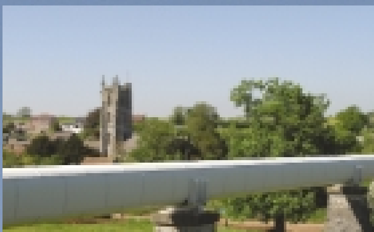

Bristol Water Group plc

Bristol Water Group plc

Interim Report 2004

Bristol Water Group plc

Bristol Water Group plc's main activity, through its subsidiary Bristol Water plc, is the supply of water to over one million people and businesses in an area of almost 2,400 square kilometres centred on Bristol.

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

Highlights

Six months ended 30 September	2004 (unaudited) £m	2003 (unaudited) Restated* £m	% change
Group turnover -			
Appointed water business	**34.1**	34.8	-2%
Other businesses	**17.5**	21.1	-17%
Total group turnover	**51.6**	55.9	-8%
Total operating profit: group and share of joint ventures -			
Appointed water business	**9.1**	10.1	-10%
Other businesses	**(0.1)**	(0.4)	+75%
Total operating profit	**9.0**	9.7	-6%
Net interest	**(4.2)**	(2.7)	-60%
Profit before tax	**4.8**	7.0	-32%
Profit after tax	**3.9**	5.8	-33%
Earnings per ordinary share of 5p each			
Shares in issue	**16.8p**	26.7p	-37%
Fully diluted	**16.5p**	26.2p	-37%
Interim dividend per ordinary share of 5p each	**7.85p**	7.85p	-

The results for the six months ended 30 September 2003 are the last set of consolidated figures for Bristol Water Holdings plc prior to the capital reconstruction of the group.

*****Restatements

Segmental analysis restated to separately identify the appointed water business of Bristol Water plc.

Profit before and after tax restated to charge £1.5m of costs related to capital restructuring direct to reserves in accordance with treatment adopted for 2003/04 full year statutory accounts, following completion of the restructuring.

EPS restated for effect of 53 for 100 share consolidation in February 2004.

Highlights

- **In accordance with previously announced dividend strategy, shareholders on the register on 31 December 2004 will receive an interim dividend of 7.85p per share which will be paid on 1 February 2005. The Board anticipates a final dividend of 18.79p per share.**

- **Appointed water business**
  - Operating profit reduced by 10% reflecting negative K factor of 1.9%
  - Net debt of £142.8m – approximately 64% of average Regulatory Capital Value for 2004/05
  - PR04 final determination – K factor of 13.8% for 2005/06, average K's for 2005-10 of 3.2%

- **Other businesses**
  - Operating loss of £0.1m – reflects further business development costs in international division and Watergrid offset by contribution from non-appointed water activities
  - Lawrence – in negotiation with potential purchaser

- **Profit and EPS reductions reflect:**
  - Operating profit reduction mainly resulting from the negative K factor
  - Additional interest following return of capital to shareholders in February 2004

Chairman's statement

Introduction

This is the first interim report of Bristol Water Group plc. The comparative figures for the six months to 30th September 2003 are those of the predecessor, Bristol Water Holdings plc, prior to the recent successful £51m return of capital which resulted in the group having a new parent company.

The group's strategy is focused on its core water skills. We have continued to progress the disposal of Lawrence (the group's construction/contracting subsidiary) and are currently in negotiation with a potential purchaser.

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

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

Return of Capital and Dividends

In June, the final £1.1m of redeemable B shares, which were issued as part of the return of capital, were redeemed. The return of capital has improved the capital efficiency of the group and has been well received by shareholders.

At the time of the return of capital we said we expected the current year's dividend per share to be held at last year's level. Accordingly, we have declared an interim dividend of 7.85 pence per share. This will be paid on 1 February 2005 to shareholders on the register on 31 December 2004. In light of the return of capital this represents a substantial increase in the underlying dividend level.

In line with this policy the Board currently anticipates a final dividend of 18.79 pence per share, making a total dividend for the 2004/05 year of 26.64 pence per share, unchanged from last year.

We have also previously stated that we expected to recommend the annual level of dividend for each of the five years beginning April 2005 to be no less than £5.0m per annum (compared to the current level of £5.3m). This was subject to caveats regarding the outcome of Ofwat's price review, the group's trading performance, pension charges, the cost of debt and the effect of implementing International Financial Reporting Standards and any consequential taxation effects. Subject to completing its review of Ofwat's final determination, the Board considers that dividends at this level will be possible.

As previously indicated, the Board expects dividend cover for the current and future years to be lower than in earlier years.

Trading performance

Group turnover reduced by £4.3m (8%) to £51.6m. Appointed water business turnover reduced by £0.7m, due to a negative K factor of 1.9% and reduced consumption levels by metered customers. Turnover in our other businesses fell by £3.6m.

Operating profit reduced by £0.7m to £9.0m. This reflects a reduction of £1.0m from the appointed water business, mainly due to the lower level of turnover, offset by a £0.3m improvement in our other businesses.

In these accounts we have dealt with pensions on a SSAP24 basis. The last formal actuarial valuation of the final salary schemes was as at 1 April 2002, the next valuation is due at 1 April 2005. The accounts reflect an updated interim valuation as at 1 April 2003, prepared for SSAP24 purposes only and used for the 2003/04 statutory accounts, this reflects the significant change in the equity markets since the last formal valuation. The Group has not yet fully adopted FRS17, however under FRS17 at 30 September 2004 the net deficit, after tax, of the schemes would have been approximately £11.6m. 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.

In accordance with the treatment adopted for the 2003/04 full year statutory accounts following completion of the restructuring the 2003 interims have been restated to charge £1.5m of costs relating to capital restructuring direct to reserves, rather than through the Profit and Loss account as previously shown.

Interest costs increased significantly to £4.2m (2003 - £2.7m) mainly reflecting the increase in net debt related to the return of capital.

Profit before tax reduced by £2.2m to £4.8m reflecting the lower operating profit and increased interest charges following the refinancing and return of capital last year.

The tax charge for the six months to 30 September 2004 is £0.3m lower than the equivalent charge for 2003. This reflects a number of factors: the reduction in profit before tax together with disclaimers of capital allowances in respect of prior years in both 2003 and the current year allowing the recovery of ACT previously written off, offset by the net effect of changes in the discount rates used to calculate deferred tax liabilities. The total tax charge of £0.9m represents an effective tax rate of 19% (2003 – 17%). This is in line with the current estimated full year effective rate, however the full year rate remains dependent upon any further changes in discount rates affecting the deferred tax liability.

Earnings per share on a fully diluted basis for the six months to 30 September 2004 was 16.5p (2003 – 26.2p).

Net debt increased by £1.9m in the period to 30 September 2004 to £123.3m. At 30 September 2004 the regulated water business had net debt of £142.8m representing approximately 64% of the average Regulatory Capital Value (RCV) for 2004/05.

Appointed water business

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

Consequently the appointed water business has recorded a total operating profit of £9.1m compared to £10.1m in 2003.

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

Capital investment, including infrastructure renewals, net of grants and contributions, in the period amounted to £8.1m. The major upgrade of our Barrow treatment plant is now complete. We anticipate net capital expenditure for the full year of approximately £19.0m.

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

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

The main reasons for the difference are:

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

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

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

Other businesses including non-appointed water activities

Our other businesses recorded a net operating loss of £0.1m compared to a loss of £0.4m in 2003. The loss reflects continuing development expenses in BWS and Watergrid.

Lawrence – recorded a profit before tax of £0.1m compared to a loss of £0.2m at the same stage last year. In line with the group's strategic focus on its core water skills, we have continued to progress the disposal of Lawrence and are currently in negotiation with a potential purchaser.

Bristol Water Services (BWS) - is our international division providing network management services specialising in leakage reduction. Following our profitable exit from Malaysia earlier this year, our main focus is our company in the USA which is making promising progress. After expensing all development costs, the division has recorded a loss before tax of £0.3m.

Watergrid - the Bristol Water/AWG consortium is British Waterways' partner in Watergrid, a new entrant into the market for competitive water services. The company is 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.

Non-appointed water activities – our various non-appointed water activities including fisheries, restaurant, café and environmental consultancy, recorded an operating profit of £0.3m (2003 - £0.3m).

Moger Woolley
Chairman
9 December 2004

Group profit and loss account

	Note	**Six months to 30 September 2004 (unaudited)**	Six months to 30 September 2003 (unaudited) Restated	Year to 31 March 2004
		£m	£m	£m
Turnover including share of joint ventures		**54.5**	59.6	121.5
less: share of turnover of joint ventures		**(2.9)**	(3.7)	(8.0)
Group turnover		**51.6**	55.9	113.5
Operating costs	2	**(42.5)**	(46.3)	(93.5)
Group operating profit		**9.1**	9.6	20.0
Share of operating (loss)/profit of joint ventures		**(0.1)**	0.1	-
Total operating profit: group and share of joint ventures		**9.0**	9.7	20.0
Net exceptional items				
Profit on disposal of tangible fixed assets		**-**	-	0.2
Profit on disposal of businesses		**-**	-	0.3
Net interest payable and similar charges	3	**(4.2)**	(2.7)	(6.0)
Profit on ordinary activities before taxation		**4.8**	7.0	14.5
Taxation on profit on ordinary activities	4	**(0.9)**	(1.2)	(2.9)
Profit on ordinary activities after taxation		**3.9**	5.8	11.6
Minority shareholders' interests	5	**(0.5)**	(0.5)	(1.1)
Profit attributable to Bristol Water Group plc shareholders		**3.4**	5.3	10.5
Dividends	5	**(1.6)**	(1.6)	(5.3)
Profit retained		**1.8**	3.7	5.2
Earnings per share -	6			
On average number of ordinary shares in issue		**16.8p**	26.7p	53.3p
On fully diluted basis		**16.5p**	26.2p	52.2p

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

Group balance sheet

	Note	At 30 September 2004 (unaudited) £m	At 30 September 2003 (unaudited) Restated £m	At 31 March 2004 £m
Fixed assets				
Tangible fixed assets	7	**195.3**	189.1	194.7
Investments in joint ventures -				
Share of gross assets		**2.3**	5.6	2.6
Share of gross liabilities		**(1.9)**	(5.2)	(2.2)
Total		**0.4**	0.4	0.4
Total fixed assets		**195.7**	189.5	195.1
Current assets				
Stocks		**0.6**	0.6	0.7
Debtors		**29.8**	31.4	30.1
Cash at bank and on deposit	8	**31.4**	37.0	36.3
		61.8	69.0	67.1
Creditors: amounts falling due within one year				
Short term borrowings	8	**(5.4)**	(7.7)	(6.9)
Other creditors		**(32.3)**	(31.8)	(35.0)
		(37.7)	(39.5)	(41.9)
Net current assets		**24.1**	29.5	25.2
Total assets less current liabilities		**219.8**	219.0	220.3
Creditors: amounts falling due after more than one year	8	**(149.3)**	(100.5)	(150.8)
Deferred income		**(8.5)**	(8.5)	(8.5)
Provisions for liabilities and charges	9	**(18.8)**	(18.8)	(18.6)
Net assets		**43.2**	91.2	42.4
Capital and reserves				
Called up share capital		**1.0**	7.5	2.1
Share premium		**0.2**	6.5	0.1
Merger and other reserves		**(67.7)**	4.0	(67.7)
Profit and loss account		**97.2**	60.7	95.4
Total shareholders' funds (excluding minority interests)	10	**30.7**	78.7	29.9
Minority shareholders' interests		**12.5**	12.5	12.5
		43.2	91.2	42.4

Group cash flow statement

	Note	Six months to 30 September 2004 (unaudited) £m	Six months to 30 September 2003 (unaudited) £m	Year to 31 March 2004 £m
Net cash inflow from operating activities	11	**13.9**	9.2	35.0
Dividends received from joint ventures		**-**	0.1	0.1
Returns on investments and servicing of finance				
Net interest paid		**(4.1)**	(2.7)	(5.7)
Dividends paid to minorities		**(0.6)**	(0.6)	(1.1)
Net costs of issue of new loans		**-**	(0.6)	(0.7)
		(4.7)	(3.9)	(7.5)
Corporation tax paid		**(1.6)**	(0.9)	(2.8)
Capital expenditure and investing activities				
Purchase of tangible fixed assets		**(10.1)**	(12.9)	(28.1)
Contributions received		**2.0**	1.6	3.4
Proceeds on disposal of tangible fixed assets		**0.1**	0.1	0.4
		(8.0)	(11.2)	(24.3)
Acquisitions and disposals				
Proceeds on disposal of subsidiary and joint venture		**-**	-	0.3
Investment in joint ventures		**-**	(0.1)	(0.2)
		-	(0.1)	0.1
Equity dividends paid		**-**	-	(5.3)
Cash outflow before management of liquid resources and financing		**(0.4)**	(6.8)	(4.7)
Management of liquid resources being decrease/(increase) in short term deposits		**0.2**	(21.5)	(16.9)
Financing				
Return of capital to shareholders by redemption of B shares		**(1.1)**	-	(49.5)
Expenses of scheme of arrangement/return of capital		**-**	-	(2.5)
Issue of shares		**0.1**	0.6	0.8
Redemption of preference shares		**-**	-	(0.1)
New term loans		**-**	45.0	98.5
Capital element of loan and lease repayments		**(3.5)**	(21.5)	(25.9)
		(4.5)	24.1	21.3
Decrease in cash	11	**(4.7)**	(4.2)	(0.3)
Cash, beginning of period		**5.9**	6.2	6.2
Cash, end of period		**1.2**	2.0	5.9

Segmental analysis

	Six months to 30 September 2004 (unaudited) £m	Six months to 30 September 2003 (unaudited) Restated £m	Year to 31 March 2004 Restated £m
Turnover including share of joint ventures			
Appointed water business	**34.1**	34.8	69.0
Contracting and other services -			
Group	**21.5**	25.4	53.4
Joint ventures	**2.9**	3.7	8.0
Intra-group sales	**(4.0)**	(4.3)	(8.9)
Total	**54.5**	59.6	121.5
Group turnover excluding joint ventures	**51.6**	55.9	113.5
Total operating profit: group and share of joint ventures			
Appointed water business	**9.1**	10.1	19.4
Contracting and other services	**(0.1)**	(0.4)	0.6
Total	**9.0**	9.7	20.0
Profit before taxation			
Appointed water business	**5.8**	7.1	13.3
Contracting and other services	**0.2**	(0.1)	1.4
Trading activities	**6.0**	7.0	14.7
Holding companies expenses – mainly net interest charges	**(1.2)**	-	(0.2)
Total	**4.8**	7.0	14.5
Net assets employed			
Appointed water business	**69.8**	68.7	68.5
Less intercompany loan to ultimate parent company	**(47.0)**	-	(47.0)
Net investment in appointed water business	**22.8**	68.7	21.5
Other net assets	**20.4**	22.5	20.9
Total	**43.2**	91.2	42.4
Average number of employees (average full time equivalents)			
Appointed water business	**364**	365	359
Contracting and other services	**346**	475	433
Total	**710**	840	792

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 group's auditors, have been prepared on the basis of the accounting policies adopted by Bristol Water Group plc for the year ended 31 March 2004 as set out in the Annual Report and Accounts. Those accounts (on which the auditors gave an unqualified report) have been delivered to the Registrar of Companies.

As outlined in our statutory accounts for the year ended 31 March 2004, in line with EU regulations, the group will adopt International Financial Reporting Standards (IFRS) as the basis upon which it will report its financial statements in the year ending 31 March 2006.

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

Our initial assessment of the accounting policies that will materially differ under IFRS's remain those set out in the 31 March 2004 Annual Report and Accounts, where we said that it was anticipated that the first time adoption of IFRS would result in a reduction in the level of distributable reserves within the group. We also said that it was likely that the reported financial performance of the group will become more dependent upon external factors outside the group's control and therefore more volatile, as a result of the adoption of IFRS.

The results for the six months ended 30 September 2003 are the last set of consolidated figures for Bristol Water Holdings plc prior to the capital reconstruction of the group.

Profit before tax for the six months to September 2003 has been restated to charge £1.5m of costs related to the capital restructuring of the group direct to reserves in line with the treatment adopted for the 2003/04 statutory accounts following completion of the restructuring. In the interim accounts for 2003 this amount was previously shown as an exceptional charge against profit.

The earnings per share disclosed for the comparative periods have been restated to allow for the 53 for 100 share consolidation effected as part of the group reconstruction and return of capital to shareholders in the year to 31 March 2004.

The comparative figures in the Segmental Analysis have been restated to separately identify Bristol Water plc's appointed water business, this is the element which is subject to price cap regulation by Ofwat.

Notes to the interim results

Note 2: Operating costs

	Six months to 30 September 2004 (unaudited) £m	Six months to 30 September 2003 (unaudited) £m	Year to 31 March 2004 £m
Operating costs comprise -			
Payroll cost, net of recharges to fixed assets	**11.1**	12.6	23.7
Other operating expenses	**24.1**	26.1	54.6
Depreciation, net of amortisation of deferred income	**7.3**	7.6	15.2
	42.5	46.3	93.5

Note 3: Net interest payable

Interest payable and similar charges comprise -			
Interest payable and similar charges	**5.1**	3.5	7.4
Interest income	**(0.9)**	(0.8)	(1.4)
	4.2	2.7	6.0

Note 4: Taxation on profit on ordinary activities

The charge for taxation comprises -			
Current tax:			
Corporation tax at 30%	**0.7**	1.2	3.0
Adjustments to prior periods	**0.6**	0.9	1.2
Advance Corporation Tax written back	**(0.6)**	(0.6)	(0.8)
	0.7	1.5	3.4
Joint ventures	**-**	0.1	-
Total current tax	**0.7**	1.6	3.4
Deferred tax:			
Current period movement	**1.0**	1.1	1.0
Adjustments to prior periods	**(0.6)**	(0.8)	(0.9)
Effect of discounting	**(0.2)**	(0.7)	(0.6)
Total deferred tax	**0.2**	(0.4)	(0.5)
Total taxation on profit on ordinary activities	**0.9**	1.2	2.9

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 7.85 pence (2003 interim - 7.85 pence) on each Ordinary Share of 5p each amounting to £1.6m (2003 interim - £1.6m).

Notes to the interim results

Note 6: Earnings per share attributable to ordinary shares

	Six months to 30 September 2004 (unaudited)	Six months to 30 September 2003 (unaudited) Restated	Year to 31 March 2004
	m	m	m
Earnings per share have been calculated as follows:			
Earnings	**£3.4**	£5.3	£10.5
Weighted average number of ordinary shares in issue	**19.9**	19.6	19.8
Fully diluted weighted average number of ordinary shares in issue	**20.3**	20.0	20.2

The weighted average number of ordinary shares for the period to 30 September 2003 has been restated to reflect the 53 for 100 share consolidation effected in February 2004.

Note 7: Movement in tangible fixed assets

	Six months to 30 September 2004 (unaudited)	Six months to 30 September 2003 (unaudited)	Year to 31 March 2004
	£m	£m	£m
The movement in tangible fixed assets comprises -			
Net book value, beginning of period	**194.7**	185.8	185.8
Additions	**10.1**	12.8	28.1
Disposals	**-**	(0.1)	(0.3)
Grants and contributions	**(2.0)**	(1.6)	(3.4)
Depreciation	**(7.5)**	(7.8)	(15.5)
Net book value, end of period	**195.3**	189.1	194.7

Note 8: Net debt

	Six months to 30 September 2004 (unaudited)	Six months to 30 September 2003 (unaudited)	Year to 31 March 2004
	£m	£m	£m
Net debt comprises -			
Debt due after one year	**149.3**	100.5	150.8
Debt due within one year	**5.4**	7.7	6.9
Less cash balances and short term deposits	**(31.4)**	(37.0)	(36.3)
Net debt	**123.3**	71.2	121.4

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

Notes to the interim results

Note 9: Provisions for liabilities and charges

	Six months to 30 September 2004 (unaudited) £m	Six months to 30 September 2003 (unaudited) £m	Year to 31 March 2004 £m
Deferred taxation provision			
Deferred tax liability	**32.5**	32.5	32.2
Effect of discounting	**(13.7)**	(13.7)	(13.6)
Net provision	**18.8**	18.8	18.6

Note 10: Total shareholders' funds (excluding minority interests)

	Six months to 30 September 2004 (unaudited) £m	Six months to 30 September 2003 (unaudited) Restated £m	Year to 31 March 2004 £m
Movement in shareholders' funds -			
Beginning of period	**29.9**	75.9	75.9
Issue of shares	**0.1**	0.6	0.8
Expenses of scheme of arrangement/return of capital	**-**	(1.5)	(2.5)
Reduction of capital: cancellation and repayment of B shares	**(1.1)**	-	(49.5)
Attributable profit for the period	**3.4**	5.3	10.5
Dividends	**(1.6)**	(1.6)	(5.3)
End of period	**30.7**	78.7	29.9

Notes to the interim results

Note 11: Supplementary cash flow information

	Six months to 30 September 2004 (unaudited) £m	Six months to 30 September 2003 (unaudited) £m	Year to 31 March 2004 £m
a) Reconciliation of operating profit to net cash inflow from operating activities -			
Operating profit	**9.1**	9.6	20.0
Depreciation, net of amortisation of deferred income	**7.3**	7.6	15.2
Cash flow from operations	**16.4**	17.2	35.2
Working capital movements	**(2.5)**	(8.0)	(0.2)
Net cash inflow from operating activities	**13.9**	9.2	35.0
b) Reconciliation of net cash flow to movement in net debt -			
Decrease in cash in the period	**(4.7)**	(4.2)	(0.3)
Cash used to repay borrowings	**3.5**	21.5	25.9
Cash from new borrowings	**-**	(45.0)	(98.5)
Costs of issue of new loans	**-**	0.6	0.7
(Decrease)/increase in short term deposits	**(0.2)**	21.5	16.9
Increase in net borrowings	**(1.4)**	(5.6)	(55.3)
Movement in net debt not affecting cash flow – indexation of existing debt	**(0.5)**	(0.7)	(1.2)
Net debt, beginning of period	**(121.4)**	(64.9)	(64.9)
Net debt, end of period	**(123.3)**	(71.2)	(121.4)

Note 12: Pensions

Pension arrangements

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. The principal section is the Bristol Water plc section. The assets of each section are held separately from those of the group and are invested by discretionary fund managers appointed by the trustees of WCPS. The sections have been closed to new entrants and all new eligible employees are offered stakeholder pensions.

In addition to providing benefits to employees and ex-employees of the Bristol Water plc, the Bristol Water plc section provides benefits to ex-employees of Bristol Water Holdings plc and former Bristol Water plc employees who transferred to Bristol Wessex Billing Services Ltd. The majority of the section assets and liabilities relate to Bristol Water plc employees and ex-employees.

Notes to the interim results

The financial position of each section is determined by an independent actuary based on triennial valuations using the projected unit method. The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return on section investments and the rate of increase in salaries, wages, pensions and dividends.

The most recent triennial actuarial valuation at 1 April 2002 assumed that investment returns would be 7.2% pa pre-retirement and 5.2% pa post-retirement, salaries would increase on average by 4.8% pa, and pensions by 2.8% pa. The actuarial valuation at 1 April 2002 showed the market value of section assets relating to the group as £103m and that the actuarial value of these assets represented 106% of accrued benefits allowing for future earnings increases.

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

The estimated total cash contributions for 2004/05 are approximately £1.8m.

Accounting under SSAP24

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

For SSAP24 purposes only, an updated interim valuation was carried out as at 1 April 2003 to recognise the significant change in the funding level following the downturn in the equity markets since 1 April 2002. The interim valuation assumed that investment returns would be 7.5% pa pre-retirement and 5.5% pa post-retirement. General salary increases were assumed to be 4.5% pa and pensions to be 2.5% pa. The assets were brought in at 112% of their market value to anticipate part of the subsequent upturn in the equity markets over the year to 31 March 2004. The interim valuation showed the market value of section assets relating to the group as £88.0m and that these represented 95% of accrued benefits allowing for future earnings increases.

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

Accounting under FRS17 "Retirement Benefits"

The group currently accounts for pensions in accordance with SSAP24. On a UK GAAP basis, FRS17 will become mandatory for accounting periods starting on or after 1 January 2005, which for the group will be the year ending 31 March 2006. However, during this period the group expects to adopt IAS 19 "Employee Benefits" on transition to IFRS

Notes to the interim results

Note 12: Pensions (continued)

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

The actuarial valuations of the group's sections of the WCPS as at 1 April 2002 were updated to 31 March 2004, by an independent qualified actuary. At 31 March 2004 the group's net pension liability, as disclosed in the Annual Report and Accounts, was £14.4m. Since the Accounts were published the actuary has reviewed his figures and reassessed the FRS17 deficit as at 31 March 2004 at £11.2m net of tax.

Under FRS17 as at 30 September 2004 the net deficit, after tax, of the sections would have been approximately £11.6m (30 September 2003 - £14.2m, 31 March 2004 - £11.2m as restated).

Note 13: 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 website: http://www.bristolwater.co.uk.

Independent review report to Bristol Water Group plc

Introduction

We have been instructed by the company to review the financial information which comprises the Profit and Loss Account, Balance Sheet, Cash Flow Statement and related notes, for the six months ended 30 September 2004. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2004.

PricewaterhouseCoopers LLP
Chartered Accountants
Bristol
9 December 2004

Notes:

(a) The maintenance and integrity of the Bristol Water website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.