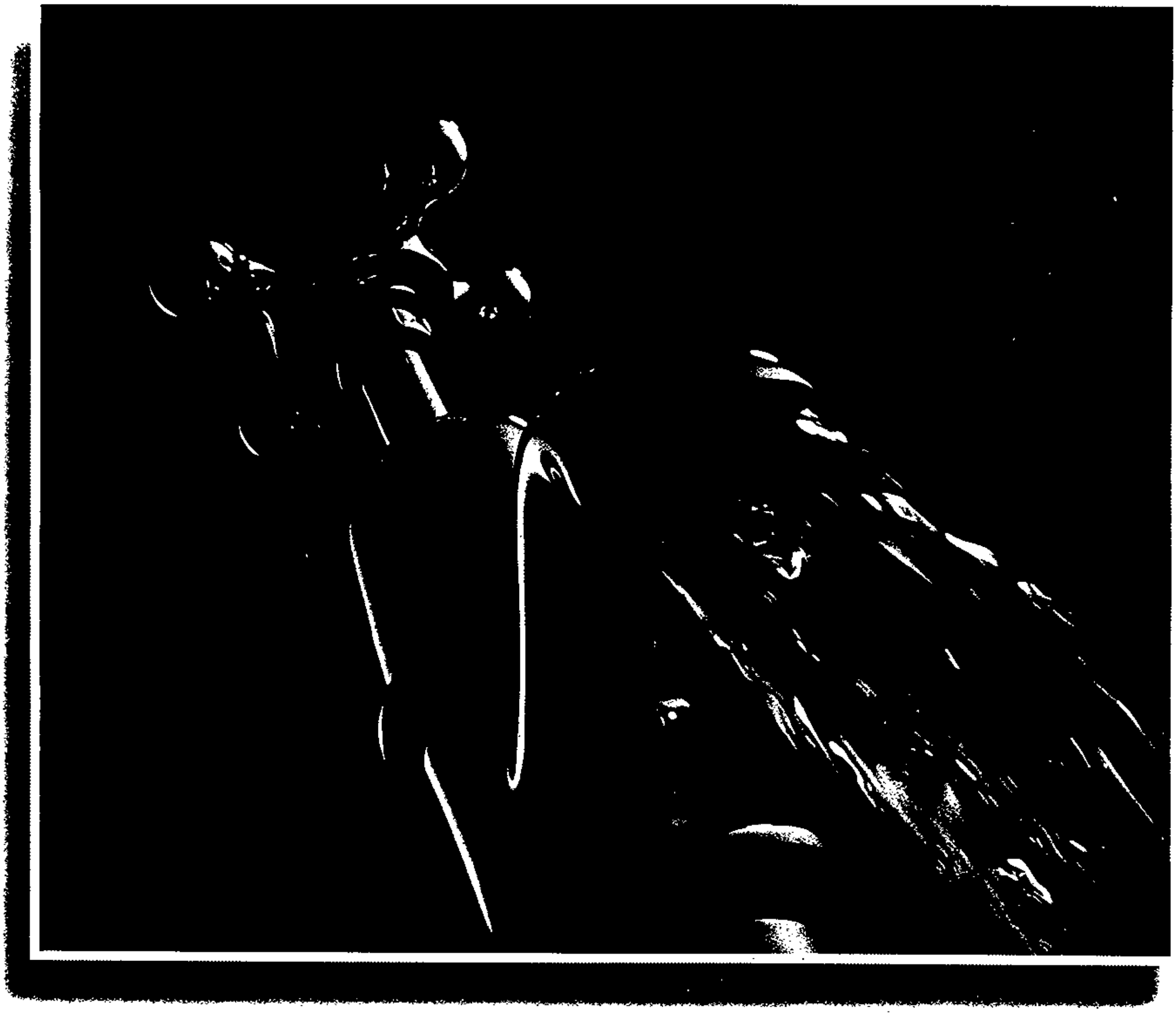
BRISTOL WATER plc **REPORT AND ACCOUNTS**

31 March 1997

Registered No. 2662226



BRISTOL WATER

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The Company is one of the largest independent water supply companies in the country, providing an average of over 350 million litres of water each day through 6,400 kilometres of mains. It is responsible for supplying over one million people and businesses in an area of almost 2,400 square kilometres centred on Bristol. The area served covers the Bristol conurbation and surrounding parts of Somerset, Gloucestershire and Wiltshire.

The Company's performance in customer service, water quality and engineering standards is among the highest in the water industry.

BRISTOL WATER plc

FINANCIAL HIGHLIGHTS

Year ended 31 March	1997 £000	1996 £000	% change	*1996 re-presented £000*	*% change on re-presented basis*
Turnover	**61,183**	59,514	3 %		
Operating profit	**16,883**	15,664	8 %		
Pre-tax profit	**12,789**	11,247	14 %		
Net profit	**10,557**	10,071	5 %	*9,331*	*13 %*
Earnings per ordinary share -					
Shares in issue	**151.3p**	143.2p	6 %	*130.8p*	*16 %*
Fully diluted	**132.3p**	125.5p	5 %	*115.2p*	*15 %*
Dividend per ordinary share	**55.5p**	61.7p	(10)%	*49.3p*	*13 %*

Note -The 1996 ordinary dividend was paid to Bristol Water Holdings plc inclusive of a notional allowance for ACT. In 1997 dividends are payable net, with the related ACT accounted for in the charge for taxation. The figures for 1996 are re-presented above to show the results on a comparable basis to that adopted in 1997.

CHAIRMAN'S STATEMENT

The company continues to make successful progress and is well placed for water resources. A high priority has been accorded to the management of demand and resources. This made sure that there was again no restriction on customers' use of water in our area of supply.

The new Government has set out clearly its view of improvements needed to ensure the water industry supplies its customers reliably, efficiently, and in an environmentally sustainable manner. We have responded positively to the points raised, many of which have long been incorporated in the company's aims and objectives.

We remain confident that our water resources will meet reasonable demands for the foreseeable future. Leakage levels are already close to economic levels, but we remain committed to reducing them still further and to persuading our customers to use water with due economy. We have sent all customers our Water Efficiency Plan which positively promotes the efficient use of water and sets roles to be played by both customers and our own management.

Finance

Growth in turnover was held back as the measured income of the regulated business regained a more normal profile following the lower summer demands this year. There was also a significant reduction in rechargeable works following the completion of major local infrastructure schemes. However, the benefit of a 1% K factor and new connections more than compensated and led to an overall increase in company turnover of 2.8% to £61.2 million.

Operating expenses fell by 1.3% to £33.7 million reflecting close attention to cost control and the absence of special costs to meet last year's exceptional weather conditions. The charges for depreciation and infrastructure renewals increased to £10.6 million, 9.1% higher, a consequence of the increasing level of capital expenditure and additional work on the distribution system.

Operating profit increased by 7.8% to £16.9 million, an improvement of £1.2 million over 1996. Profits from selling properties declined and realised £0.8 million less than last year. This was more than offset by a £1.2 million reduction in interest charges, despite writing off further debenture cancellation premiums. Pre-tax profits were, as a result, 13.7% higher at £12.8 million.

During the year the company changed its method of paying dividends to its parent, Bristol Water Holdings plc, so that the company now accounts directly for ACT. Previously a notional amount for ACT had been included in the inter-company dividend. This change has resulted in the taxation charge for Bristol Water plc increasing significantly but with a consequent reduction in ordinary dividend cost. A final ordinary dividend of £2,330,000 is proposed in addition to the £1,000,000 interim dividend paid during the year. In total, the underlying dividend cost for the year increased by 8%.

Net profit and earnings per share improved by 5%, held back by the change in practice. The underlying increase in net profit and ordinary dividend was 13%, with a record £5.7 million reinvested in the business for the future benefit of customers.

No provision has been made in these accounts for any potential Windfall Levy that is likely to be applicable to privatised utilities. The Board firmly believes such a tax is wholly inappropriate to Bristol Water that has not been privatised, having been in the private sector for over 150 years. Furthermore the company did not enjoy the beneficial effect of a Government sponsored capital reconstruction which was accorded to many privatised companies.

The Office of Water Services monitors the progress of the regulated business using current cost accounting methods. The relevant accounts show an operating profit for the year of £12.4 million, a 6% increase, representing approximately a 12% return on the capital base of the company used by the Director General.

Water Quality

Water quality remains our highest priority. There has been a further improvement in compliance with water quality standards during the year from 99.8% to 99.9%. Although we will not relax our efforts, significant further improvements cannot be expected.

Investment

The level of investment in the year accelerated to £19 million as planned, closely matching the expenditure profiles agreed with the Director General of OFWAT and was over a third higher than in the previous year.

Total expenditure on maintaining the underground pipework was £6.9 million, a 60% increase over the previous year. We project a further 25% increase in annual spending on underground asset replacement in future years. A particularly important project was the restoration to service of a long abandoned trunk main in Coronation Road, Bristol, following the insertion of a new lining. This cost around £800,000 and allowed a parallel main with a history of major bursts to be taken out of service.

Resources, Leakage and Demand Management

The company maintained its record of meeting all of its customers' needs without restriction throughout the year despite high summer demands and very cold weather over the New Year period. This was made possible by prudent investment over the years in the development and integration of resources. It is not anticipated that further source development will be required until well into the next century.

During the summer and autumn, we restricted the abstraction from our Cotswold groundwater sources under a voluntary agreement with the Environment Agency to help maintain acceptable flows in the River Avon at Malmesbury.

The company has maintained a high level of activity in leakage control for many years and has developed sophisticated systems using high technology to monitor discrete zones. The company has launched additional leakage control programmes and is now spending more than £1 million annually locating leaks, maintaining our commitment to leakage reduction.

The company is among the industry leaders in developing a model for assessing the economic level of leakage control. Leakage from the company's own distribution system was further reduced during the year to 14%. This correlates to the level of economic leakage at this time.

In spite of our good record on resource management and leakage control, we remain strongly pro-active in the issue of water conservation. We have always recognised that water is a precious natural resource and that we all have a duty to protect the environment. For many years we have actively encouraged customers to share these views and use water wisely. All our public information campaigns constantly stress the importance of conserving water, whatever the weather or the resource position.

During the year these campaigns have focused particularly on use of water in the garden. We are at the forefront in this field with our range of special advice leaflets, publication of gardening advice columns in the local press and our own much visited water-saving garden constructed in 1996 as a living monument to mark our 150th Anniversary.

The company has responded positively to the points outlined by the Deputy Prime Minister, Mr John Prescott, at the Water Summit on 19 May. In particular the company is well placed to assist OFWAT in establishing appropriate targets for total leakage that will help achieve meaningful reductions in leakage over the next five years. We will continue to provide a free leak location service to customers, and have extended our previous subsidised scheme to now include a free repair of domestic customers' external supply pipes.

We have recently sent every customer a summary of our Water Efficiency Plan detailing what we are doing to promote water efficiency and demonstrating how they can be more prudent with their water use. We are also offering water saving devices. We already provide customers free advice on water efficiency and are examining ways of developing a more structured water audit service for customers. The company's Blagdon visitor centre has a new water efficiency room, which features displays ranging from waterless urinals to "grey" water recycling systems.

Levels of Service

Our standards of service and the quality of water supplied remain high. We have recently published the Bristol Water Bond, a copy of which has been sent to all customers. The booklet sets out standards of service which exceed statutory obligations. It reflects our commitment to serving customers and guarantees the compensation we will pay if we do not achieve particular standards. The Bond has been favourably commented upon by the Director General of Water Services for its incorporation of examples of best industry practice.

This development is the latest demonstration of our desire to achieve an acceptable balance between the interests of customers and shareholders.

The business depends increasingly on the sophistication of its information systems. A new logical data warehouse has been commissioned to allow the integration of customer data from different corporate computer systems. This will provide the rapid identification of problems and the production of worksheets and location maps to improve the response to customer enquiries.

Community Relations

The company's 150th Anniversary celebrations in July 1996 gave renewed impetus to our well-established community relations programmes. These were further strengthened during the year. An extended programme of visits, open days and public information campaigns was boosted by the creation of a special community trust fund to aid projects by schools and voluntary organisations. Over ninety projects in our supply area were supported by donations in cash or kind.

We again expanded our schools' liaison programme, with the number of visits to company sites increasing by 40%. An improved range of educational literature, videos, and now a special Internet web site, have all proved very successful.

Recreational activities offered at our lakes from world class trout fishing to birdwatching continued to be most popular. The new tea shop at Chew Valley Lake has been much enjoyed by the large numbers of visitors to this renowned beauty spot. Nearly 25,000 people attended company open days during the year.

EMPLOYEES

Staff training and development are seen as crucial to the successful performance of the company and continue to be given high priority. There has been a substantial level of participation in the group's Savings Related Share Option scheme that was offered to all eligible employees in February 1997. This, together with the group-wide profit related pay and company bonus schemes, helps staff to share in the financial improvement to which they make an important contribution. We are proud and grateful for the dedicated support we have received from our staff in achieving a high standard of service for our customers throughout the year.

OUTLOOK

We move forward with confidence, having adequate resources, well engineered systems and a commitment to meet with enthusiasm the challenges laid down by the new Government. We shall continue to provide a good standard of service for our customers. However, the effects of ever tightening regulation and the costs of meeting recent Government demands are likely to cause the pace of growth to slacken.

John Browning.

J R Browning
Executive Chairman

DIRECTORS' REPORT

for the year ended 31 March 1997

The directors have pleasure in submitting their report and the accounts for the year ended 31 March 1997.

PRINCIPAL ACTIVITIES

The company's principal activities are the provision of water supply and related services to a population of more than one million in an area of 2,391 square kilometres centred on Bristol.

The company is a water undertaker and its duties are discharged under the terms of the Water Industry Act 1991.

RESULTS FOR THE YEAR

The results for the year are shown in the profit and loss account and discussed in the Chairman's statement. Dividends are disclosed in Note 5. An ordinary dividend of £2,330,000 is proposed.

DIRECTORS AND THEIR INTERESTS

The directors throughout the year, and their beneficial interests in the ordinary shares of the parent company, were:

	1April 1996	31 March 1997
J R Browning, *Chairman*	10,252	8,692
A Parsons, *Deputy Chairman*	6,618	5,058
Dr A J Bates	6,121	4,561
S G Bessey	1,347	1,358
P D Knowlson	121	161
R W Wyatt	7,375	5,815

Each director was awarded 40 shares under the terms of the group Employee Profit Sharing Scheme during the year. There have been no changes in directors' interests from 31 March 1997 to the date of this report.

Mr A Parsons, who has a service contract with a two year notice period, will offer himself for re-election at the Annual General Meeting.

The following options over ordinary shares of the holding company have been granted to the directors under the terms of the Executive Share Option Scheme and group Savings Related Share Option Scheme -

		Options held at start of year	Options granted in year	Options held at end of year	Exercise price £	Exercisable from	to
J R Browning		4,151	-	4,151	10.50	1996	2003
		2,246	-	2,246	10.00	1998	2005
		3,216	-	3,216	11.80	1999	2006
	*	-	973	973	10.02	2000	2000
A Parsons		3,405	-	3,405	10.50	1996	2003
		2,033	-	2,033	10.00	1998	2005
		2,434	-	2,434	11.80	1999	2006
	*	-	1,721	1,721	10.02	2002	2002
Dr A J Bates		655	-	655	10.50	1996	2003
		355	-	355	10.00	1998	2005
		915	-	915	11.80	1999	2006
	*	-	1,721	1,721	10.02	2002	2002

DIRECTORS' REPORT

(continued)
for the year ended 31 March 1997

		Options held at start of year	Options granted in year	Options held at end of year	Exercise price £	Exercisable from	to
S G Bessey		441	-	441	10.50	1996	2003
		251	-	251	10.00	1998	2005
		898	-	898	11.80	1999	2006
P D Knowlson	*	-	973	973	10.02	2000	2000
R W Wyatt		722	-	722	10.50	1996	2003
		395	-	395	10.00	1998	2005
		2,136	-	2,136	11.80	1999	2006
	*	-	1,721	1,721	10.02	2002	2002

**Savings Related Share Option Scheme options*

Executive share options were issued at mid-market value and must be exercised between three and ten years after grant subject to the approval of the Remuneration Committee of the holding company and the meeting of earnings per share growth criteria. Savings Related Share Option Scheme options were issued at a 20% discount to the market price to any group employee entering an Inland Revenue approved Save As You Earn contract for a period of three or five years.

The market price of the relevant shares at 31 March 1997 was 1185p and ranged from 1185p to 1300p during the year.

At no time during the year has any director had a material interest in any contract of significance with any company in the group, nor held any shares except in the holding company.

PARENT COMPANY

All the company's ordinary shares and redeemable preference shares are owned by Bristol Water Holdings plc. None of the company's irredeemable preference shares are owned by Bristol Water Holdings plc.

FIXED ASSETS

In the opinion of the directors there is no material difference between the book value and market value of land capable of disposal within the foreseeable future.

EMPLOYEE MATTERS

The company is committed to policies of employee involvement, communication, training and sound relationships with trade unions. The company participates in a group Profit Sharing Scheme and Savings Related Share Option Scheme for all eligible employees.

The company is an equal opportunity employer providing employment and appropriate facilities for disabled people. High standards for Health and Safety policies have been set together with targets for quality and customer service.

PAYMENT PRACTICES

It is company policy to comply with the terms of payment agreed with a supplier. Where payment terms are not negotiated, the company endeavours to adhere to the supplier's standard terms. At the end of the year, trade creditors represented the equivalent of 15 days purchases.

DIRECTORS' REPORT

(continued)
for the year ended 31 March 1997

CHARITABLE DONATIONS

The company made no donations to charitable causes during the year (1996 - £100) as such payments are made by the holding company.

RESEARCH AND DEVELOPMENT

The company undertakes research and development projects in relation to its business. Expenditure during the year amounted to £228,000 (1996 -£101,000).

AUDITORS

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the Annual General Meeting.

APPOINTMENT AND REGULATORY ACCOUNTS

In accordance with its Instrument of Appointment under the Water Act 1989, the directors are of the opinion that the company is in compliance with paragraph 3.1 of Condition K of that Instrument, which relates to the control over the assets of the Appointed Business. Copies of the Regulatory Accounts required under the Instrument of Appointment will be available from the Company Secretary.

CORPORATE GOVERNANCE

A statement on Corporate Governance appears in the accounts of Bristol Water Holdings plc, the holding company.

DIRECTORS' RESPONSIBILITIES FOR THE PREPARATION OF FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the statement of responsibilities set out in the auditors' report, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss for that period.

In preparing the financial statements the directors are required to select and apply consistently suitable accounting policies framed by reference to reasonable and prudent judgements and estimates. Applicable accounting standards also have to be followed and a statement made to that effect in the financial statements, subject to any material departures being disclosed and explained in the notes to the financial statements. The directors are required to prepare the financial statements on a going concern basis unless it is inappropriate to presume the company will continue in business. Directors are responsible for ensuring proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure the financial statements comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board
N J Dell
Secretary
11 June 1997

ACCOUNTING POLICIES

The significant accounting policies that have been applied consistently and adopted in the preparation of the accounts are -

a. Accounting convention
The accounts of the company are prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom and with the provisions of the Companies Act 1985, except for the treatment of certain capital contributions as explained in Note d below.

b. Turnover
Turnover comprises charges to customers for water and other services, exclusive of VAT.

c. Tangible fixed assets and depreciation
Tangible fixed assets comprise infrastructure assets and other assets.

i. Infrastructure assets
Infrastructure assets comprise the integrated network of impounding and pumped raw water storage reservoirs and water mains and associated underground pipework. Expenditure on such assets relating to increases in capacity or enhancements of the network is treated as an addition to fixed assets and is included at cost. Expenditure on maintaining the operating capability of the network is charged as incurred as an operating cost to the profit and loss account (see f. below).

ii Other assets
Other assets include land and buildings, operational structures, fixed and mobile plant, equipment and motor vehicles. All are included at cost.

iii Depreciation
Depreciation is charged, where appropriate, on a straight line basis on the original cost of assets over their expected economic lives.

No depreciation is charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life. Freehold land is not depreciated.

Other assets are depreciated, normally commencing following commissioning, over the following estimated economic lives -

Operational properties and structures	60 years
Treatment, pumping and general plant	20 to 25 years
Computing and communications equipment	3 to 15 years
Vehicles and mobile plant	5 to 7 years

d. Grants and contributions
Contributions received in respect of tangible assets other than infrastructure assets are treated as deferred income and amortised to the profit and loss account over the expected useful lives of the related assets.

Contributions received in respect of enhancing the infrastructure network are not shown as deferred income but are deducted from the cost of the related fixed assets because such networks have no finite economic life and are not depreciated. This treatment is permitted by Statement of Standard Accounting Practice Number 4 but is a departure from the Companies Act 1985 that requires such contributions to be shown as deferred income. It is the directors' opinion that this treatment is necessary to show a true and fair view. The effect on tangible fixed assets is shown in Note 7d to the accounts.

Grants and contributions in respect of expenditure charged to the profit and loss account are netted against such expenditure as received.

e. Leased assets

Assets financed by leasing agreements that transfer substantially all the risks and rewards of ownership of an asset to the lessee are capitalised and depreciated over the shorter of their estimated useful lives and the lease term. The capital portion of the lease commitment is included in current or non-current creditors as appropriate. The capital element of the lease rentals is deducted from the obligation to the lessor as paid. The interest element of lease rentals and the depreciation of the relevant assets are charged to the profit and loss account.

f. Infrastructure renewals expenditure

The charge to the profit and loss account for infrastructure renewals expenditure takes account of planned expenditure on maintaining the operating capability of the company's infrastructure assets. The timing of the investment programme and other operational considerations may result in uneven patterns of expenditure. Consequently, charges to the profit and loss account for infrastructure renewals expenditure are adjusted by making accruals or deferrals as necessary to take account of significant fluctuations between actual and planned expenditure.

g. Pension costs

The cost of providing pension benefits is charged to the profit and loss account to spread the cost over the expected average service lives of employees. Differences between the amounts funded and amounts charged to the profit and loss account are recorded as prepayments or provisions, as appropriate, in the balance sheet.

h. Research and development

Research and development expenditure is charged to the profit and loss account as incurred.

i. Taxation

The charge for taxation is computed based on the profit for the period adjusted according to tax legislation.

Advance corporation tax in respect of dividends is written off to the profit and loss account unless it can be recovered against mainstream corporation tax in the current year or with reasonable assurance in the future. Credit is taken for advance corporation tax previously written off when it is recovered against mainstream corporation tax liabilities.

No provision is made for deferred taxation unless there is a reasonable probability that a liability will crystallise in the foreseeable future.

j. Stocks

Stocks are valued at the lower of cost and net realisable value. Following established practice in the water industry no value is included in the accounts in respect of water held in store.

PROFIT AND LOSS ACCOUNT

for the year ended 31 March 1997

	Note	1997 £000	1996 £000
Turnover	1	**61,183**	59,514
Operating costs	2	**44,300**	43,850
Operating profit		**16,883**	15,664
Profit on disposal of tangible fixed assets		**(233)**	(1,074)
Net interest payable and similar charges	3	**4,327**	5,491
Profit on ordinary activities before taxation		**12,789**	11,247
Taxation on profit on ordinary activities	4	**2,232**	1,176
Profit on ordinary activities after taxation		**10,557**	10,071
Dividends -	5		
On irredeemable preference shares		**1,094**	1,094
On redeemable preference shares		**389**	389
On ordinary shares		**3,330**	3,700
Total dividends		**4,813**	5,183
Profit retained for the year		**5,744**	4,888
Balance on profit and loss account, beginning of year		**27,374**	22,486
Balance on profit and loss account, end of year		**33,118**	27,374
Earnings per share -	6		
On average number of ordinary shares in issue		**151.3p**	143.2p
On fully diluted basis		**132.3p**	125.5p

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 March 1997

There were no recognised gains or losses other than the profit for the year - £10,557,000 (1996 - £10,071,000).

The accompanying notes to the accounts form an integral part of this statement.

BALANCE SHEET

at 31 March 1997

	Note	1997 £000	1996 £000
Tangible fixed assets	7	**137,531**	133,398
Current assets			
Stocks	8	**819**	658
Debtors	9	**7,109**	6,844
Cash at bank and on deposit		**11,351**	11,985
		19,279	19,487
Creditors: amounts falling due within one year			
Short term borrowings	10	**1,336**	6,020
Other creditors	11	**24,539**	17,596
		25,875	23,616
Net current liabilities		**(6,596)**	(4,129)
Total assets less current liabilities		**130,935**	129,269
Creditors: amounts falling due after one year	10	**54,970**	57,753
Provisions for liabilities and charges	12	**6,513**	7,921
Deferred income	13	**7,651**	7,538
		61,801	56,057
Capital and reserves			
Called up share capital	14	**24,268**	24,268
Share premium account	15	**4,415**	4,415
Profit and loss account	15	**33,118**	27,374
Total shareholders' funds	15	**61,801**	56,057
Analysed as:			
Equity shareholders' funds		***43,531***	*37,787*
Non-equity shareholders' funds		***18,270***	*18,270*

The accounts were approved by the Board on 11 June 1997 and signed on its behalf by -

J R Browning, Chairman — J.R. Browning

A Parsons, Deputy Chairman — Alan Parsons

The accompanying notes to the accounts form an integral part of this statement.

CASHFLOW STATEMENT

for the year ended 31 March 1997

	Notes	1997 £000	1996 £000
Net cash inflow from operating activities	18	**22,871**	22,089
Returns on investments and servicing of finance			
Interest received		**1,109**	1,047
Interest paid		**(3,397)**	(6,035)
Interest paid on finance leases		**(1,542)**	(1,267)
Dividends paid on non-equity shares		**(1,483)**	(1,483)
		(5,313)	(7,738)
Taxation			
Corporation tax paid		**(815)**	(962)
Advance corporation tax paid on dividends		**(524)**	(273)
		(1,339)	(1,235)
Capital expenditure			
Purchase of tangible fixed assets		**(11,636)**	(9,302)
less contributions received		**3,009**	3,411
Proceeds on disposal of tangible fixed assets		**241**	1,277
		(8,386)	(4,614)
Dividends paid on equity shares		**(1,000)**	(3,700)
Cash inflow before management of liquid resources and financing		**6,833**	4,802
Management of liquid resources			
being increase in short term deposits		**(83)**	(3,667)
Financing			
Capital element of new finance leases		**1,642**	9,914
Debt repayments		**(7,939)**	(12,439)
Capital element of lease repayments		**(1,170)**	(1,657)
		(7,467)	(4,182)
Decrease in cash	18	**(717)**	(3,047)
Cash, beginning of year		**818**	3,865
Cash, end of year		**101**	818

The accompanying notes to the accounts form an integral part of this statement.

NOTES TO THE ACCOUNTS

1. TURNOVER

Turnover is wholly derived from water supply and related activities in the United Kingdom. The maximum level of prices the company may levy for the majority of water charges is controlled by the Director General of Water Services.

2. OPERATING COSTS

The directors believe that the nature of the company's business is such that the analysis of operating costs required by the Companies Act 1985 is not appropriate. As required by the Act the directors have therefore adapted the prescribed format so that disclosure of operating costs is appropriate to the company's principal business.

(a) Operating costs comprise -

	1997 £000	1996 £000
Wages and salaries	9,480	8,978
Social security costs	725	703
Pension costs	504	837
Employee profit sharing scheme	205	228
Total payroll cost	10,914	10,746
less charged to fixed assets or to infrastructure renewals	(1,813)	(1,417)
Net payroll cost	9,101	9,329
Other operating costs -		
Research and development expenditure	228	101
Auditors' remuneration -		
Statutory audit	27	29
Other non-audit services	16	10
Infrastructure renewals charge	5,450	4,800
Depreciation of tangible fixed assets -		
On owned assets	3,161	2,838
On leased assets	2,262	2,337
Amortisation of related deferred income	(229)	(220)
Net depreciation	5,194	4,955
Raw materials, consumables and other charges less recoveries	24,284	24,626
Total operating costs	44,300	43,850

2. OPERATING COSTS - continued

b) Employee details -

The average number of employees during the year was 483 (1996 - 474).

c) Directors' emoluments -

	1997 £000	1996 £000
Aggregate emoluments of all directors, being remuneration, bonus and benefits in kind	**503**	424
Gain before taxation and financing on exercise of share options	**-**	400
	503	824

In total, six directors are accruing retirement benefits under a defined benefit scheme.

The remuneration of each director is established by the Remuneration Committee of the parent company on the basis of duties and responsibilities held using market data for comparable positions in other companies. Bonuses relate to the achievement of corporate objectives and are subject to a maximum of 15% of base salary. Details of options granted to directors are shown in the Directors' Report.

The aggregate emoluments of the highest paid director were £132,000 (1996 -£123,000). No options were exercised during the year by him (1996 - gain of £156,000 before taxation and financing costs from exercising options granted in 1991). At the end of the year, the highest paid director had an accrued annual pension entitlement of £51,000 and an accrued lump sum entitlement of three times that amount.

3. NET INTEREST PAYABLE AND SIMILAR CHARGES

The net interest payable and similar charges for the year comprise -

	1997 £000	1996 £000
On bank borrowings	**1,625**	1,672
On other borrowings	**1,882**	2,557
Premiums on redemption of debentures	**354**	911
Finance leases	**1,575**	1,398
Less interest income	**(1,109)**	(1,047)
Net interest expense	**4,327**	5,491

4 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

The charge for taxation for the year comprises -

	1997 £000	1996 £000
Corporation tax at 33% (1996 - 33%) on the taxable profits for the year	2,654	1,377
Less advance corporation tax set off	(1,577)	(474)
	1,077	903
Advance corporation tax on dividends for the year written off	1,155	273
Charge for the year	2,232	1,176

During 1995/96 the tax treatment of certain items relevant to the water industry was confirmed by the Inland Revenue. Provisions of £448,000 were released within the 1996 charge for taxation shown above.

5. DIVIDENDS

	1997 £000	1996 £000
On non-equity shares -		
Irredeemable 8.75% preference shares -		
Paid	547	547
Payable 1 April	547	547
	1,094	1,094
Paid on convertible redeemable 6.75% preference shares 1998	389	389
	1,483	1,483
On ordinary shares (equity shares) -		
Paid	1,000	3,700
Proposed	2,330	-
	3,330	3,700
Total dividends paid and proposed	4,813	5,183

6. EARNINGS PER SHARE

Earnings per share have been calculated as follows -

	1997 000	1996 000
On average number of ordinary shares in issue during the year -		
Earnings attributable to ordinary shares	£9,074	£8,588
Weighted average number of ordinary shares	5,998	5,998
On fully diluted basis -		
Earnings attributable to ordinary shares	£9,463	£8,977
Weighted average number of ordinary shares	7,152	7,152

7. TANGIBLE FIXED ASSETS

a) The movement for the year comprises -

	Freehold land and operational structures £000	Plant and equipment £000	Infra-structure assets £000	Total £000
Cost				
At 1 April 1996	96,156	13,755	52,987	162,898
Additions	5,335	3,227	3,669	12,231
Disposals	(27)	(391)	-	(418)
Grants and contributions	(59)	-	(2,608)	(2,667)
At 31 March 1997	**101,405**	**16,591**	**54,048**	**172,044**
Depreciation				
At 1 April 1996	21,907	7,593	-	29,500
Charge for year	3,083	2,340	-	5,423
Disposals	(46)	(364)	-	(410)
At 31 March 1997	**24,944**	**9,569**	-	**34,513**
Net book value				
At 31 March 1997	**76,461**	**7,022**	**54,048**	**137,531**
At 31 March 1996	74,249	6,162	52,987	133,398

b) Included above are the following tangible fixed assets not subject to depreciation in the year -

At 31 March 1997	1,296	-	54,048	55,344
At 31 March 1996	1,268	-	52,987	54,255

c) Included above at 31 March 1997 are fixed assets held under finance leases with a net book value of £28,414,000 (1996 - £29,103,000).

d) The net book value of infrastructure assets is stated after the deduction of contributions of cumulatively £17,417,000 (1996 - £14,809,000) as explained in Accounting Policy d.

8. STOCKS

Stocks comprise consumable stores. The replacement cost of stocks is not considered materially different from their carrying value in the balance sheet.

9. DEBTORS

Debtors comprise -

	1997 £000	1996 £000
Trade debtors	**5,194**	3,817
Due from group companies	**267**	401
Other debtors	**773**	801
Prepayments and accrued income	**875**	1,825
	7,109	6,844

10. NET BORROWINGS

a) At 31 March 1997 net borrowings comprise -

	Term loans less cash £000	Finance leases £000	Debentures £000	Total 1997 £000	Total 1996 £000
Repayment due:					
Between one and two years	-	1,194	-	**1,194**	960
Between two and five years	-	3,044	-	**3,044**	2,524
After five years:					
Other than by instalment	-	-	8,622	**8,622**	31,561
By instalment	20,000	20,540	-	**40,540**	21,138
Irredeemable debentures	-	-	1,570	**1,570**	1,570
Total borrowings due after one year	20,000	24,778	10,192	**54,970**	57,753
Current portion of debt	-	1,336	-	**1,336**	6,020
less cash balances	(11,351)	-	-	**(11,351)**	(11,985)
Net borrowings	8,649	26,114	10,192	**44,955**	51,788

b) Details of borrowings not wholly repayable within five years -

	1997 £000	1996 £000
Debentures (listed on the London Stock Exchange) -		
10.40% Redeemable 2000 to 2002	**1,563**	4,000
12.50% Redeemable 2004	**1,828**	2,055
11.75% Redeemable 2004	**3,455**	3,500
11.20% Redeemable 2005 to 2009	**1,776**	2,006
4.00% Consolidated irredeemable	**1,405**	1,405
4.00% Perpetual irredeemable	**55**	55
4.25% Perpetual irredeemable	**37**	37
3.50% Perpetual irredeemable	**73**	73
	10,192	13,131
Bank loan, unsecured, repayable between 2006 and 2010, fixed interest at 7.75% pa to 2001 then LIBOR related, hedged by fixed interest rate swap at comparable rates until 2006	**20,000**	20,000
Finance lease rentals	**22,873**	23,177
	53,065	56,308

11. OTHER CREDITORS DUE WITHIN ONE YEAR

Other creditors due within one year comprise -

	1997 £000	1996 £000
Receipts in advance	5,526	5,487
Trade creditors	1,191	1,786
Due to group companies	2,121	1,518
Due to associated undertakings	227	169
Dividends payable	2,877	547
Tax, social security and payroll deductions	317	637
Corporation tax and advance corporation tax payable	2,005	1,170
Accruals and deposits received	10,275	6,282
	24,539	17,596

12. PROVISIONS FOR LIABILITIES AND CHARGES

The movement on maintenance provisions during the year was -

	1997 £000	1996 £000
Beginning of year	7,921	7,341
Charge for the year	5,450	4,800
Less expenditure incurred	(6,858)	(4,220)
End of year	6,513	7,921

13. DEFERRED INCOME

Deferred income represents grants and contributions received in respect of non-infrastructure assets less amounts amortised to the profit and loss account.

	1997 £000	1996 £000
Beginning of year	7,538	7,388
Contributions received	342	370
Less amortised	(229)	(220)
End of year	7,651	7,538

14. CALLED UP SHARE CAPITAL

The authorised and issued share capital of the company is -

	Authorised		Issued and fully paid	
	1997	1996	1997	1996
	£000	£000	£000	£000
Ordinary shares	5,857	5,857	5,857	5,857
Non-voting ordinary shares	141	141	141	141
6.75% redeemable convertible preference shares	5,770	5,770	5,770	5,770
8.75% irredeemable cumulative preference shares	14,000	14,000	12,500	12,500
	25,768	25,768	24,268	24,268

All shares have a nominal value of £1 each.

The ordinary and non-voting ordinary shares rank pari passu in all respects except voting rights.

The 6.75% redeemable preference shares are convertible at the shareholder's option between 15 September and 15 October 1997 at the rate of one ordinary share for five preference shares. If not converted, the preference shares will be redeemed on 31 August 1998 at par.

Preference shares are non-voting but have preferential rights on a winding up.

15. MOVEMENT IN SHAREHOLDERS' FUNDS

	Share capital £000	Share premium £000	Profit and loss £000	Total 1997 £000	Total 1996 £000
Beginning of year	24,268	4,415	27,374	56,057	51,169
Profit for year	-	-	10,557	10,557	10,071
Dividends	-	-	(4,813)	(4,813)	(5,183)
End of year	24,268	4,415	33,118	61,801	56,057

16. COMMITMENTS AND CONTINGENCIES

a) Capital and infrastructure renewals expenditure at 31 March 1997 contracted for but not provided was £2,738,000 (1996 - £1,823,000).

b) Deferred taxation

No provision has been made for deferred taxation because net timing differences are not expected to reverse within the foreseeable future. The full potential and unprovided liability on timing differences at a tax rate of 33% is -

	1997 £000	1996 £000
Accelerated capital allowances and capital element of finance lease rentals	26,301	25,523
Short term timing differences	(1,939)	(2,109)
Unrelieved advance corporation tax	(5,968)	(6,246)
	18,394	17,168

16.COMMITMENTS AND CONTINGENCIES - continued

c) Contingencies

The company is a member of a VAT group and therefore is jointly liable for VAT liabilities of certain other group members. Other than as shown in these accounts the directors are not aware of any other contingent liabilities that require disclosure.

d) Windfall Levy

No provision is included within these accounts for any liability that may arise should the government proposals for a Windfall Levy apply to the company.

17.PENSIONS

The company is a member of the Water Companies' Association Pension Scheme that provides defined benefits based on final pensionable pay. The assets of the Scheme are held separately from those of the company and are invested by discretionary fund managers appointed by the trustees of the Scheme.

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 with the company. Contribution rates are determined by an independent actuary based on triennial valuations using the current unit method for death in service benefits and the projected unit method for other benefits. The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return on Scheme investments and the rate of increase in salaries, wages, pensions and dividends. The most recent triennial actuarial valuation at 1 April 1996 assumed that investment returns would be 8% per annum, salaries and wages would increase on average by 6½%, pensions by 4½% and equity dividends by 3½% per annum.

The total pension charge for the year was £504,000 (1996 - £837,000). Past service surpluses are amortised over the expected remaining service lives of members.

The most recent actuarial valuation at 1 April 1996 showed the market value of Scheme assets relating to the company as £74.6 million and that the actuarial value of these assets represented 118% of accrued benefits allowing for future earnings increases.

18. ADDITIONAL INFORMATION TO THE CASHFLOW STATEMENT

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

	1997 £000	1996 £000
Operating profit	**16,883**	15,664
Depreciation, net	**5,194**	4,955
Increase (decrease) in provisions	**(1,408)**	580
Cashflow from operations	**20,669**	21,199
Working capital movements -		
Stocks	**(161)**	204
Debtors	**(265)**	177
Creditors	**2,628**	509
Net cash inflow from operating activities	**22,871**	22,089

18. ADDITIONAL INFORMATION TO THE CASHFLOW STATEMENT - continued

b) Reconciliation of net cashflow to movement in net borrowings -

	1997 £000	1996 £000
Decrease in net cash in year	**(717)**	(3,047)
Cash used to repay borrowings	**9,109**	14,096
Cash from new borrowings	**(1,642)**	(9,914)
Cash used by increasing liquid resources	**83**	3,667
Reduction in net borrowings	**6,833**	4,802
Net borrowings at beginning of year	**(51,788)**	(56,590)
Net borrowings at end of year	**(44,955)**	(51,788)

c) Analysis of changes in net borrowings during the year -

	Opening net borrowings £000	Cashflows in year £000	Debt maturities £000	Closing net borrowings £000
Cash	818	(717)	-	**101**
Liquid funds, being short term deposits	11,167	83	-	**11,250**
Cash at bank and on deposit	11,985	(634)	-	**11,351**
Borrowings due within one year	(6,020)	6,170	(1,486)	**(1,336)**
Borrowings due after one year	(57,753)	1,297	1,486	**(54,970)**
Net borrowings	(51,788)	6,833	-	**(44,955)**

19. ULTIMATE PARENT COMPANY AND RELATED PARTY TRANSACTIONS

The ultimate parent and controlling company is Bristol Water Holdings plc. Copies of its consolidated accounts are available from PO Box 218, Bridgwater Road, Bristol BS99 7AU.

The company has taken advantage of the exemptions within Financial Reporting Standard 8 (Related Party Disclosures) and not disclosed transactions with other Bristol Water Holdings plc group undertakings and associated undertakings.

AUDITORS' REPORT

To the members of Bristol Water plc

We have audited the financial statements on pages 8 to 21.

Respective responsibilities of directors and auditors

As described on page 7, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 1997 and of its profit, total recognised gains and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants and Registered Auditors
Bristol
11 June 1997

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the sixth Annual General Meeting of Bristol Water plc will be held at the Company's Registered Office at Bridgwater Road, Bristol on Monday 14 July 1997 at 8:30am for the following purposes -

AS ORDINARY BUSINESS

To consider and, if thought fit, to pass Resolutions 1 to 4 as ordinary resolutions.

Resolution 1 To receive and adopt the Directors' Report and the Accounts for the year ended 31 March 1997.

Resolution 2 To declare a final dividend of 38.85 pence (net) per ordinary share, payable immediately.

Resolution 3 To re-elect Mr A Parsons as a Director of the Company.

Resolution 4 To reappoint Coopers & Lybrand as Auditors of the Company and to authorise the Directors to fix their remuneration.

By order of the Board
N J Dell
Company Secretary
11 June 1997

Registered Office:
PO Box 218
Bridgwater Road
Bristol BS99 7AU

Registered in England
Number 2662226

A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote on a poll in his/her place. Such proxy need not be a member of the Company.

The register of directors' securities interests and copies of directors' service contracts of more than one year's duration will be available for inspection by those members entitled to attend and vote during normal business hours on each business day at the registered office from the date of this Notice until the conclusion of the meeting.

FINANCIAL HISTORY

PROFIT AND LOSS ACCOUNTS	**1997**	**1996**	**1995**	**1994**	**1993**
Years ended 31 March	**£000**	**£000**	**£000**	**£000**	**£000**
Turnover	**61,183**	59,514	56,403	53,734	50,753
Operating profit	**16,883**	15,664	13,461	12,258	11,116
(Profit) loss on disposals	**(233)**	(1,074)	(914)	(91)	89
Interest	**4,327**	5,491	5,135	4,868	4,661
Profit before taxation	**12,789**	11,247	9,240	7,481	6,366
Taxation	**2,232**	1,176	1,262	676	266
Profit after taxation	**10,557**	10,071	7,978	6,805	6,100
Dividends paid and proposed	**4,813**	5,183	4,783	4,527	3,835
Profit retained	**5,744**	4,888	3,195	2,278	2,265

BALANCE SHEETS -	**1997**	**1996**	**1995**	**1994**	**1993**
At 31 March	**£000**	**£000**	**£000**	**£000**	**£000**
Fixed assets	**137,531**	133,398	132,092	126,368	109,955
Net current assets (liabilities)	**(6,596)**	(4,129)	898	(18,254)	(8,028)
Total assets less current liabilities	**130,935**	129,269	132,990	108,114	101,927
Debt due after one year	**54,970**	57,753	67,092	48,849	47,073
Other liabilities	**14,164**	15,459	14,729	11,291	9,158
Net operating assets	**61,801**	56,057	51,169	47,974	45,696

CASHFLOW -	**1997**	**1996**	**1995**	**1994**	**1993**
Years ended 31 March	**£000**	**£000**	**£000**	**£000**	**£000**
Cashflow from operations	**22,871**	22,089	15,640	17,631	17,127
Interest and non-equity dividends paid	**(5,313)**	(7,738)	(5,718)	(6,247)	(4,728)
Tax and ACT paid	**(1,339)**	(1,235)	(483)	(556)	(7)
Capital expenditure	**(8,386)**	(4,614)	(10,988)	(14,424)	(14,926)
Dividends paid on equity shares	**(1,000)**	(3,700)	(3,300)	(3,044)	(3,004)
Cashflow before management of liquid resources and financing	**6,833**	4,802	(4,849)	(6,640)	(5,538)
Management of liquid resources	**(83)**	(3,667)	(4,900)	2,400	(5,000)
Net increase (decrease) in financing	**(7,467)**	(4,182)	18,010	(3,657)	12,325
Increase (decrease) in cash	**(717)**	(3,047)	8,261	(7,897)	1,787

RATIOS AND STATISTICS -	**1997**	**1996**	**1995**	**1994**	**1993**
Operating profit margin	**27.6%**	26.3%	23.9%	22.8%	21.9%
Interest cover (times)	**3.90**	2.85	2.62	2.52	2.38
Earnings per ordinary share	**151.3p**	143.2p	108.3p	88.7p	87.8p
Fully diluted earnings per share	**132.3p**	125.5p	96.3p	79.9p	79.1p
Gearing ratio	**73%**	92%	111%	108%	99%