BRISTOL WATER HOLDINGS plc
29 May 2003

STRONG FINANCIAL AND OPERATIONAL PERFORMANCE

Year ended 31 March	**2003 £m**	2002 £m	% change %
Group turnover -			
Regulated water business	**70.0**	68.0	3
Other businesses	**42.3**	61.1	(31)
Total	**112.3**	129.1	(13)
Profit before tax -			
Regulated water business	**14.6**	13.9	5
Other businesses	**1.5**	1.7	(8)
Total	**16.1**	15.6	3
Profit after tax	**9.6**	12.1	(20)
Earnings per ordinary share			
- Shares in issue	**115.5p**	148.7p	(22)
- Fully diluted	**114.5p**	147.5p	(22)
Dividend per ordinary share	**70.6p**	67.2p	5
Results stated before application of FRS19 Deferred Tax			
Profit after tax	***13.4***	*13.3*	*0*
Earnings per ordinary share			
- Shares in issue	***166.3p***	*166.3p*	*0*
- Fully diluted	***164.9p***	*164.9p*	*0*

- **Regulated water business**
  - PBT up by 5% to £14.6m
  - Debt restructured in May 2003, providing future flexibility
  - Excellent service standards maintained

- **Other businesses**
  - PBT contribution of £1.5m after further development costs
  - Board considering sale of Lawrence
  - Watergrid success – with AWG selected as British Waterways partner

- **Group results and corporate developments**
  - Increasing concentration on core water skills
  - EPS down because of high deferred tax charge
  - 5% increase in dividends for full year
  - 5 for 1 share split to improve marketability and liquidity of shares

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CHAIRMAN'S STATEMENT

The group has delivered another strong performance and has achieved excellent financial results from the regulated water company and a positive contribution from other businesses.

Regulated water business
In last year's Annual Report, we signalled that the 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 increase in charges under the RPI+K price limits of 1.9% would have a significant impact on profits. Given this background, the result achieved of a profit before tax of £14.6m compared to £13.9m in the previous year represents an excellent outcome. This is due to a combination of factors including a real terms reduction in operating costs and the effects of a lower than expected level of capital expenditure.

During the year, we commenced a £12m project for a major upgrade of Barrow, our second largest water treatment plant, with completion planned for Spring 2004.

We continued to deliver high levels of service to customers. This is reflected by our position in the latest Ofwat report on service levels for 2001/02, which ranked us third of all water companies in England and Wales.

We have developed a new financing package for the regulated water business. This was completed shortly after the year end. Prior to completion, the business had a relatively short debt maturity profile. The new structure will provide a better mix of financing and a considerably longer maturity profile, more appropriate to the long-term nature of its asset base. The new facilities offer flexibility for the future including the ability to substantially increase the financial gearing of the company. However, it is not the Board's current intention to do so.

The key issue for the water sector is the Periodic Review process through which Ofwat will set price limits for the 5 years 2005-10. It is much too early to forecast the outcome, but we are encouraged that the approach Ofwat are taking in the early stages of the process is intended to lead to an appropriate balance between the interests of customers and shareholders.

Other businesses
Our other businesses made a good contribution to profits with profit before tax of £1.5m compared to £1.7m in the previous year. The small reduction reflects improved performance offset by start up costs associated with three new developments; Gas Design Consultancy (GDC), a design business linked very closely to Lawrence; establishing our new leakage consultancy company in the USA; and the Watergrid project start-up costs.

Lawrence, the contracting division, has built on last year's result and recorded an increase in profit before tax to £1.4m (2002 - £1.1m). During the year we reviewed the strategic fit of Lawrence within the group and concluded that its contracting base was inconsistent with our business focus on core water skills. Accordingly, we are considering the potential sale of Lawrence, together with its sister company GDC.

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

During 2002, we established a new BWS company in the USA, which we see as an attractive future market for our water loss reduction skill base. The company has already secured a number of small contracts.

We are pleased that the Bristol Water Holdings/AWG consortium has been selected as British Waterways' partner for the Watergrid project. With our long experience as the largest user of canal water for the purpose of water supply in the UK, this fits well with our core water skills based strategy. Watergrid offers an opportunity for us to work with our partners to use our expertise in a wider market, outside the Bristol area.

Financial result and dividends
Profit before tax for the year increased to £16.1m compared to £15.6m in the previous year. The high deferred tax charge means that earnings per share have fallen.

We have declared a 6% increase in the final dividend, bringing the total dividend for the year to 70.6p, a 5% increase over 2001/02. The final dividend of 49.8p will be paid on 1 October 2003.

Higgs Report
The Board already follows many of the proposals contained within the Higgs Report and will review this matter further once the recommendations are finalised.

Corporate changes
We are proposing, subject to shareholder approval, at the Annual General Meeting, to make some changes to the share capital structure of the company and the Articles of Association.

We currently have 2% of the ordinary shares in a separate non-voting class. We propose to convert these to voting shares thus removing an historical anomaly.

At the same time, given the current share price, we propose a share split on the basis of five new ordinary shares for each existing share. We believe that this will be a benefit to shareholders by increasing the marketability and liquidity of the company's shares. The share split, if approved, is expected to take effect from 28 July 2003.

We are proposing a general power for the Board to make market purchases for up to 10% of the issued share capital. The Board has no current intention to utilise this authority, but believes it appropriate to obtain this flexibility.

The Board proposes to redesignate the 5,839,250 authorised but unissued 6.75% Cumulative Convertible Redeemable Preference Shares as Ordinary Shares.

We also propose some further amendments to the Articles of Association of the company to update them in line with current practice.

Full details of the proposed changes, which will require approval at an extraordinary class meeting of the non-voting shareholders, in respect of the proposed conversion to voting status, and as special business at the Annual General Meeting of the company will be set out in the formal notices for those meetings.

Outlook
The continued progressive build up of the regulated business's capital programme, with its consequent additional financing, depreciation and operating cost implications, together with the relatively low level of increase in charges under the RPI+K price limits to customers for 2003/04 of 2.7%, including a K factor of 0%, and a negative K factor of 1.9% in 2004/05 will constrain profits over the next two years.

The progress that the group made during the year together with the two key initiatives of refinancing the regulated water business and the potential sale of Lawrence will place the group in a strong position.

My thanks go to all our employees who have contributed to the success of the group.

Moger Woolley
Chairman
29 May 2003

CHIEF EXECUTIVE'S REPORT

Bristol Water plc – the regulated business
During the year, we have continued to consolidate the considerable operating cost reductions made in recent years.

A major focus has been the continued development of the joint venture with Wessex Water to enable the two companies to issue combined bills to customers. The first joint bills for unmeasured customers were issued at the beginning of the year with the first metered bills being issued in November. With the billing system now fully operational, this will allow us to progressively realise the planned efficiency gains from the new arrangement together with the provision of a simplified and improved service to customers. High levels of service to customers have been maintained throughout this complex process.

During the year, we achieved certification to the new ISO 9001:2000 quality standard, upgrading from our previous ISO 9001:1994 assessment. The scope of our quality management system covers all aspects of the production and distribution of water, technical design and the procurement of related products and services.

We have initiated a major review of the processes and cost structure in the business. Our objective is to identify the potential scope for further efficiency gains. The exercise will take a further few months to complete. Throughout the process we are evaluating carefully the trade-offs between cost reductions and the associated risks.

We were pleased by our ranking in the latest Ofwat report on service levels by water companies in 2001/02. We were ranked third of all water companies in England and Wales and have been the most consistently highly-rated company over the past few years. This recognises our commitment to the delivery of high levels of service to customers.

Our capital programme for the five years to 2005, as set out in the Final Determination, amounts to £125m (May 1999 prices). In accordance with the Drinking Water Inspectorate's protocol we have not yet commenced the lead pipe replacement programme that was incorporated in Ofwat's price determination, pending the results of orthophosphate dosing trials currently in progress. These are currently demonstrating substantial compliance with the lead standard that comes into force in 2013 and it is increasingly likely that the actual spend on lead pipe replacement during the five year period will be at a relatively low level.

Capital investment, including infrastructure renewals, net of grants and contributions, for the year totalled £20.0m. Key projects included the completion of our 30 month, £12m mains renovation programme, which has involved the renovation of some 250km of mains throughout our area. We also completed the installation of a barrier to remove cryptosporidium oocysts at the Chelvey water treatment works, bringing the total of treatment works with such barriers to eight.

We have recently commenced a £12m project for a major upgrade of our Barrow treatment plant, with completion planned for Spring 2004. Expenditure on the project at some £1.7m during the year was lower than originally expected reflecting a revised project plan and delays in obtaining relevant planning approvals. This is a complex project and is progressing well.

Ofwat has set out details of the planned Periodic Review process that will set price limits for the 5 years from 2005 to 2010. Ofwat's process will take almost two years to complete and the outcome will be extremely important to the business. The first major milestone is the submission of our draft business plan to Ofwat during August 2003.

The refinancing arrangements explained in the Chairman's statement effectively apply a financial ringfencing to the regulated water business and provide flexibility to increase its debt levels significantly in the future. We have no current plans to substantially increase gearing levels, but believe that in arranging long term financing it was appropriate to create this type of flexibility.

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

Other businesses

Lawrence
Despite the anticipated reduction in turnover from its pipeline division, Lawrence consolidated the turnaround achieved over the last three years with an increase in profit before tax to £1.4m (2002 - £1.1m).

During the year we established a sister company to Lawrence, Gas Design Consultancy (GDC). GDC is a design house for gas pipeline projects. Trading losses during its start up year amounted to £0.3m. GDC has considerable synergies with Lawrence and we believe that it will add value either within the group or in the event of a sale of Lawrence.

Lawrence does not fit well with our core water skill based strategy. During the year we concluded that the turnaround process, as demonstrated by Lawrence's financial performance, had progressed sufficiently that it was appropriate to consider a sale of both Lawrence and GDC.

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 three years into the nine-year phase 2 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, making a useful contribution to satisfying the increasing demands for water in Kuala Lumpur and surrounding areas.

The consultancy project that BWS and its consortium partners was awarded earlier this year, to identify performance indicators and best practice methodologies for leakage reduction across North America, is now well under way. Given our success in securing both this contract and further contracts in the region we have now established a new subsidiary company in the USA.

BWS is taking the lead role in a £1m, eighteen-month project for the European Agency for Reconstruction to assist in the restructuring and development of the water industry within Kosovo.

Overall the division achieved a break-even position (2002 - £0.1m profit before tax), after continued investment in marketing and business development, including the establishment of a presence in the USA.

Watergrid
The Watergrid project is a unique opportunity to apply our experience of using canal water to supply customers in a wider market. A new company, Watergrid Ltd, has been established as a national joint venture between the public and private sectors. Using the extensive canal and river network for the movement of water, Watergrid Ltd is seeking to serve multiple customer bases with bespoke water services and wastewater treatment facilities.

Watergrid Ltd has been formed between the Bristol Water Holdings/AWG consortium, British Waterways and the Government's PPP facilitator, Partnerships UK. Both Bristol Water and AWG have effective 22.5% equity interests in the new venture.

Alan Parsons
Chief Executive
29 May 2003

OPERATING AND FINANCIAL REVIEW

	2003	2002
	£m	£m
Group turnover		
Regulated water business	**70.0**	68.0
Other businesses	**42.3**	61.1
Total	**112.3**	129.1
Profit before tax		
Regulated water business	**14.6**	13.9
Other businesses	**1.5**	1.7
Total	**16.1**	15.6
Taxation		
Current tax	**2.7**	2.2
Deferred tax	**3.8**	1.3
Total	**6.5**	3.5
Profit after tax	**9.6**	12.1

Results Overview

Group turnover reduced from £129.1m to £112.3m. As anticipated, this reflects a reduction in turnover for Lawrence from the high levels reported in the previous year.

The results represent a strong underlying performance with profit before tax increasing by £0.5m to £16.1m compared to £15.6m in 2002, despite a reduction in net gains from asset disposals of £0.4m.

The group results include a total tax charge of some 40% compared to 23% in the previous year, which accounts for the reduction in earnings per share. This includes a deferred tax charge of £3.8m (2002 - £1.3m) in addition to the underlying current tax charge of £2.7m. The deferred tax element is unusually high because of a reduction in the discount rates used to calculate the deferred tax liability. As required by FRS19, the discount rates applied are based on government gilts for relevant periods. The effect of the change in rates essentially reverses a corresponding gain made in the second half of 2001/02 when discount rates increased.

The Board proposes a total dividend for the year of 70.6p, a 5% increase over 2002. As a result, a final dividend of 49.8p is being recommended. It will be paid on 1 October 2003 to shareholders on the register on 18 July 2003. Our shares will go ex dividend on 16 July 2003. Ordinary dividend cover is 1.6 times compared to 2.2 times last year.

In the statutory accounts the appropriate transitional disclosures required under FRS17, the new accounting standard on pensions, are made. Note 12 to this statement shows that the group's sections within the Water Companies' Pension Scheme would be represented on the balance sheet as a deficit net of tax of £14.8m, this compares to an asset net of tax of £10.1m in 2002 under FRS17. The change reflects the adverse movements of the equity markets.

An actuarial review of the pension sections as at 1 April 2002 has recently been completed and shows combined net surpluses on an actuarial basis of £5.6m. The sections are currently invested primarily in equities. In consultation with both the trustees and the actuary, we have carefully examined the investment strategy and 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. Given the current equity market position we have delayed the implementation of this change until we see some further recovery in equity market values.

We have agreed a significant increase in cash contributions to the pension funds effective from 1 April 2003. The total cash contributions will be broadly in line with the SSAP24 charge of £1.6m reflected in these accounts for 2002/03.

Regulated activities – Bristol Water plc

In November 1999, Ofwat issued the Periodic Review Final Determination. This set maximum price limits for charges to customers for the five years 2000-05. The limits, known as K factors, plus movements in the RPI index, determine the allowed increase or decrease in overall charges each year. For 2002/03 the K factor was 1%, which together with an RPI movement of 0.9% meant an average increase in charges to customers of some 1.9%.

Overall turnover increased by some £2.0m, mainly due to the RPI+K increase.

Operating costs before depreciation were £36.6m, slightly above the £36.5m recorded in 2002. After taking the effect of inflation into account, this represents a reduction in real terms.

Net depreciation increased by £0.3m to £14.0m reflecting the commissioning of new assets offset by the non-recurrence of an accelerated depreciation charge of £0.4m for other assets in the previous year.

Overall profit before tax of £14.6m represents a £0.7m improvement from 2002.

Net capital investment in the year after grants and contributions from developers was £20.0m, compared to £23.5m in 2002.

Other businesses

Our other businesses made a good contribution to profits with profit before tax of £1.5m compared to £1.7m in the previous year. The small reduction largely reflects start-up costs associated with Gas Design Consultancy (GDC), a design business linked very closely to Lawrence; establishing our new company in the USA; and the Watergrid project start-up costs.

Lawrence: Turnover reduced to £47.8m compared to the very high level of £63.5m in 2002. As anticipated, this reflects a reduction in the value of major gas pipeline projects carried out for Transco, both on a sole basis and through a joint arrangement with a Dutch contractor, NACAP. Profit before tax was £1.4m compared to £1.1m in 2002.

Gas Design Consultancy: GDC is a design house for gas pipeline projects with considerable synergies with Lawrence. Start-up losses during the year amounted to £0.3m.

Bristol Water Services: After further investment in business development activities, the division recorded a breakeven result, compared to a profit of £0.1m in 2002.

Watergrid: Our contribution to initial development costs, via our 50% interest in Waternet Ltd, amounted to £0.1m in the year.

Purton Carbons: We provided against the cost of our investment in this joint venture in 2000 due to the difficult market conditions it faced. These conditions continue to prevail. This year our share of profits amounted to £0.1m.

Treasury

Group net cash inflow from operating activities was £28.5m (2002 - £29.7m), net cash outflows from investments and servicing of finance totalled £6.4m (2002 - £5.3m) and net capital expenditure amounted to £16.1m (2002 - £22.9m). Total cash outflows before management of liquid resources and financing were £1.8m (2002 - £5.4m).

Net borrowings increased from £61.5m to £64.9m during the year. Net debt in Bristol Water plc, the regulated water business, at 31 March 2003 was £74.8m and represented approximately 41% of Regulatory Capital Value.

At the year end, net gearing (net debt/equity) was 73% compared to 72% in 2002. Net debt and gearing levels are expected to increase during 2003/04 as the level of capital investment in the regulated business increases.

A major post balance sheet event is the finalisation of a new financing arrangement for Bristol Water plc. Prior to the refinancing, we 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. The new facilities provide for the repayment of £20m of existing bank debt and to finance the ongoing capital expenditure programme. £15m of index-linked debt was drawn through the existing Artesian Finance plc monoline wrapped bond programme arranged by the Royal Bank of Scotland, previously used by three other water companies. An equivalent £30m financing was also drawn on a fixed interest basis through a new bond programme issued by Artesian Finance II plc. The facilities extend to 2032 and 2033 respectively.

The new financing is based on a ringfenced structure and some existing lenders have entered into an intercreditor arrangement to share the ringfencing security package. It is expected that all new senior debt will also become part of the intercreditor arrangement.

The intercreditor structure is governed by two key financial ratio covenants: debt to regulated asset value and a cash interest cover ratio. The structure would enable a substantial increase in gearing of the ringfenced business should it be concluded that this is appropriate, in which case it is expected that Ofwat would seek changes, in line with those recently adopted by more highly geared water companies, to Bristol Water plc's licence of appointment as a water undertaker.

The group uses interest rate derivatives to manage exposures to fluctuations in interest rates. Positions on hedges are deferred and matched to appropriate underlying transactions. As part of the refinancing arrangement for Bristol Water plc, the group has redesignated a £20m interest rate swap, which swaps variable rate LIBOR to fixed rate. This was previously matched to the £20m bank loan now repaid. The redesignation matches it to a £10m variable rate bank loan and to £10m of variable rate leases.

Net interest charges in the year totalled £4.9m (2002 - £4.2m) and were covered 4.2 times (2002 - 4.5 times).

The net interest charge is expected to increase during 2003/04. This reflects the additional net debt resulting from planned capital expenditure for the regulated business together with an increase in the effective average interest rate following the refinancing. The average interest rate is expected to increase as the Artesian borrowing is subject to long term interest rate margins and the investment returns on temporary cash surpluses will be lower than borrowing costs. We maintain temporary cash surpluses to provide pre-funding for future capital expenditure and working capital requirements and to provide financial flexibility.

Strategy/Objectives
The group's strategy is focussed around the regulated water business of Bristol Water plc, and the development of complementary businesses/activities that build on this core skill base.

As explained in the Chairman's Statement, during the year we reviewed the strategic fit of Lawrence within the group and concluded that its contracting base was inconsistent with this focus. Accordingly we are considering the potential sale of Lawrence, together with its sister company GDC.

Monitoring the business
A number of systems are used to monitor the financial and operational performance of the group including:

- Monthly management accounts and budgetary control
- Monthly key performance indicators
- Ad hoc internal audits of business processes
- Detailed Quality Assurance systems

Outlook

The continued progressive build up of the regulated business's capital programme, with its consequent additional financing, depreciation and operating cost implications, together with the relatively low level of increase in charges under the RPI+K price limits to customers for 2003/04 of 2.7%, including a K factor of 0%, and a negative K factor of 1.9% in 2004/05, will constrain profits over the next two years.

GROUP PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2003

	Note	**2003 £000**	2002 £000
Turnover including share of joint ventures		**120,836**	136,015
Less: share of turnover of joint ventures		**(8,504)**	(6,897)
Group turnover		**112,332**	129,118
Operating costs	**2**	**(92,087)**	(110,252)
Group operating profit		**20,245**	18,866
Share of operating profit of joint ventures		**164**	157
Total operating profit: group and share of joint ventures		**20,409**	19,023
Profit on disposal of tangible fixed assets	**3**	**402**	753
Profit on disposal of businesses	**3**	**143**	23
Net interest payable and similar charges		**(4,861)**	(4,224)
Profit on ordinary activities before taxation		**16,093**	15,575
Taxation on profit on ordinary activities	**4**	**(6,448)**	(3,525)
Profit on ordinary activities after taxation		**9,645**	12,050
Minority shareholders' non-equity interest		**(1,094)**	(1,094)
Profit attributable to Bristol Water Holdings plc shareholders		**8,551**	10,956
Dividends	**5**	**(5,230)**	(4,965)
Profit retained for the year		**3,321**	5,991
Earnings per share -			
On average number of ordinary shares in issue	**6**	**115.5p**	148.7p
On fully diluted basis	**6**	**114.5p**	147.5p

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

GROUP BALANCE SHEET
at 31 March 2003

	Note	2003 £000	2002 £000
Fixed assets			
Intangible fixed assets		**6**	23
Tangible fixed assets	**7**	**185,769**	180,770
Investments in joint ventures -			
Share of gross assets		**6,878**	6,289
Share of gross liabilities		**(6,477)**	(5,957)
Total		**401**	332
Total fixed assets		**186,176**	181,125
Current assets			
Stocks		**683**	512
Debtors		**26,199**	21,447
Cash at bank and on deposit	**8**	**19,658**	24,513
		46,540	46,472
Creditors: amounts falling due within one year			
Short term borrowings	**8**	**6,760**	3,138
Other creditors		**32,136**	33,249
		38,896	36,387
Net current assets		**7,644**	10,085
Total assets less current liabilities		**193,820**	191,210
Creditors: amounts falling due after more than one year	**8**	**(77,771)**	(82,825)
Deferred income		**(8,429)**	(8,396)
Provisions for liabilities and charges	**9**	**(19,189)**	(14,926)
Net assets		**88,431**	85,063
Capital and reserves			
Called up share capital		**7,404**	7,397
Share premium		**6,080**	6,023
Other non-distributable reserves		**4,024**	4,024
Profit and loss account		**58,423**	55,119
Total equity shareholders' funds	**10**	**75,931**	72,563
Minority shareholders' non-equity interest		**12,500**	12,500
		88,431	85,063

GROUP CASH FLOW STATEMENT
for the year ended 31 March 2003

	Note	2003 £000	2002 £000
Net cash inflow from operating activities	**11(a)**	**28,537**	29,671
Dividends received from joint ventures		**129**	-
Returns on investments and servicing of finance			
Interest received		**903**	1,282
Interest paid		**(4,830)**	(4,233)
Interest paid on finance leases		**(1,354)**	(1,287)
Dividends paid to minorities		**(1,094)**	(1,094)
		(6,375)	(5,332)
Taxation			
Corporation tax paid		**(2,978)**	(2,183)
Capital expenditure			
Purchase of tangible fixed assets		**(20,748)**	(26,444)
less contributions received		**3,409**	2,588
Proceeds from disposal of tangible fixed assets		**1,215**	957
		(16,124)	(22,899)
Acquisitions and disposals			
Proceeds on disposal of subsidiary		**93**	173
Cash eliminated on disposal of subsidiary		**-**	(60)
Investment in joint venture		**(80)**	-
		13	113
Dividends paid on equity shares		**(5,020)**	(4,786)
Cash outflow before management of liquid resources and financing		**(1,818)**	(5,416)
Management of liquid resources			
being decrease/(increase) in short term deposits		**5,500**	(295)
Financing			
Issue of shares		**64**	345
New term loans		**47**	5,000
Cash inflow from refinancing assets under new finance leases		**-**	8,159
Capital element of lease repayments		**(1,585)**	(1,430)
Capital element of loan repayments		**(1,563)**	(3,223)
		(3,037)	8,851
Increase in cash		**645**	3,140
Cash, beginning of year		**5,513**	2,373
Cash, end of year		**6,158**	5,513

SEGMENTAL ANALYSIS
for the year ended 31 March 2003

	2003	2002
	£000	£000
Turnover -		
Water supply and related activities	**69,974**	68,013
Contracting and other services		
Group	**53,146**	70,005
Joint ventures	**8,504**	6,897
Intra-group sales	**(10,788)**	(8,900)
Turnover including share of joint ventures	**120,836**	136,015

Turnover of £7,186,000 (2002 - £6,023,000) was derived from services provided outside the United Kingdom, primarily South East Asia. The maximum level of prices the principal subsidiary, Bristol Water plc, may levy for the majority of water charges is controlled by the Director General of the Office of Water Services.

	2003	2002
	£000	£000
Operating profit of group and share of joint ventures -		
Water supply and related activities	**19,361**	17,741
Contracting and other services	**1,048**	1,282
Group total	**20,409**	19,023
Profit on ordinary activities before taxation -		
Water supply and related activities	**14,563**	13,903
Contracting and other services	**1,530**	1,672
Group total	**16,093**	15,575
Net assets employed -		
Water supply and related activities	**65,534**	73,946
Contracting and other services	**22,897**	11,117
Group total	**88,431**	85,063

	2003	2002
Number of employees (average full time equivalents) -		
Water supply and related activities	**422**	430
Contracting and other services	**396**	510
Group total	**818**	940

The number of employees for water supply and related activities in 2002 excluded approximately 50 full time equivalent former employees of Bristol Water plc, transferred during 2002 to Bristol Wessex Billing Services Limited, whose costs were recorded within the payroll costs set out in note 2, during transitional financial arrangements and are now included in other operating costs for 2003.

NOTES

1. BASIS OF PREPARATION AND CIRCULATION

These preliminary statements do not constitute the statutory accounts for the year ended 31 March 2003. The statutory accounts have been reported on by the auditors without qualification but have not yet been delivered to the Registrar of Companies. The comparative figures for 2002 have been extracted from the accounts of Bristol Water Holdings plc for the year ended 31 March 2002 upon which the auditors' report was unqualified and which have been delivered to the Registrar of Companies.

The Annual Report and Accounts will be posted to shareholders on or before 19 June 2003. Copies will be available to the public from the registered office at PO Box 218, Bridgwater Road, Bristol BS99 7AU. The Annual General Meeting will be held at The Holiday Inn, Victoria Street, Bristol, on Monday 21 July 2002 at 11.00 am.

2. OPERATING COSTS

	2003	2002
	£000	£000
Net payroll cost	**23,691**	26,796
Other operating expenses	**54,109**	69,463
Net depreciation	**14,287**	13,993
Total operating costs	**92,087**	110,252

3. PROFITS ON DISPOSALS

Profits on disposals comprise the following -

	2003	2002
	£000	£000
Profit on disposal of tangible fixed assets	**402**	753
Profit on disposal of trading division of a subsidiary – Lazer Engineering. The division was sold in 2002. The £20,000 profit in 2003 is the second and final instalment under the sale contract	**20**	20
Profit on disposal of Operational (UK) Ltd The company was sold in 2002. The £123,000 profit in 2003 reflects the release of warranty reserve of £50,000 and receipt of additional monies under the sale agreement	**123**	3
	143	23

The profit on disposal of tangible fixed assets is mainly from vehicles and property sold by Bristol Water plc amounting to £386,000 (2002 - £760,000).

4. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

Analysis of the charge for the year –

	2003	2002
	£000	£000
Current tax:		
UK Corporation tax at 30% (2002 – 30%)	**3,005**	4,984
Advance Corporation Tax written off/(back)	**1,699**	(1,027)
Adjustment to prior periods	**(2,068)**	(1,813)
UK Corporation tax liability	**2,636**	2,144
Foreign taxation	**53**	89
Total current tax	**2,689**	2,233
Deferred tax:		
Current year movement	**1,360**	(176)
Adjustment to prior periods	**1,204**	2,851
Effect of discounting	**1,195**	(1,383)
Total deferred tax	**3,759**	1,292
Total tax on profit on ordinary activities	**6,448**	3,525

The adjustments to prior periods mainly relate to the effects of an agreement with the Inland Revenue to accelerate certain capital allowances. This has reduced the mainstream Corporation Tax charge, but reduced the recovery of Advance Corporation Tax.

5. DIVIDENDS

	2003	2002
	£000	£000
On ordinary (equity) shares -		
Interim dividend paid – 20.8p (2002 - 20.2p)	**1,543**	1,488
Proposed final dividend – 49.8p (2002 - 47.0p)	**3,687**	3,477
	5,230	4,965

The Board is recommending a final dividend of 49.8 pence per ordinary share to be paid on 1 October 2003 to shareholders on the Register as 18 July 2003.

6. EARNINGS PER SHARE

Earnings per share have been calculated as follows -

	2003	2002
	000	000
On average number of ordinary shares in issue during the year -		
Earnings attributable to ordinary shares	**£8,551**	£10,956
Weighted average number of ordinary shares	**7,402**	7,365
On fully diluted basis -		
Earnings attributable to ordinary shares	**£8,551**	£10,956
Weighted average number of fully diluted ordinary shares	**7,465**	7,426

7. TANGIBLE FIXED ASSETS

	2003 £000	2002 £000
Net book value, beginning of year	**180,770**	171,554
Additions	**23,783**	26,264
Disposals	**(813)**	(201)
Contributions	**(3,409)**	(2,588)
Depreciation	**(14,562)**	(14,259)
Net book value, end of period	**185,769**	180,770

8. NET BORROWINGS

	2003 £000	2002 £000
Cash and short term deposits	**19,658**	24,513
Debt due within one year	**(6,760)**	(3,138)
Debt due after one year	**(77,771)**	(82,825)
Net borrowings	**(64,873)**	(61,450)

9. PROVISION FOR LIABILITIES AND CHARGES

	2003 £000	2002 £000
Deferred Taxation		
Analysis of deferred taxation liability -		
Accelerated capital allowances and capital element of finance leases	**35,173**	32,840
Deferred income	**(2,529)**	(2,519)
Short term timing differences	**(456)**	(698)
Unrelieved Advanced Corporation Tax	**-**	(504)
	32,188	29,119
Effect of discounting	**(12,999)**	(14,193)
Net provision for Deferred Taxation	**19,189**	14,926

10 MOVEMENT IN SHAREHOLDERS' FUNDS

	2003 £000	2002 £000
Beginning of the year	**72,563**	66,227
Issue of new shares	**64**	345
Profit for the year	**8,551**	10,956
Dividends	**(5,230)**	(4,965)
Foreign currency translation difference	**(17)**	-
End of year	**75,931**	72,563

The share capital of the company at 31 March 2003 comprised 7,262,987 ordinary shares and 141,430 non-voting ordinary shares.

11. ADDITIONAL CASHFLOW INFORMATION

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

	2003 £000	2002 £000
Operating profit	**20,245**	18,866
Depreciation and amortisation	**14,287**	13,993
Cash flow from operations	**34,532**	32,859
Working capital movements -		
Stocks	**(171)**	146
Debtors	**(4,775)**	(6,660)
Creditors	**(1,049)**	3,639
Provisions	**-**	(313)
Net cash inflow from operating activities	**28,537**	29,671

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

	2003 £000	2002 £000
Increase in cash in year	**645**	3,140
Cash used to repay leases	**1,585**	1,430
Cash used to repay loans	**1,563**	3,223
Cash from new borrowings	**(47)**	(13,159)
Cash from (decrease)/increase in liquid resources	**(5,500)**	295
Increase in net borrowings resulting from cash flows	**(1,754)**	(5,071)
New loans not affecting cash flow*	**(1,669)**	(1,731)
Net borrowings, beginning of year	**(61,450)**	(54,648)
Net borrowings, end of year	**(64,873)**	(61,450)

* Represents deferred payment terms for capital expenditure relating to the joint billing arrangements established with Wessex Water

12. PENSIONS

These accounts are prepared on a SSAP 24 basis. An analysis of the group's pension assets and liabilities under FRS 17 is set out below:

	2003 £000	2002 £000
Market value of assets	**78,239**	103,208
Present value of liabilities	**(99,250)**	(88,831)
(Deficit)/surplus	**(21,011)**	14,377
Deferred taxation	**6,253**	(4,313)
Net pension (liability)/asset under FRS 17	**(14,758)**	10,064

13. POST BALANCE SHEET EVENTS

During May 2003, Bristol Water plc entered into a new financing structure. Details are set out in the Operating and Financial Review.