

Bristol Water plc

REPORT AND ACCOUNTS 2001

Company No. 2662226



BRISTOL
WATER

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Bristol Water plc

The Company is one of the largest independent water supply companies in the country, providing an average of 300 million litres of water each day through 6,500 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.

Financial highlights

Year ended 31 March	2001	2000	% change
	£m	£m	
Turnover	64.8	69.4	-7%
Operating profit	17.6	18.7	-6%
Pre-tax profit	13.3	14.0	-5%
Net profit	10.5	11.2	-6%
Earnings per ordinary share	157.6p	169.2p	-7%
Dividend per ordinary share	83.5p	72.6p	15%

Chairman's statement

At the start of the year the company faced the major challenge of the impact of the new price limits set by OFWAT for the five years 2000-05.

The new price limits mean that we need to deliver substantial efficiency gains. At the end of 1999/00, we launched a major restructuring programme. This has now been successfully implemented whilst maintaining our high standards of service to customers and even improving them in some areas. The restructuring involved a reduction in the regulated business workforce of approximately 100 people and enabled us to reduce the comparable cost base for the business by around 10% in real terms.

We announced in April 2001 that following an extensive procurement process by the company, the Bristol Water group has agreed to form a joint venture with Wessex Water to provide a combined billing and customer contact service for the customers of the two regulated businesses. The joint venture will be owned on a 50/50 basis with Wessex Water. The existing billing and customer contact staff of both companies will transfer to the new company. The new arrangement will benefit customers by providing improved convenience and will deliver significant efficiency gains after the initial transition period.

The UK water industry is continuing to go through a period of change, with competition becoming increasingly significant. At the same time, new financing and operational structures are being introduced. We are monitoring these developments.

Profit before tax for the year was £13.3m, compared to £14.0m in 2000. Given the impact of the 10% real reduction in the regulated business's charges to customers, which had an approximate effect on revenues of £6.6m, this represents a very strong underlying performance.

We have declared an 11.9% increase in the final ordinary dividend, bringing the total ordinary dividend for the year to 83.5p, a 15% increase from 1999/00.

The business has done extremely well in mitigating the effects of the mandatory price cut. I would like to give full credit to everyone in the company who has contributed so much to these achievements.



Alan Parsons
Chairman
30th May 2001

Business review

Like all water utilities, we have a large element of fixed costs. This means that the scope to cut costs is traditionally considered limited. At the start of the year, though, we were faced with price reductions of 10% in real terms. Without speedy, effective action, this would have reduced attributable profits by a half.

We are pleased to report that everyone in the company has risen to this challenge and before additional maintenance costs of £1.4m for the Gloucester to Sharpness Canal, operating costs were some £3.5m lower in real terms than in 2000. We said at the outset we would not compromise standards of service to customers. Despite significant reductions in staff numbers, we are delighted to say our service standards have improved even further over previous levels. Those levels were already at the leading edge of industry performance.

To achieve these cost reductions, costs and processes have been continually challenged, both by incremental improvements and by more fundamental process re-design. Meanwhile, a company-wide bonus scheme incorporating financial and service performance targets has promoted an atmosphere that delivers value for money. Most importantly, we have also invested in understanding the inter-relationship between costs and risks. This ensures we get real, lasting value from risk prevention measures so necessary when handling the responsibility of supplying drinking water to over one million people.

We were extremely disappointed to find Ofwat assessed our comparative operating efficiency for 1999/2000, using econometric models, as below average. We have disputed this and brought to their attention a number of diverse factors that adversely affect our rankings on their models. Our cost reduction programme will also help to improve our comparative efficiency.

Our capital programme for the five years to 2005 as set out in the Final Determination (May 1999 prices) amounts to £125m. A major element relates to a £20m provision for the replacement of lead pipes. Although we planned to spread this cost evenly throughout the period, the Drinking Water Inspectorate wishes to see the optimisation of the recent chemical dosing programmes before supporting pipe replacement activity. Accordingly, to the extent ultimately necessary, this work will have to be carried out in the balance of the period to 2005.

The capital programme for the year included two major projects. One, the installation of cryptosporidium barriers at minor works, has been delayed in part by difficulties in gaining planning consents. The costs of this project will be higher than provided for in the price settlement due to late changes in the approved design of filtering equipment. The second significant project is ongoing mains rehabilitation. Progress to date has led to completion of the planned 88 km of relined or replaced mains at below budgeted cost.

During the year we decided to upgrade the company's major business systems, by implementing SAP, an integrated management information system. This represents a major project, with implementation planned for Autumn 2001.

Overall our capital expenditure was £18m after contributions from developers, compared to total depreciation charges of £13m.

Looking forward, the coming years will continue to see new costs having to be accommodated, for example the Climate Levy. New capital schemes will add to operating costs, depreciation and to the interest burden. Profit improvement targets will require continued focus on costs but it is unrealistic to expect this year's scale of cost reduction to be repeated.

Operating and financial review

FINANCIAL HIGHLIGHTS

	2001 £m	2000 £m
Turnover	64.8	69.4
Operating profit	17.6	18.7
Profit before tax	13.3	14.0
Profit after tax	10.5	11.2
Earnings per share	157.6p	169.2p
Ordinary dividend per share	83.5p	72.6p

The results reflect a strong underlying performance with profit after tax only reduced by £0.7m to £10.5m, despite a 10% real reduction in charges to customers.

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 average charges each year. For 2000/01, the K factor was minus 10%, which meant a real reduction in turnover of some £6.6m in the current year. Overall turnover, after taking into account inflation, reduced by some £4.6m.

Operating costs before depreciation and exceptional items reduced by £1.2m. This reflects the major cost reduction programme initiated in 2000 but realised during 2001, partly offset by additional charges of £1.4m from British Waterways Board for the Sharpness Canal supply. An exceptional gain of £0.6m was made, this relates to the termination of the customer compensation policy previously insured with Brunel Insurance.

The net effect of the reductions in turnover and operating costs, together with a reduction in interest costs of £0.4m reflecting positive cash flows in the year, was to reduce profit before tax by £0.7m.

Net capital investment in the year was £18.2m. This was lower than originally anticipated, reflecting the start up of the new investment programme for the period 2000-05 together with the effect of some delays in obtaining planning permission for key sites. The level of investment is expected to increase in 2002.

The Board proposes a total ordinary dividend for the year of 83.5p, a 15% increase from 2000. As a result, a final ordinary dividend of 59.5p is being recommended.

Treasury

Net borrowings reduced from £67.5m to £63.0m during the year. The positive cash flow is due to the good operating result together with relatively low levels of capital investment.

During the year a £10m 5-year term loan was arranged, of which £5m was drawn down at the year end. During May 2001 a leasing agreement for £9m was finalised.

At the year end, net gearing (net debt/shareholders' funds) was 77% compared to 88% in 2000. Net debt and gearing levels are expected to increase during 2001/02 as the level of capital investment increases.

The company uses interest rate derivatives to manage exposures to fluctuations in interest rates. Positions on hedges are deferred and matched to the underlying transaction.

Net interest charges in the year totalled £4.5m and were covered 3.9 times.

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 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 14 days purchases (2000 - 9 days).

CHARITABLE DONATIONS

The company made no donations to charitable causes during the year (2000 - £Nil) 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 £175,000 (2000 - £165,000).

AUDITORS

A resolution to reappoint the auditors, PricewaterhouseCoopers, will be proposed at the Annual General Meeting.

APPOINTMENT AND REGULATORY ACCOUNTS

In accordance with its Instrument of Appointment made 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

As the company has listed debt and fixed income preference shares only, a statement on Corporate Governance is not required. However, one does appear 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 that 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.

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 financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board
N J Dell Secretary
30 May 2001



Accounting policies

The significant accounting policies adopted in the preparation of the accounts, which have been applied consistently, are set out below.

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, enhancements or planned maintenance of the network is treated as an addition to fixed assets and is included at cost.

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. Freehold land is not depreciated.

Depreciation of infrastructure assets takes account of planned expenditure levels to maintain the operating capability of the company's infrastructure assets in perpetuity. Regard is primarily taken of the five year plans submitted to the Office of Water Services for use in setting maximum charges.

Other assets are depreciated after commissioning over the following estimated economic lives -

Operational properties and structures	40 to 100 years
Treatment, pumping and general plant	20 to 24 years
Computing and communications and telemetry 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. This treatment is permitted by Statement of Standard Accounting Practice Number 4 but is a departure from the Companies Act 1985 which 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 as the related assets do not have determinable finite lives and therefore no basis exists for the amortisation of the contributions. The effect on tangible fixed assets is shown in Note 7(d) 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 rental 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.

Operating lease rental payments are charged to the profit and loss account on a straight-line basis over the term of the lease.

f. 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.

g. Research and development

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

h. 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 in previous years was written off to the profit and loss account unless it could 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.

i. 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.

j. Financial instruments

The company uses interest rate derivatives to manage exposures to fluctuations in interest rates. Positions on hedges are deferred and matched to the underlying transaction.

Profit and loss account

for the year ended 31 March 2001

		2001 Total £000	2000 Total £000
Turnover	Note 1	64,841	69,453
Operating costs	2	(47,858)	(49,119)
Exceptional operating items	2	<u>600</u>	<u>(1,591)</u>
Operating profit		17,583	18,743
Profit on disposal of tangible fixed assets		268	207
Net interest payable and similar charges	3	<u>(4,543)</u>	<u>(4,970)</u>
Profit on ordinary activities before taxation		13,308	13,980
Taxation on profit on ordinary activities	4	<u>(2,764)</u>	<u>(2,736)</u>
Profit on ordinary activities after taxation		10,544	11,244
Dividends -	5		
On irredeemable preference shares		(1,094)	(1,094)
On ordinary shares		<u>(5,008)</u>	<u>(4,355)</u>
Total dividends		<u>(6,102)</u>	<u>(5,449)</u>
Profit retained for the financial year		<u>4,442</u>	<u>5,795</u>
Earnings per share	6	<u>157.6p</u>	<u>169.2p</u>

Statement of total recognised gains and losses

for the year ended 31 March 2001

There were no recognised gains or losses other than the profit after taxation for the year of £10,544,000 (2000 - £11,244,000).

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

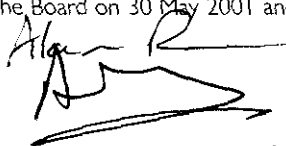
Balance sheet

at 31 March 2001

	Note	2001 £000	2000 £000
Tangible fixed assets	7	<u>170,029</u>	<u>165,309</u>
Current assets			
Stocks	8	543	811
Debtors	9	8,490	8,857
Cash at bank and on deposit	10	<u>9,469</u>	<u>1,552</u>
		<u>18,502</u>	<u>11,220</u>
Creditors: Amounts falling due within one year			
Short term borrowings	10	1,399	1,419
Other creditors	11	<u>25,783</u>	<u>21,088</u>
		<u>27,182</u>	<u>22,507</u>
Net current liabilities		<u>(8,680)</u>	<u>(11,287)</u>
Total assets less current liabilities		161,349	154,022
Creditors: Amounts falling due after more than one year	10	(71,096)	(67,619)
Deferred income	12	(8,467)	(8,463)
Provisions for liabilities and charges	14	<u>(313)</u>	<u>(909)</u>
		<u>81,473</u>	<u>77,031</u>
Capital and reserves			
Called up share capital	15	18,498	18,498
Share premium account	16	4,415	4,415
Other reserves	16	5,770	5,770
Profit and loss account	16	52,790	48,348
Total shareholders' funds	16	<u>81,473</u>	<u>77,031</u>
<i>Analysed as:</i>			
<i>Equity shareholders' funds</i>		68,973	64,531
<i>Non-equity shareholders' funds</i>		<u>12,500</u>	<u>12,500</u>

The accounts were approved by the Board on 30 May 2001 and signed on its behalf by -

A Parsons Chairman
A Nield Finance Director



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

Cash flow statement

for the year ended 31 March 2001

	Note	2001 £000	2000 £000
Net cash inflow from operating activities	19	32,304	29,624
Returns on investments and servicing of finance			
Interest received		398	192
Interest paid		(3,243)	(3,469)
Interest paid on finance leases		(1,382)	(1,522)
Dividends paid on non-equity shares		(1,094)	(1,094)
		<u>(5,321)</u>	<u>(5,893)</u>
Taxation			
Corporation tax paid		(2,764)	(1,879)
Advance corporation tax paid on dividends		-	(136)
		<u>(2,764)</u>	<u>(2,015)</u>
Capital expenditure			
Purchase of tangible fixed assets		(17,858)	(21,354)
less contributions received		2,373	2,891
Proceeds on disposal of tangible fixed assets		355	1,043
		<u>(15,130)</u>	<u>(17,420)</u>
Dividends paid on equity shares		<u>(4,629)</u>	<u>(3,888)</u>
Cash inflow before management of liquid resources and financing		4,460	408
Management of liquid resources			
being increase in short term deposits		(8,800)	-
Financing			
Capital element of new finance leases		-	296
New bank loans		5,000	-
Capital element of lease repayments		(1,543)	(1,602)
		<u>3,457</u>	<u>(1,306)</u>
Decrease in cash	19	(883)	(898)
Cash, beginning of year		1,552	2,450
Cash, end of year		669	1,552

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 the Office 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 -

	2001 £000	2000 £000
Wages and salaries	11,201	12,695
Social security costs	791	958
Pension costs	682	814
Total payroll cost	12,674	14,467
less charged to fixed assets	(2,917)	(4,018)
Net payroll cost	9,757	10,449
Other operating costs		
Research and development expenditure	175	165
Auditors' remuneration -		
Statutory audit	27	26
Other audit services including audit of regulatory returns	16	16
Other non-audit services mainly tax advice and compliance work	8	5
Raw materials, consumables and other charges less recoveries	24,883	25,421
Total other operating costs	25,109	25,633
Depreciation of tangible fixed assets -		
On owned assets	11,322	10,977
On leased assets	1,948	2,331
Amortisation of related deferred income	(278)	(271)
Net depreciation	12,992	13,037
Total operating costs before exceptional items	47,858	49,119
Exceptional operating items -		
Restructuring costs	-	1,591
Insurance rebate	(600)	-
Total operating costs	47,258	50,710

The restructuring costs mainly represented severance payments to employees. The insurance rebate occurred following the decision to terminate the customer compensation policy previously insured with Brunel Insurance Company Limited (Brunel). Brunel is a joint arrangement between the parent company and Wessex Water.

b) Employee details -

The average number of employees (full time equivalents) during the year was 463 (2000 - 572).

c) Directors' emoluments -

	2001 £000	2000 £000 Restated
Aggregate emoluments of all directors, being remuneration, bonus and benefits in kind	640	644
Aggregate gains made on the exercise of share options	-	-
	<u>640</u>	<u>644</u>

In total, at 31 March 2001 five directors were accruing retirement benefits under a defined benefit scheme (2000 - five).

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 for the year to 31 March 2001 to a maximum of 30% of base salary. Details of options previously granted to directors are shown in the Directors' Report.

The aggregate emoluments of the highest paid director in the year were £179,000 (2000 - £177,000). At the end of the year, the highest paid director in the year had an accrued pension entitlement available on his normal retirement date of £27,000 (2000 - £74,000) and an accrued lump sum entitlement of three times that amount.

The figures for 2000 have been restated to reflect bonuses accrued in respect of the year rather than those paid in the year and relating to previous years' performance. Prior to restatement the figures for 2000 were:

	£000
Aggregate emoluments of all directors	587
Aggregate emoluments of highest paid director	176

Prior to restatement the aggregate emoluments of £587,000 for 2000 were net of a waiver by one director of a bonus of £21,000 in lieu of additional pension contributions by the company. Subsequent bonuses have not been waived.

3. NET INTEREST PAYABLE AND SIMILAR CHARGES

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

	2001 £000	2000 £000
On bank borrowings	2,587	2,525
On other borrowings	1,081	1,223
Finance leases	1,282	1,400
Less interest income	(413)	(192)
Payable to group companies	6	14
Net interest expense	<u>4,543</u>	<u>4,970</u>

4. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

The charge for taxation for the year comprises -

	2001 £000	2000 £000
Corporation tax at 30% on the taxable profits for the year	4,102	3,889
Less advance corporation tax set off	(1,338)	(1,289)
	<u>2,764</u>	<u>2,600</u>
Advance corporation tax on dividends for the year written off	-	136
Charge for the year	<u>2,764</u>	<u>2,736</u>

The charge for the year includes £61,000 in respect of exceptional operating items (2000 credit - £84,000).

5. DIVIDENDS

	2001 £000	2000 £000
On non-equity shares -		
Irredeemable 8.75% preference shares -		
Paid	547	547
Payable 1 April	547	547
	<u>1,094</u>	<u>1,094</u>
On ordinary shares (equity shares) -		
Interim dividend paid of 24.0p (2000 - 19.44p)	1,440	1,166
Proposed final dividend of 59.5p (2000 - 53.16p)	3,568	3,189
	<u>5,008</u>	<u>4,355</u>
Total dividends paid and proposed	<u>6,102</u>	<u>5,449</u>

6. EARNINGS PER SHARE

	2001	2000
Earnings per share have been calculated as follows -		
On average number of ordinary shares in issue during the year -		
Earnings attributable to ordinary shares	£9,450	£10,150
Weighted average number of ordinary shares	<u>5,998</u>	<u>5,998</u>

As the Company has no obligation to issue further shares, disclosure of earnings per share on a fully diluted basis is not required.

7. TANGIBLE FIXED ASSETS

a) The movement for the year comprises -

	Freehold land & operational structures £000	Plant and equipment £000	Infra- structure assets £000	Total £000
Cost				
At 1 April 2000	117,521	23,159	132,559	273,239
Additions	7,035	2,401	11,096	20,532
Disposals	(86)	(1,997)	(1,510)	(3,593)
Grants and contributions	(145)	-	(2,228)	(2,373)
At 31 March 2001	<u>124,325</u>	<u>23,563</u>	<u>139,917</u>	<u>287,805</u>
Depreciation				
At 1 April 2000	35,179	16,848	55,903	107,930
Charge for year	3,960	2,680	6,630	13,270
Disposals	(70)	(1,844)	(1,510)	(3,424)
At 31 March 2001	<u>39,069</u>	<u>17,684</u>	<u>61,023</u>	<u>117,776</u>
Net book value				
At 31 March 2001	<u>85,256</u>	<u>5,879</u>	<u>78,894</u>	<u>170,029</u>
At 31 March 2000	<u>82,342</u>	<u>6,311</u>	<u>76,656</u>	<u>165,309</u>

b) Included above at 31 March 2001 is freehold land not subjected to depreciation in the year of £1,307,000 (2000 - £1,291,000).

c) Included above at 31 March 2001 are fixed assets held under finance leases with a cost of £38,513,000 (2000 - £40,105,000) and cumulative depreciation of £19,004,000 (2000 - £16,232,000).

d) The net book value of infrastructure assets is stated after the deduction of contributions of £28,202,000 (2000 - £25,974,000) as explained in Accounting Policy d.

11. OTHER CREDITORS DUE WITHIN ONE YEAR

Other creditors due within one year comprise -

	2001	2000
	£000	£000
Receipts in advance	6,455	6,048
Trade creditors	1,035	852
Due to group companies	940	525
Due to associated undertakings	265	266
Dividends payable	4,115	3,736
Tax, social security and payroll deductions	463	557
Corporation tax and advance corporation tax payable	1,974	1,974
Accruals and deposits received	10,536	7,130
	<u>25,783</u>	<u>21,088</u>

12. DEFERRED INCOME

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

	2001	2000
	£000	£000
Beginning of year	8,463	8,254
Contributions received	282	480
Less amortised	(278)	(271)
End of year	<u>8,467</u>	<u>8,463</u>

13. FINANCIAL INSTRUMENTS

The company's financial instruments, other than derivatives, comprise preference shares, borrowings, cash and various items, such as trade debtors and trade creditors, that arise directly from its operations. The sole purpose of these financial instruments is to finance the company's operations. The company also enters into interest rate swaps to manage the interest rate risk arising from its operations and sources of finance. It is the company's policy not to trade in financial instruments.

Interest rate risk management

The company borrows at both fixed and floating rates of interest, it then uses interest rate swaps to generate the desired interest rate profile and manage its exposure to interest rate fluctuations. The company's policy is to maintain the majority of its net debt on a fixed interest basis, using swaps where appropriate to manage this position. At the year end, 70% of the company's financial instruments were at fixed rates after taking into account interest rate swaps.

Liquidity risk management

It is company policy to ensure continuity of funding. At the year end at least 75% of its financial liabilities mature after five years. Short-term flexibility is achieved using overdraft facilities.

Interest rate risk profile of financial liabilities

The interest rate risk profile of the company's financial liabilities at 31 March 2001, after taking account of the interest rate swaps used to manage the interest profile, was -

	Total	Floating rate financial liabilities	Fixed rate financial liabilities
	£000	£000	£000
Financial liabilities	70,925	25,890	45,035
Irredeemable debentures	1,570	-	1,570
Irredeemable preference shares	12,500	-	12,500
At 31 March 2001*	84,995	25,890	59,105
Financial liabilities	67,468	13,346	54,122
Irredeemable debentures	1,570	-	1,570
Irredeemable preference shares	12,500	-	12,500
At 31 March 2000*	81,538	13,346	68,192

*Short-term debtors, creditors, cash and deposits have been excluded from the above disclosures. All the company's creditors falling due within one year (other than lease borrowings) are excluded from the above table either due to the exclusion of short-term balances or because they do not meet the definition of a financial liability within FRS 13, such as tax balances.

At 31 March 2001, the company was party to one interest rate swap. This swap commences in September 2001 and hedges for a five year period £20 million of borrowings that become floating rate at that time, for this period the total interest rate on the borrowings will be 8.42%.

	Weighted average Interest rate	Weighted average period for which rate is fixed
	%	Years
Financial liabilities	8.36	5.65
Irredeemable debentures	3.98	-
Irredeemable preference shares	8.75	-
As at 31 March 2001	8.26	
Financial liabilities	7.97	5.62
Irredeemable debentures	3.98	-
Irredeemable preference shares	8.75	-
As at 31 March 2000	8.02	

Floating rate liabilities bear interest at rates based on relevant national LIBOR equivalents, which are fixed in advance for periods of between three months and one year.

Interest rate risk of financial assets

The financial assets comprise only of cash at bank and short-term deposits. Cash and short-term deposits are placed with banks and building societies on a rolling basis of up to six months earning interest based on LIBID equivalents.

Borrowing facilities

The company has a £5 million (2000 £5 million) undrawn, committed borrowing facilities available in respect of which all conditions precedent had been met. The facilities are floating rate and expire within one year. The facilities are subject to review during 2001 and incur non-utilisation fees at market rates.

The company also has a £5 million (2000 £Nil) undrawn committed loan of which all conditions precedent had been met and is due to be drawn by 7 August 2001. This loan is floating rate and would mature on 23 February 2006. The undrawn balance incurs non-utilisation fees until drawn down.

Since the year end, the Company has agreed two finance leases for approximately £9 million in total. The leases are floating rate and are for periods of 7 and 20 years respectively.

Fair values of financial assets and financial liabilities

Although the company does not intend to trade in any financial instruments, the following table provides a comparison, by category, of the carrying amounts and the fair value of the group's financial assets and financial liabilities. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest rates. The table below summarises the methods and assumptions used for each category of financial instrument.

	31 March 2001		31 March 2000	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Primary financial instruments held or issued to finance the company's operations:				
Cash at bank and short term deposits	9,469	9,469	1,552	1,552
Short-term borrowings	(1,399)	(1,399)	(1,419)	(1,419)
Long-term borrowings	(71,096)	(73,078)	(67,619)	(68,088)
Irredeemable Preference shares	(12,500)	(16,438)	(12,500)	(16,250)
Derivative financial instruments held to manage the interest rate profile:				
Interest rate swaps	-	(2,295)	-	(874)

Summary of methods and assumptions used -

Short-term borrowings The fair value of short-term borrowings approximates to the carrying amount because of the short maturity of these instruments.

Long-term borrowings The fair value of the company's debentures has been calculated by discounting the expected cash flows at prevailing market rates including an estimated margin over gilts. Fixed rate bank loans and leases have been discounted on a similar basis but to LIBOR futures. In the case of floating rate facilities the fair values approximate to the carrying values as payments are reset to market rates at intervals of one year or less.

Preference shares The company's preference shares are listed on the London Stock Exchange and their fair value is based on their quoted market price.

Interest rate swaps Fair value is based on the market price of comparable instruments at the balance sheet date.

Interest rate hedges

The company hedges interest rate risk using interest rate swaps. The table below shows the extent to which the group has unrecognised off-balance sheet positions in respect of financial instruments used as hedges at the beginning and end of the year. It also shows how they are expected to be included in the profit and loss account by year. Relative to interest rates at the year end, the hedges increase/(decrease) reported interest cost as follows -

	£000
Unrecognised positions on hedges at 31 March 2000	874
Arising in previous years included in 2001 income	(43)
	<u>831</u>
Positions not included in 2001 income	
Arising before 1 April 2000	1,464
Arising in 2001	<u>2,295</u>
Positions on hedges at 31 March 2001	
of which:	
Expected to be included in 2002 income	529
Expected to be included in 2003 income or later	<u>1,766</u>

14. PROVISION FOR LIABILITIES AND CHARGES

	2001 £000	2000 £000
Restructuring costs not yet paid in accordance with note 2(a)		
Provision brought forward at 1 April 2000	909	-
Utilised in year	(596)	-
Charged to Profit and Loss Account in year	-	909
Provision carried forward at 31 March 2001	313	909

The remaining provision is committed against severance payments for named individuals.

15. CALLED UP SHARE CAPITAL

The authorised and issued share capital of the company is -

	Authorised		Issued and fully paid	
	2001 £000	2000 £000	2001 £000	2000 £000
Ordinary shares	5,857	5,857	5,857	5,857
Non-voting ordinary shares	141	141	141	141
6.75% redeemable preference shares	5,770	5,770	-	-
8.75% irredeemable cumulative preference shares	14,000	14,000	12,500	12,500
	25,768	25,768	18,498	18,498

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.

16. MOVEMENT IN SHAREHOLDERS' FUNDS

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Profit and loss £000	Total 2001 £000	Total 2000 £000
Beginning of year	18,498	4,415	5,770	48,348	77,031	71,236
Profit for year	-	-	-	10,544	10,544	11,244
Dividends	-	-	-	(6,102)	(6,102)	(5,449)
End of year	18,498	4,415	5,770	52,790	81,473	77,031

17. COMMITMENTS AND CONTINGENCIES

a) Capital commitments at 31 March 2001 contracted for but not provided were £7,368,000 (2000 - £1,010,000).

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 30% is -

	2001 £000	2000 £000
Accelerated capital allowances and capital element of finance leases	28,060	28,076
Short term timing differences	(747)	(617)
Unrelieved advance corporation tax	(2,245)	(3,174)
	25,068	24,285

c) Contingencies

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

18. PENSIONS

Pension arrangements for the majority of the company's employees are provided through the company's membership of the Water Companies' Pension Scheme which provides defined benefits based on final pensionable pay. The principal scheme is the Bristol Water plc sub fund. 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 1999 assumed that investment returns would be 8% per annum from equities and 6.5% from index-linked gilts, salaries and wages would increase on average by 5.5%, pensions by 3.5% and equity dividends by 4.7% per annum.

The actuarial valuation at 1 April 1999 showed the market value of Scheme assets relating to the company as £100.9 million and that the actuarial value of these assets represented 113% of accrued benefits allowing for future earnings increases.

During 1999/00 and 2000/01 a number of employees left the company on severance terms which included pension enhancements and/or entitlement to early payment of pensions. The cost of this is actuarially assessed at approximately £3.8m, an increase of £1.0m from the assessment at 31 March 2000. It is anticipated that this cost will be met from the scheme surplus.

The total pension charge for the year was £682,000 (2000 - £814,000). Past service surpluses are amortised over the expected remaining service lives of members. There were no outstanding or prepaid contributions at the balance sheet date.

19. ADDITIONAL INFORMATION TO THE CASH FLOW STATEMENT

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

	2001 £000	2000 £000
Operating profit after exceptional operating items	17,583	18,743
Depreciation, net	12,992	13,037
Cash flow from operations	30,575	31,780
Working capital movements -		
Stocks	268	317
Debtors	715	(294)
Creditors	1,342	(3,088)
Provisions	(596)	909
Net cash inflow from operating activities	32,304	29,624

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

	2001 £000	2000 £000
Decrease in net cash in year	(883)	(898)
Cash used to repay borrowings	1,543	1,602
Cash from new borrowings	(5,000)	(296)
Cash used to increase liquid resources	8,800	-
Decrease in net borrowings	4,460	408
Net borrowings at beginning of year	(67,486)	(67,894)
Net borrowings at end of year	(63,026)	(67,486)

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

	Opening net borrowings £000	Cash flows in year £000	Debt maturities £000	Closing net borrowings £000
Cash at bank	1,552	(883)	-	669
Short term deposits	-	8,800	-	8,800
	<u>1,552</u>	<u>7,917</u>	<u>-</u>	<u>9,469</u>
Borrowings due within one year	(1,419)	1,543	(1,523)	(1,399)
Borrowings due after one year	(67,619)	(5,000)	1,523	(71,096)
Net borrowings	<u>(67,486)</u>	<u>4,460</u>	<u>-</u>	<u>(63,026)</u>

20. ULTIMATE PARENT COMPANY AND RELATED PARTY TRANSACTIONS

The immediate and 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.

Independent auditors' report to the shareholders of Bristol Water plc

We have audited the financial statements of Bristol Water plc on pages 7 to 21.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards are set out in the Statement of Directors' Responsibilities on page 6.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. This other information comprises only the Directors' Report, the Chairman's Statement, the Business Review and the Operating and Financial Review.

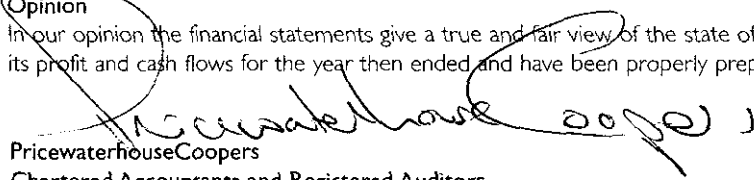
Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 judgments 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 affairs of the company as at 31 March 2001 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

Bristol

30 May 2001

Financial history

PROFIT AND LOSS ACCOUNTS

Years ended 31 March

	2001 £000	2000 £000	1999 £000	1998 £000	1997 £000
Turnover	64,841	69,453	66,793	63,955	61,183
Operating profit	17,583*	18,743*	19,300	17,572	16,883
Profit on disposals	268	207*	135	46	233
Interest	(4,543)	(4,970)	(4,650)	(3,773)	(4,327)
Profit before taxation	13,308	13,980	14,785	13,845	12,789
Taxation	(2,764)	(2,736)	(1,213)	(1,985)	(2,232)
Profit after taxation	10,544	11,244	13,572	11,860	10,557
Dividends paid and proposed	(6,102)	(5,449)	(5,144)	(5,083)	(4,813)
Profit retained	4,442	5,795	8,428	6,777	5,744

BALANCE SHEETS

At 31 March

	2001 £000	2000 £000	1999 £000	1998 £000	1997 £000
Fixed assets	170,029	165,309	160,765	145,197	131,018
Net current liabilities	(8,680)	(11,287)	(12,454)	(13,848)	(6,596)
Total assets less current liabilities	161,349	154,022	148,311	131,349	124,422
Debt due after one year	(71,096)	(67,619)	(68,821)	(54,876)	(54,970)
Other liabilities	(8,780)	(9,372)	(8,254)	(7,895)	(7,651)
Net operating assets	81,473	77,031	71,236	68,578	61,801

CASH FLOW

Years ended 31 March

	2001 £000	2000 £000	1999 £000	1998 £000	1997 £000
Cash flow from operations	32,304	29,624	30,355	30,129	29,729
Interest and non-equity dividends paid	(5,321)	(5,893)	(6,144)	(5,885)	(5,313)
Tax and ACT paid	(2,764)	(2,015)	(1,604)	(2,307)	(1,339)
Capital expenditure	(15,130)	(17,420)	(29,992)	(24,625)	(15,244)
Dividends paid on equity shares	(4,629)	(3,888)	(3,686)	(3,410)	(1,000)
Cash flow before management of liquid resources and financing	4,460	408	(11,071)	(6,098)	6,833
Management of liquid resources	(8,800)	-	-	11,250	(83)
Net increase/(decrease) in financing	3,457	(1,306)	8,313	(45)	(7,467)
Increase/(decrease) in cash	(883)	(898)	(2,758)	5,107	(717)

RATIOS AND STATISTICS

	2001	2000	1999	1998	1997
Operating profit margin	27.1%*	27.0%*	28.9%	27.5%	27.6%
Interest cover (times)	3.87*	3.77*	4.15	4.66	3.90
Earnings per ordinary share	157.6p*	169.2p*	205.3p	173.0p	151.3p
Gearing ratio	77%	88%	95%	74%	73%

Note: All comparative data have been restated where necessary to conform with accounting practices adopted for the first time in the 1999 financial statements

*Stated after exceptional items

Notice of Annual General Meeting

Notice is hereby given that the tenth Annual General Meeting of Bristol Water plc will be held at the Company's Registered Office at Bridgwater Road, Bristol on Monday 23rd July 2001 at 9:30am for the following purposes -

AS ORDINARY BUSINESS

To consider and, if thought fit, to pass Resolutions 1 to 5 as ordinary resolutions.

Resolution 1 To receive and adopt the Directors' Report and the Accounts for the year ended 31 March 2001.

Resolution 2 To declare and approve a final dividend of 59.5 pence (net) per ordinary share, payable immediately.

Resolution 3 To re-elect Mr Roger Wyatt as a director of the company.

Resolution 4 To re-elect Dr Arnold Bates as a director of the company.

Resolution 5 To reappoint PricewaterhouseCoopers as auditors of the company to hold office until the conclusion of the next general meeting at which accounts are laid out before the company and to authorise the directors to fix their remuneration.

By order of the Board

N J Dell

Company Secretary

30 May 2001

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 their place. Such proxy need not be a member of the Company.

Copies of the directors' service contracts and register of directors' securities interests will be available for inspection at the Registered Office from at least 15 minutes prior to the meeting and during the continuance thereof.