u>1,685</u>	<u>2,689</u>
Deferred tax:			
Current period movement	1,135	821	1,360
Adjustments to prior periods	(807)	291	1,204
Effect of discounting	(700)	342	1,195
Total deferred tax	<u>(372)</u>	<u>1,454</u>	<u>3,759</u>
Total tax on profit on ordinary activities	<u>1,196</u>	<u>3,139</u>	<u>6,448</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 5: 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 4.16 pence (2002 restated – 4.16 pence) on each Ordinary Share of 20p each amounting to £1,557,000 (2002 - £1,541,000).

The dividend per share disclosed for the period ended 30 September 2002 has been restated to reflect the 5 for 1 division of £1 ordinary shares into 20p ordinary shares as set out in note 10.

Notes to the interim results

Note 6: Earnings per share attributable to ordinary shares

	Six months to 30 September 2003 (unaudited) £000	Six months to 30 September 2002 (unaudited) £000	Year to 31 March 2003 £000
Earnings per share have been calculated as follows:			
Earnings before exceptional item	£5,242	£4,320	£8,551
Earnings after exceptional item	£3,742	£4,320	£8,551
Weighted average number of ordinary shares	37,068	Restated 37,000	Restated 37,010
Fully diluted weighted average number of ordinary shares	37,435	37,370	37,325

The weighted average number of ordinary shares for the periods to 30 September 2002 and 31 March 2003 have been restated to reflect the 5 for 1 division of £1 ordinary shares into 20p ordinary shares as set out in note 10.

Note 7: 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	185,769	180,770	180,770
Additions	12,824	11,039	23,783
Disposals	(90)	(428)	(813)
Grants and contributions	(1,646)	(1,808)	(3,409)
Depreciation	(7,752)	(7,303)	(14,562)
Net book value, end of period	189,105	182,270	185,769

Notes to the interim results

Note 8: Net debt

	At 30 September 2003 (unaudited) £000	At 30 September 2002 (unaudited) £000	At 31 March 2003
Net debt comprises -			
Debt due after one year	100,534	81,955	77,771
Debt due within one year	7,697	1,636	6,760
Less cash balances and short term deposits	(37,041)	(17,850)	(19,658)
Net debt	<u>71,190</u>	<u>65,741</u>	<u>64,873</u>

Debt due after one year is stated net of unamortised issue costs of £573,000 (30 September 2002 and 31 March 2003 - £Nil).

Note 9: Provisions for liabilities and charges

	At 30 September 2003 (unaudited) £000	At 30 September 2002 (unaudited) £000	At 31 March 2003
Deferred taxation provision			
Deferred tax liability	32,517	30,532	32,188
Effect of discounting	(13,700)	(13,851)	(12,999)
Net provision	<u>18,817</u>	<u>16,681</u>	<u>19,189</u>

Notes to the interim results

Note 10: 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	75,931	72,563	72,563
Issue of shares	542	61	64
Attributable profit for the period	3,742	4,320	8,551
Dividends	(1,557)	(1,541)	(5,230)
Foreign exchange translation difference	12	(31)	(17)
End of period	<u>78,670</u>	<u>75,372</u>	<u>75,931</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.
- all ordinary shares of £1 each were then sub-divided into ordinary shares of 20p each with effect from 28 July 2003 in a five for one share split.

Dividend and earnings per share disclosures for prior periods have been restated in these accounts to reflect the appropriate amounts based on the sub-divided shares in issue.

Notes to the interim results

Note 11: Supplementary cash flow information

	Six months to 30 September 2003 (unaudited) £000	Six months to 30 September 2002 (unaudited) £000	Year to 31 March 2003 £000
a) Reconciliation of operating profit to net cash inflow from operating activities -			
Operating profit	9,633	10,435	20,245
Depreciation and amortisation	7,610	7,168	14,287
	<hr/>	<hr/>	
Cashflow from operations	17,243	17,603	34,532
Working capital movements	(8,014)	(8,017)	(5,995)
Net cash inflow from operating activities	<hr/> 9,229 <hr/>	<hr/> 9,586 <hr/>	<hr/> 28,537 <hr/>
b) Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash in the period	(4,117)	(3,663)	645
Cash used to repay borrowings	21,520	3,031	3,148
Cash from new borrowings	(45,018)	-	(47)
Costs of issue of new loans	585	-	-
Cash outflow/(inflow) from management of liquid resources	21,500	(3,000)	(5,500)
	<hr/>	<hr/>	
Increase in net borrowings arising from cashflows	(5,530)	(3,632)	(1,754)
New loans not affecting cashflow	(775)	(659)	(1,669)
Amortisation of issue costs of new loans	(12)	-	-
Net debt, beginning of period	(64,873)	(61,450)	(61,450)
Net debt, end of period	<hr/> (71,190) <hr/>	<hr/> (65,741) <hr/>	<hr/> (64,873) <hr/>

Notes to the interim results

Note 12: Pensions

Pension arrangements for the majority of the group'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 Group'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 Group as £103 million and that the actuarial value of these assets represented 106% 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 group 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 £15.5m.

Note 13: Post Balance Sheet events

On 28 October 2003 at a Court Meeting and subsequent Extraordinary General Meeting of Bristol Water Holdings plc, resolutions to approve the introduction of a new listed holding company, Bristol Water Group plc, by way of a scheme of arrangement under section 425 of the Companies Act 1985 (the 'Scheme') were duly passed. Following subsequent court sanction, the Scheme became effective on 27 November 2003 and the new Ordinary shares in Bristol Water Group plc were admitted to listing.

Bristol Water Group plc is now the parent company of Bristol Water Holdings plc which has now been de-listed.

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

In connection with the Scheme and Bristol Water Group plc's planned return of capital to shareholders, on 28 November 2003 Bristol Water Holdings plc declared a second interim dividend of £5m.

Note 14: Circulation

These interim results are being sent to all shareholders of Bristol Water Group plc. 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 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 Group plc

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