



Bristol Water plc
Report & Accounts 2002

BRISTOL WATER plc
Number: 2662226



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Bristol Water plc

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

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 | 2002 | 2001 Restated | % change |
|---|--------|------------------|----------|
| | £m | £m | |
| Turnover | 68.0 | 64.9 | 5% |
| Operating profit before exceptional items | 17.7 | 17.0 | 4% |
| Operating profit | 17.7 | 17.6 | 1% |
| Profit before tax | 13.9 | 13.4 | 4% |
| Profit after tax | 10.3 | 10.0 | 3% |
| Earnings per ordinary share | 153.2p | 147.7p | 4% |
| Dividend per ordinary share | 91.9p | 83.5p | 10% |

Chairman's statement

I am pleased to be able to announce a strong financial performance by the company.

The price limits set by Ofwat in 1999 meant that we needed to deliver substantial efficiency gains. At the end of 1999/2000 we launched a major restructuring programme which was successfully implemented while still maintaining our high standards of service to customers and even improving them in some areas. We have continued to seek further efficiency improvements whilst maintaining our service standards.

In July 2001, following an extensive procurement process by the regulated business, the Bristol Water group established a joint venture with Wessex Water to provide a combined billing and customer contact service initially for the customers of the two regulated businesses. When fully operational this will eliminate significant duplicated costs and provide a simplified and better service to customers. Initial feedback from customers has demonstrated their support for the change and the success of the first phase.

The capital expenditure programme established to deliver the outputs set by Ofwat for the five years 2000-05 is now well underway. A major element relates to a £20m programme 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. It is increasingly likely that the actual spend during the 5 year period will be at a relatively low level.

Profit before tax for the year was £13.9m, compared to £13.4m in 2001.

We have declared a 10% increase in the final dividend, bringing the total dividend for the year to 91.9p, a 10% increase from 2000/01. The final dividend will be paid to shareholders on 22 July 2002.

The progressive build up of the capital programme, with its consequent additional financing, depreciation and operating cost implications, together with the relatively low level of increase in charges under the RPI+K price limits to customers for 2002/03 of 1.9%, and Ks of 0% in 2003/04 and -1.9% in 2004/05 will have a significant impact on profits over the next three years.

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 have continued to monitor these developments.

My thanks go to all our employees who have contributed so successfully to delivering such a strong performance.



Alan Parsons
Chairman
29 May 2002

Business review

During the year we made further operating improvements consolidating the considerable cost reductions made during the previous year. Our primary focus during the year has been on two key initiatives that will enable us to make further efficiency gains in due course.

The first of these initiatives has been a major project to install a new integrated financial and works management IT system (SAP) to replace a number of older systems. A key objective for this development was to reduce future maintenance and development costs of our old suite of systems. This project was successfully implemented and went live on 1 October 2001.

The second initiative has been the creation of a joint venture with Wessex Water to enable the two companies to issue combined bills to customers. The joint venture is owned on a 50/50 basis by Bristol Water Holdings plc and Wessex Water and during the year the existing billing and customer contact staff of both companies transferred to the new company. A new billing system was also successfully implemented during the year and the first joint bills were issued to unmeasured customers during March 2002. Work is in hand to bring measured customers on to the same system later this year. The new arrangement will benefit customers by improving convenience and will deliver significant efficiency gains from 2003/04.

An important operational issue during the year was the damage caused by a major water main burst on the A4 Portway in the confines of the Avon Gorge. Working together with Bristol City Council we were able to get the road quickly back into service and avoided any significant disruption to water supplies. Permanent repairs are currently in progress, but the complex nature of the site means that it will take some months to complete.

Water resources were a concern during the year, with the increasingly variable weather patterns that we are experiencing making forecasting extremely difficult. During November and December, normally a key time for the refilling of reservoirs, there was a prolonged dry spell with minimal recorded rainfall which raised concerns about the supply position for 2002. This was then followed by a sustained period of rain during February and March and reservoirs are now back to normal levels. The situation will continue to be monitored closely.

The Ofwat report on service levels by water companies in 2000/01 confirms that we have maintained or improved on our already high levels of service to customers.

We were pleased to see that our ranking in Ofwat's relative operating efficiency report for 2000/01, using econometric models, showed a significant improvement. This was due to a combination of our continuing cost reduction programme and recognition by Ofwat that their models did not fully reflect our true performance. We are continuing to discuss with Ofwat a number of diverse factors that still adversely affect our rankings in their models.

Our capital programme for the five years to 2005, as set out in the Final Determination (May 1999 prices), amounts to £125m. As explained in the Chairman's Statement, this includes £20m for the replacement of lead communication pipes, of which we have only spent a small amount to date.

The capital programme for the year included four major projects. One, completion of the installation of cryptosporidium barriers at seven smaller treatment works, has progressed well and all sites are now operational with this added protection in place. The second significant project is ongoing mains renovation. During the year we completed 105 km of relined or replaced mains, adding to the previous year's 88 km, at below budgeted cost. The remaining two projects were the SAP IT development and the new joint billing system.

Overall our net capital expenditure was £23.5m after contributions from developers compared to £18.2m in the previous year.

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

Operating and financial review

FINANCIAL HIGHLIGHTS

| | 2002 | 2001 |
|---|--------|----------|
| | | Restated |
| | £m | £m |
| Turnover | 68.0 | 64.9 |
| Operating profit before exceptional items | 17.7 | 17.0 |
| Operating profit | 17.7 | 17.6 |
| Profit before tax | 13.9 | 13.4 |
| Profit after tax | 10.3 | 10.0 |
| Earnings per share | 153.2p | 147.7p |
| Ordinary dividend per share | 91.9p | 83.5p |

Overall turnover, after allowing for the effect of an accounting policy change, increased by some £3.1m, mainly due to the RPI+K increase.

Profit after tax was £10.3m, an increase of £0.3m from 2001, leading to an increase in earnings per share of 3.7%.

In November 1999, Ofwat issued the Periodic Review Final Determination. This set maximum price limits for charges to customers for the five years 2000-05. The limits, known as K factors, plus movements in the RPI index, determine the allowed increase or decrease in overall charges each year. For 2001/02 the K factor was 1%, which together with an RPI movement of 3.2% meant an average increase in charges to customers of some 4.2%.

Operating costs before depreciation increased by £2.3m. This principally reflects the impact of inflation, the new climate levy charge of £0.4m pa and the non-recurrence of an exceptional insurance premium rebate of £0.6m in the previous year.

We have also increased the bad debt charge, reflecting a deteriorating collection experience following a government decision to prohibit domestic disconnections. The charge for the year was £1.6m compared to £0.8m in the previous year.

Depreciation increased by £0.7m reflecting the commissioning of new assets and the decision to accelerate the depreciation charge for other assets.

The net effect of the increases in turnover, operating costs and depreciation together with an increase in the net proceeds from property disposals of £0.5m was to increase profit before tax to £13.9m from £13.4m.

Capital investment, net of grants and contributions in the year was £23.5m, a significant increase on 2000/01 (£18.2m) reflecting the progressive build up of the capital programme for the five years 2000-05.

The results include for the first time the impact of FRS19, the new accounting standard on deferred tax, using a discounting methodology. At 31 March 2002 the discounted balance sheet provision amounts to £15.2m. The net profit and loss account effect of FRS19 is to increase the deferred tax charge for the year by £1.3m and the current tax charge by £1.0m relating to ACT. The profit and loss change is net of a £1.4m discounting gain. The effective total tax rate for the year is 26%, without the discounting gain it would be 36%. The results for 2001 have been restated accordingly.

The Board proposes a total dividend for the year of 91.9p, a 10% increase from 2001. As a result, a final dividend of 65.5p is being recommended.

In these accounts the appropriate disclosures required under FRS17, the new accounting standard on pensions, are made. These show that on an FRS17 basis the Bristol Water plc sub fund of the Water Companies' Pension Scheme would be represented on the balance sheet as an asset of £14.4m (£10.0m net of deferred tax).

An actuarial review of the sub fund as at 31 March 2002 is currently in progress. The sub fund is currently invested primarily in equities. When the results of the actuarial review are available, subject to the agreement of the trustees, we will examine carefully a reduction in the proportion of equities with a corresponding increase in investments in bonds and other fixed income securities.

Treasury

Net borrowings increased from £63.0m to £71.5m during the year.

During the year the second £5m tranche of a £10m five year term loan was drawn down. During May 2001 two leasing agreements for a total of £9m were completed.

At the year end, net gearing (net debt/equity) was 97% compared to 90% in 2001. Net debt and gearing levels are expected to increase during 2002 as the level of capital investment in the regulated business increases. Before the adoption of FRS19, the new standard on deferred tax, net gearing was 80% (2001 - 75%).

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 £4.6m and were covered 3.9 times.

Directors' report

for the year ended 31 March 2002

The directors have pleasure in submitting their report and the accounts for the year ended 31 March 2002.

PRINCIPAL ACTIVITIES

The company's principal activities are the provision of water supply and related services to a population of more than one million people and businesses 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 Business Review and the Operating and Financial Review. Dividends are disclosed in Note 5. A final ordinary dividend of 65.5p per share is proposed, equating to a total ordinary dividend for the year of 91.9p.

DIRECTORS AND THEIR INTERESTS

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

| | 1 April 2001 | 31 March 2002 |
|-------------------------------------|--------------|---------------|
| A Parsons, <i>Chairman</i> | 4,977 | 9,276 |
| Dr A J Bates | 1,935 | 1,942 |
| P D Knowlson | 326 | 333 |
| A S Nield, <i>Finance Director</i> | 500 | 500 |
| R W Wyatt, <i>Managing Director</i> | 3,382 | 5,103 |

There have been no changes in directors' interests from 31 March 2002 to the date of this report.

Mr A Parsons, Mr A Nield and Mr R Wyatt have service contracts with the parent company.

Mr A Parsons, who currently has a service contract with a 24-month notice period which will reduce to 12 months with effect from 1 April 2003, and Mr P Knowlson, who has a service contract with a six-month notice period, will offer themselves 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 -

| | Date of Grant | Unexercised options | Exercise price £ | Exercisable | |
|--------------|---------------|---------------------|------------------|-------------|-----------|
| | | | | from | to |
| A Parsons | 20.12.95 | 2,434 | 11.80 | Dec 1998 | Dec 2005 |
| Dr A J Bates | 20.12.95 | 915 | 11.80 | Dec 1998 | Dec 2005 |
| | 27.01.97* | 1,721 | 10.02 | Mar 2002 | Sept 2002 |
| P D Knowlson | 05.07.00* | 1,513 | 6.40 | Sept 2003 | Mar 2004 |
| A S Nield | 13.07.01* | 2,062 | 8.18 | Sept 2006 | Mar 2007 |
| R W Wyatt | 20.12.95 | 2,136 | 11.80 | Dec 1998 | Dec 2005 |

*Savings Related Share 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 2002 was £12.30 and ranged from £9.50 to £13.50 during the year.

During the year Mr Parsons and Mr Wyatt both exercised options to purchase 1,721 shares each, under the Savings Related Share Option scheme, at £10.02 leading to a gain on exercise of £4,268 each, and Mr Nield was granted options over shares under the Employee Savings Related Share Option Scheme.

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

PARENT COMPANY

All the company's ordinary 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 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. The company pays creditors in accordance with payment terms on receipt of valid invoices. At the end of the year, trade creditors represented the equivalent of 15 days purchases (2001 - 14 days).

CHARITABLE DONATIONS

The company made no donations to charitable causes during the year (2001 - £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 £72,000 (2001 - £175,000).

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, and the policies and procedures outlined there are applicable to the company.

Directors' report continued

for the year ended 31 March 2002

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 independent 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.



By order of the Board

S C Robson

Secretary

29 May 2002

Accounting policies

The accounts for 2001 have been restated for two changes:

- A change to the basis of recognition of turnover from metered supplies following a general review of the appropriateness of accounting policies as occasioned by Financial Reporting Standard FRS18, "Accounting Policies" (note b)
- The application of FRS19 Accounting for deferred tax (note h)

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.

b. Turnover

Turnover comprises charges to and accrued income from customers for water and other services, exclusive of VAT.

Income from metered supplies is based upon volumes of water invoiced plus estimated volumes of uninvoiced water delivered to customers during the year. In previous years this income was based upon actual volumes of water invoiced to customers during the year.

The accounts for the year ended 31 March 2001 have been restated on the new basis. The impact of the restatement is to increase turnover by £98,000 (2001 - £46,000), increase profits after tax by £88,000 (2001 - £41,000), increase accrued income in the balance sheet by £2,063,000 (2001 - £1,965,000), and to increase net assets after provision for tax in the balance sheet by £1,856,000 (2001 - £1,768,000).

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 price limits under the RPI+K formula.

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 |

Accounting policies continued

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.

The appropriate transitional disclosures under FRS17, "Retirement Benefits", the new accounting standard on pensions, are included in note 18 to the accounts.

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.

Advanced 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 advanced corporation tax previously written off when it is recovered against mainstream corporation tax liabilities.

This year the company has adopted the principles of FRS19. Deferred tax has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is not recognised to the extent that the transfer of economic benefits in future years is not probable. Deferred tax assets and liabilities recognised have been discounted at rates equivalent to the post-tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates similar to those of the deferred tax assets and liabilities.

The accounts for the year ended 31 March 2001 have been restated on this basis. The impact of FRS19 is to reduce profits for the year by £2,266,000 (2001 - £630,000) and net assets by £15,236,000 (2001 - £12,970,000).

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 2002

| | | 2002 | 2001 |
|--|------|------------------------|------------------|
| | | £000 | Restated £000 |
| | Note | | |
| Turnover | 1 | 68,013 | 64,887 |
| Operating costs | 2 | (50,272) | (47,858) |
| Exceptional operating item | 2 | - | 600 |
| Total operating costs | | <u>(50,272)</u> | <u>(47,258)</u> |
| Operating profit | | 17,741 | 17,629 |
| Profit on disposal of tangible fixed assets | | 760 | 268 |
| Net interest payable and similar charges | 3 | (4,598) | (4,543) |
| Profit on ordinary activities before taxation | | 13,903 | 13,354 |
| Taxation on profit on ordinary activities | 4 | (3,622) | (3,399) |
| Profit on ordinary activities after taxation | | 10,281 | 9,955 |
| Dividends - | 5 | | |
| On irredeemable preference shares | | (1,094) | (1,094) |
| On ordinary shares | | (5,512) | (5,008) |
| Total dividends | | <u>(6,606)</u> | <u>(6,102)</u> |
| Profit retained for the financial year | | <u>3,675</u> | <u>3,853</u> |
| Earnings per share | 6 | <u>153.2p</u> | <u>147.7p</u> |

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

Statement of total recognised gains and losses

for the year ended 31 March 2002

| | 2002 | 2001 |
|---|---------------------|------------------|
| | £000 | Restated £000 |
| Profit attributable to Bristol Water plc shareholders | 10,281 | 9,955 |
| Prior year adjustments net of attributable taxation | (11,202) | |
| Total losses recognised since last annual report | <u>(921)</u> | |

The prior year adjustments are detailed on pages 9 and 10, within the accounting policies in respect of turnover and taxation.

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

Balance sheet

at 31 March 2002

| | Note | 2002 £000 | 2001 Restated £000 |
|--|------|-----------------|--------------------------|
| Tangible fixed assets | 7 | 179,426 | 170,029 |
| Current assets | | | |
| Stocks | 8 | 437 | 543 |
| Debtors | 9 | 12,311 | 10,456 |
| Cash at bank and on deposit | 10 | 14,676 | 9,469 |
| | | 27,424 | 20,468 |
| Creditors: Amounts falling due within one year | | | |
| Short term borrowings | 10 | 3,355 | 1,399 |
| Other creditors | 11 | 23,092 | 25,981 |
| | | 26,447 | 27,380 |
| Net current assets/(liabilities) | | 977 | (6,912) |
| Total assets less current liabilities | | 180,403 | 163,117 |
| Creditors: Amounts falling due after more than one year | 10 | (82,825) | (71,096) |
| Deferred income | 12 | (8,396) | (8,467) |
| Provisions for liabilities and charges | 14 | (15,236) | (13,283) |
| Net assets | | 73,946 | 70,271 |
| 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 | 45,263 | 41,588 |
| Total shareholders' funds | 16 | 73,946 | 70,271 |
| <i>Analysed as:</i> | | | |
| <i>Equity shareholders' funds</i> | | 61,446 | 57,771 |
| <i>Non-equity shareholders' funds</i> | | 12,500 | 12,500 |

The accounts were approved by the Board on 29 May 2002 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 2002

| | Note | 2002 £000 | 2001 £000 |
|--|-------|-----------------|--------------|
| Net cash inflow from operating activities | 19(a) | 28,869 | 32,304 |
| Returns on investments and servicing of finance | | | |
| Interest received | | 815 | 398 |
| Interest paid | | (4,150) | (3,243) |
| Interest paid on finance leases | | (1,280) | (1,382) |
| Dividends paid on non-equity shares | | (1,094) | (1,094) |
| | | (5,709) | (5,321) |
| Taxation | | | |
| Corporation tax paid | | (1,995) | (2,764) |
| Capital expenditure | | | |
| Purchase of tangible fixed assets | | (26,237) | (17,858) |
| less contributions received | | 2,588 | 2,373 |
| Proceeds on disposal of tangible fixed assets | | 888 | 355 |
| | | (22,761) | (15,130) |
| Dividends paid on equity shares | | (5,151) | (4,629) |
| Cash (outflow)/inflow before management of liquid resources and financing | | (6,747) | 4,460 |
| Management of liquid resources | | | |
| being increase in short term deposits | | (5,200) | (8,800) |
| Financing | | | |
| Cash inflow from refinancing assets under new finance leases | | 8,159 | - |
| New bank loans and overdrafts | | 5,222 | 5,000 |
| Capital element of lease repayments | | (1,427) | (1,543) |
| | | 11,954 | 3,457 |
| Increase/(decrease) in cash | 19(c) | 7 | (883) |
| Cash, beginning of year | | 669 | 1,552 |
| Cash, end of year | | 676 | 669 |

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 -

| | 2002 £000 | 2001 £000 |
|---|---------------|---------------|
| Wages and salaries | 11,187 | 11,201 |
| Social security costs | 802 | 791 |
| Pension costs | 810 | 682 |
| Total payroll cost | <u>12,799</u> | <u>12,674</u> |
| less charged to fixed assets | (2,721) | (2,917) |
| Net payroll cost | <u>10,078</u> | <u>9,757</u> |
| Other operating costs | | |
| Operating lease rentals on plant and machinery | 49 | 25 |
| Research and development expenditure | 72 | 175 |
| Auditors' remuneration - | | |
| Statutory audit | 49 | 27 |
| Other audit services including audit of regulatory returns | 28 | 16 |
| Other non-audit services mainly tax advice and compliance work | 20 | 8 |
| Raw materials, consumables, bad debts and other charges less recoveries | <u>26,246</u> | <u>24,858</u> |
| Total other operating costs | <u>26,464</u> | <u>25,109</u> |
| Depreciation of tangible fixed assets - | | |
| On owned assets | 11,250 | 11,322 |
| On leased assets | 2,763 | 1,948 |
| Amortisation of related deferred income | (283) | (278) |
| Net depreciation | <u>13,730</u> | <u>12,992</u> |
| Total operating costs before exceptional item | <u>50,272</u> | <u>47,858</u> |
| Exceptional operating item - | | |
| Insurance rebate | - | (600) |
| Total operating costs | <u>50,272</u> | <u>47,258</u> |

The insurance rebate occurred following the decision to terminate the customer compensation policy previously insured with Brunel Insurance Company Limited (Brunel). Brunel was 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 430 (2001 - 463).

| | | |
|--|------------|------------|
| c) Directors' emoluments - | 2002 | 2001 |
| | £000 | £000 |
| Aggregate emoluments of all directors, being remuneration, bonus and benefits in kind | <u>719</u> | <u>640</u> |

In addition, during the year, two directors exercised options to purchase shares in the parent company with a net gain on exercise of £9,000, of which £5,000 relates to the highest paid director.

In total, at 31 March 2002 five directors were accruing retirement benefits under a defined benefit scheme (2001 - 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 2002 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 £193,000 (2001 - £179,000). 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 £34,000 (2001 - £27,000) 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 - | 2002 | 2001 |
| | £000 | £000 |
| On bank borrowings | 3,010 | 2,587 |
| On other borrowings | 1,096 | 1,081 |
| Finance leases | 1,335 | 1,282 |
| Less interest income | (843) | (413) |
| Payable to group companies | - | 6 |
| Net interest expense | <u>4,598</u> | <u>4,543</u> |

4. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

| | | |
|---|--------------|------------------|
| | 2002 | 2001 |
| | £000 | Restated £000 |
| (a) Analysis of charge for the year all arising in the United Kingdom: | | |
| Current tax | | |
| Corporation tax at 30% (2001 - 30%) | 4,202 | 4,000 |
| Advanced Corporation Tax written back | (473) | (345) |
| Adjustment to prior period | (1,389) | 44 |
| | <u>2,340</u> | <u>3,699</u> |
| Deferred tax | | |
| Current year movement | (176) | (53) |
| Adjustment to prior periods | 2,851 | (460) |
| Effect of discounting | (1,393) | 213 |
| | <u>1,282</u> | <u>(300)</u> |
| Tax on profit on ordinary activities | <u>3,622</u> | <u>3,399</u> |

The adjustment to prior periods mainly relates to effects of an agreement with the Inland Revenue to accelerate certain capital allowances.

Factors that may affect future tax charges

Based on current capital investment plans, the company expects to continue to be able to claim capital allowances in excess of depreciation in future years.

Advanced Corporation Tax (ACT) has only been recognised as an asset, to the extent that it is foreseen to be recoverable. There is a further £3.7m not recognised.

Changes in the discount rate year on year may cause large fluctuations in the effective tax rate.

Notes to the accounts

4. TAXATION ON PROFIT ON ORDINARY ACTIVITIES continued

(b) Factors affecting the tax charge:

The current tax for the period is lower (2001 - lower) than the standard rate of corporation tax in the United Kingdom (30%). The differences are explained below:

| | 2002 £000 | 2001 £000 |
|--|---------------|---------------|
| Profit on ordinary activities before tax | <u>13,903</u> | <u>13,354</u> |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom at 30% (2001 - 30%) | 4,171 | 4,006 |
| Effects of: | | |
| ACT set off for the current year | (473) | (345) |
| Adjustment to tax in respect of prior period | (1,389) | 44 |
| Other | 31 | (6) |
| | <u>2,340</u> | <u>3,699</u> |

5. DIVIDENDS

| | 2002 £000 | 2001 £000 |
|---|--------------|--------------|
| On non-equity shares - | | |
| Irredeemable 8.75% preference shares - | | |
| Paid | 547 | 547 |
| Payable 1 April | <u>547</u> | <u>547</u> |
| | 1,094 | 1,094 |
| On ordinary shares (equity shares) - | | |
| Interim dividend paid of 26.4p (2001 - 24.0p) | 1,583 | 1,440 |
| Proposed final dividend of 65.5p (2001 - 59.5p) | <u>3,929</u> | <u>3,568</u> |
| | 5,512 | 5,008 |
| Total dividends paid and proposed | <u>6,606</u> | <u>6,102</u> |

6. EARNINGS PER SHARE

| | 2002 000 | 2001 Restated 000 |
|---|--------------|-------------------------|
| Earnings per share have been calculated as follows - | | |
| On average number of ordinary shares in issue during the year - | | |
| Earnings attributable to ordinary shares | £9,187 | £8,861 |
| 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 movements for the year comprise -

| | Freehold land & operational structures £000 | Plant and equipment £000 | Infra- structure assets £000 | Total £000 |
|--------------------------|--|--------------------------------|---------------------------------------|----------------|
| Cost | | | | |
| At 1 April 2001 | 124,325 | 23,563 | 139,917 | 287,805 |
| Additions | 8,731 | 5,887 | 11,458 | 26,076 |
| Disposals | (34) | (4,792) | (1,604) | (6,430) |
| Grants and contributions | (145) | - | (2,443) | (2,588) |
| At 31 March 2002 | 132,877 | 24,658 | 147,328 | 304,863 |
| Depreciation | | | | |
| At 1 April 2001 | 39,069 | 17,684 | 61,023 | 117,776 |
| Charge for year | 5,557 | 1,660 | 6,796 | 14,013 |
| Disposals | (12) | (4,736) | (1,604) | (6,352) |
| At 31 March 2002 | 44,614 | 14,608 | 66,215 | 125,437 |
| Net book value | | | | |
| At 31 March 2002 | 88,263 | 10,050 | 81,113 | 179,426 |
| At 31 March 2001 | 85,256 | 5,879 | 78,894 | 170,029 |

b) Included above at 31 March 2002 is freehold land, not subjected to depreciation in the year, of £1,317,000 (2001 - £1,307,000).

c) Included above at 31 March 2002 are fixed assets held under finance leases with a cost of £45,001,000 (2001 - £37,167,000) and cumulative depreciation of £16,874,000 (2001 - £14,418,000). Comparative figures have been restated following a comprehensive review of asset accounting records consequent upon the introduction of new systems. The previously published values were cost £38,513,000 and cumulative depreciation of £19,004,000. There is no Profit and Loss Account impact of the restatement.

d) The net book value of infrastructure assets is stated after the deduction of contributions of £30,646,000 (2001 - £28,202,000) as explained in Accounting Policy d.

e) The charge for depreciation includes £422,000 (2001 - £Nil) accelerated depreciation in respect of certain assets that are to be replaced significantly earlier than previously planned.

8. STOCKS

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

9. DEBTORS

Debtors comprise -

| | 2002 £000 | 2001 Restated £000 |
|--------------------------------|---------------|--------------------------|
| Trade debtors | 8,210 | 5,489 |
| Due from group companies | 139 | 1,168 |
| Other debtors | 1,058 | 1,107 |
| Prepayments and accrued income | 2,904 | 2,692 |
| | 12,311 | 10,456 |

Notes to the accounts

10. NET BORROWINGS

a) At 31 March 2002 net borrowings comprise -

| | Term loans less cash £000 | Finance leases £000 | Debentures £000 | Total 2002 £000 | Total 2001 £000 |
|--|---------------------------------|---------------------------|--------------------|-----------------------|-----------------------|
| Repayment due: | | | | | |
| Between one and two years | - | 1,544 | - | 1,544 | 2,656 |
| Between two and five years | 11,731 | 5,840 | 5,283 | 22,854 | 13,453 |
| After five years: | | | | | |
| Other than by instalment | 15,000 | - | 1,776 | 16,776 | 16,776 |
| By instalment | 20,000 | 20,081 | - | 40,081 | 36,641 |
| Irredeemable debentures | - | - | 1,570 | 1,570 | 1,570 |
| Total borrowings due after one year | 46,731 | 27,465 | 8,629 | 82,825 | 71,096 |
| Current portion of debt less cash balances and short term deposits | 222 | 1,570 | 1,563 | 3,355 | 1,399 |
| | (14,676) | - | - | (14,676) | (9,469) |
| Net borrowings | 32,277 | 29,035 | 10,192 | 71,504 | 63,026 |

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

| | 2002 £000 | 2001 £000 |
|--|---------------|---------------|
| Debentures (listed on the London Stock Exchange) - | | |
| 11.20% Redeemable 2005 to 2009 | 1,776 | 1,776 |
| 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 |
| | 3,346 | 3,346 |
| Bank loans - | | |
| Unsecured, repayable between 2006 and 2010, fixed interest at 7.75% pa to 2002 then LIBOR related, hedged by fixed interest rate swap at comparable rates until 2006 | 20,000 | 20,000 |
| Unsecured, repayable 2008, fixed interest at 6.4% pa | 15,000 | 15,000 |
| Finance leases | 20,081 | 20,890 |
| | 58,427 | 59,236 |

11. OTHER CREDITORS DUE WITHIN ONE YEAR

Other creditors due within one year comprise -

| | 2002 £000 | 2001 Restated £000 |
|---|---------------|--------------------------|
| Receipts in advance | 2,655 | 6,455 |
| Trade creditors | 3,877 | 4,549 |
| Due to group companies | 985 | 940 |
| Due to associated undertakings | 409 | 265 |
| Dividends payable | 4,476 | 4,115 |
| Tax, social security and payroll deductions | 496 | 463 |
| Corporation tax payable | 1,532 | 2,172 |
| Accruals and deposits received | 8,662 | 7,022 |
| | 23,092 | 25,981 |

The 2001 figures have been restated to transfer £3,514,000 of Capital Creditors from Accruals to Trade Creditors to reflect a more appropriate analysis.

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.

| | 2002 £000 | 2001 £000 |
|------------------------|--------------|--------------|
| Beginning of year | 8,467 | 8,463 |
| Contributions received | 212 | 282 |
| Less amortised | (283) | (278) |
| End of year | <u>8,396</u> | <u>8,467</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, 61% 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 72% 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 2002, after taking account of the interest rate swaps used to manage the interest profile, was -

| | Floating rate financial liabilities £000 | Fixed rate financial liabilities £000 | Total £000 |
|--------------------------------|---|--|----------------------|
| Financial liabilities | 38,793 | 45,817 | 84,610 |
| Irredeemable debentures | - | 1,570 | 1,570 |
| Irredeemable preference shares | - | 12,500 | 12,500 |
| At 31 March 2002* | <u>38,793</u> | <u>59,887</u> | <u>98,680</u> |
| Financial liabilities | 25,890 | 45,035 | 70,925 |
| Irredeemable debentures | - | 1,570 | 1,570 |
| Irredeemable preference shares | - | 12,500 | 12,500 |
| At 31 March 2001* | <u>25,890</u> | <u>59,105</u> | <u>84,995</u> |

*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 2002, the company was party to one interest rate swap. This swap commenced in September 2001 and hedges for a five year period £20 million of borrowings that became floating rate at that time. For this period the total interest rate on the borrowings will be 8.42%.

Notes to the accounts

13. FINANCIAL INSTRUMENTS continued

| | Weighted average Interest rate % | Weighted average period for which rate is fixed Years |
|--------------------------------|---|--|
| Financial liabilities | 7.95 | 4.64 |
| Irredeemable debentures | 3.98 | - |
| Irredeemable preference shares | 8.75 | - |
| As at 31 March 2002 | <u>8.01</u> | |
| Financial liabilities | 8.36 | 5.65 |
| Irredeemable debentures | 3.98 | - |
| Irredeemable preference shares | 8.75 | - |
| As at 31 March 2001 | <u>8.26</u> | |

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 (2001 - £5 million) undrawn, committed borrowing facility available in respect of which all conditions precedent have been met. The facilities are floating rate and expire within one year. The facilities are subject to review during 2003 and incur non-utilisation fees at market rates.

During the year the company drew down £5 million of loan facilities that had been committed in the previous year. This loan is floating rate and matures on 23 February 2006. The company also 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 2002 | | 31 March 2001 | |
|--|--------------------|--------------------|--------------------|--------------------|
| | 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 | 14,676 | 14,676 | 9,469 | 9,469 |
| Short-term borrowings | (3,355) | (3,355) | (1,399) | (1,399) |
| Long-term borrowings | (82,825) | (84,130) | (71,096) | (73,078) |
| Irredeemable Preference shares | (12,500) | (17,188) | (12,500) | (16,438) |
| Derivative financial instruments held to manage the interest rate profile: | | | | |
| Interest rate swaps | - | (2,579) | - | (2,295) |
| | (84,004) | (92,576) | (75,526) | (83,741) |

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 2001 | 2,295 |
| Arising in previous years included in 2002 income | <u>(529)</u> |
| Positions not included in 2002 income | |
| Arising before 1 April 2001 | 1,766 |
| Arising in 2002 | 813 |
| | <u>2,579</u> |
| Positions on hedges at 31 March 2002 | |
| of which: | |
| Expected to be included in 2003 income | 645 |
| Expected to be included in 2004 income or later | <u>1,934</u> |

Notes to the accounts

14. PROVISIONS FOR LIABILITIES AND CHARGES

The total provisions for liabilities and charges are as follows:

| | 2002 | 2001 |
|--------------------------------|---------------|------------------|
| | £000 | Restated £000 |
| Restructuring costs - note (a) | - | 313 |
| Deferred taxation - note (b) | 15,236 | 12,970 |
| | <u>15,236</u> | <u>13,283</u> |

(a) Restructuring costs

| | | |
|---|-------|-------|
| Provision brought forward at 1 April | 313 | 909 |
| Utilised in year | (213) | (596) |
| Credited to Profit and Loss Account in year | (100) | - |
| Provision carried forward at 31 March | - | 313 |

(b) Deferred taxation

| | 2002 | 2001 |
|--|---------------|------------------|
| | £000 | Restated £000 |
| Analysis of deferred taxation liability: | | |
| Accelerated capital allowances and capital element of finance leases | 32,840 | 30,092 |
| Deferred income | (2,519) | (2,540) |
| Short term timing differences | (698) | (604) |
| Unrelieved Advanced Corporation Tax | (184) | (1,168) |
| | <u>29,439</u> | <u>25,780</u> |
| Effect of discounting | (14,203) | (12,810) |
| Net provision | <u>15,236</u> | <u>12,970</u> |

| | 2002 |
|---|---------------|
| | £000 |
| Deferred tax movement: | |
| Provision brought forward at 1 April - restated | 12,970 |
| Charge to Profit and Loss Account | 1,282 |
| Advanced Corporation Tax utilised | 984 |
| Provision carried forward at 31 March | <u>15,236</u> |

15. CALLED UP SHARE CAPITAL

The authorised and issued share capital of the company is -

| | Authorised | | Issued and fully paid | |
|---|---------------|---------------|-----------------------|---------------|
| | 2002 | 2001 | 2002 | 2001 |
| | £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 preference shares | 5,770 | 5,770 | - | - |
| 8.75% irredeemable cumulative preference shares | 14,000 | 14,000 | 12,500 | 12,500 |
| | <u>25,768</u> | <u>25,768</u> | <u>18,498</u> | <u>18,498</u> |

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 | Share premium account | Capital redemption reserve | Profit and loss | Total 2002 | Total 2001 Restated |
|--|---------------|-----------------------|----------------------------|-----------------|------------|---------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Beginning of year: | | | | | | |
| Balance per previous financial statements | | | | | | 77,031 |
| Effect of prior year restatements net of tax | | | | | | |
| - Income from metered supplies | | | | | | 1,727 |
| - FRS19 Accounting for Deferred Tax | | | | | | (12,340) |
| Restated balance at the beginning of year | 18,498 | 4,415 | 5,770 | 41,588 | 70,271 | 66,418 |
| Profit for year | - | - | - | 10,281 | 10,281 | 9,955 |
| Dividends | - | - | - | (6,606) | (6,606) | (6,102) |
| End of year | 18,498 | 4,415 | 5,770 | 45,263 | 73,946 | 70,271 |

17. COMMITMENTS AND CONTINGENCIES

a) Capital commitments at 31 March 2002 contracted for but not provided were £7,493,000 (2001 - £7,368,000).

b) 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

a) **Accounting under SSAP24**

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. The schemes have been closed to new entrants and all new eligible employees are now offered Stakeholder pensions.

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 £100.9m and that the actuarial value of these assets represented 113% of accrued benefits allowing for future earnings increases. A triennial valuation is due at 1 April 2002. This is currently being prepared by the actuaries and will be available during 2002.

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

The total pension charge for the year was £810,000 (2001 - £682,000) including £200,000 (2001 - Nil) of provisions made in accordance with SSAP24. 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.

Notes to the accounts

18. PENSIONS continued

b) Accounting under FRS17 "Retirement Benefits"

The measurement provisions of FRS17 "Retirement Benefits" will not be mandatory for the company until the year ending 31 March 2004. The following transitional disclosures are required:

Basis of valuation

The actuarial valuation of the Bristol Water plc sub fund of the Water Companies' Pension Scheme was updated to 31 March 2002, by an independent qualified actuary, using the following major assumptions in accordance with the transitional arrangements of FRS17.

Contributions

Contributions paid in the year ended 31 March 2002 were £610,000 (2001 - £682,000). In accordance with the terms of the scheme, Bristol Water plc is required to contribute at the rates of 9.8% for the main sub scheme and Nil% for the alternative sub scheme. This is subject to review after the next actuarial valuation of the scheme, due at 1 April 2002 and currently being prepared.

Valuation basis

| | |
|-------------------|------|
| Inflation | 2.8% |
| Pension increases | 2.8% |
| Salary increases | 4.8% |
| Discount rate | 6.1% |

| | | Value at 31 March 2002 £000 |
|---|------|-----------------------------------|
| Expected long-term rate of return for: | | |
| Equities | 8.3% | 77,092 |
| Bonds | 5.2% | 11,198 |
| Corporate bonds | 6.1% | 4,445 |
| Property | 6.7% | 2,900 |
| Cash | 5.2% | 1,597 |
| | | <u>97,232</u> |
| Present value of the sub fund's liabilities | | (82,882) |
| Surplus in the sub fund | | 14,350 |
| Deferred taxation | | (4,305) |
| Net pension asset | | <u>10,045</u> |

If the above amounts had been recognised in the financial statements, the company's net assets and reserves at 31 March 2002 would have been:

| | 2002 £000 |
|---|---------------|
| Net assets: | |
| Net assets excluding pension asset | 73,946 |
| Pension asset | 10,045 |
| Net assets including pension asset | <u>83,991</u> |
| Reserves: | |
| Profit and Loss Account excluding pension asset | 45,263 |
| Pension asset | 10,045 |
| Profit and Loss Account including pension asset | <u>55,308</u> |

19. ADDITIONAL INFORMATION TO THE CASH FLOW STATEMENT

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

| | 2002 | 2001 Restated |
|--|---------------|------------------|
| | £000 | £000 |
| Operating profit after exceptional operating items | 17,741 | 17,629 |
| Depreciation, net | 13,730 | 12,992 |
| Cash flow from operations | <u>31,471</u> | <u>30,621</u> |
| Working capital movements - | | |
| Stocks | 106 | 268 |
| Debtors | (1,667) | 669 |
| Creditors | (728) | 1,342 |
| Provisions | (313) | (596) |
| Net cash inflow from operating activities | <u>28,869</u> | <u>32,304</u> |

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

| | 2002 | 2001 |
|---|-----------------|-----------------|
| | £000 | £000 |
| Increase/(decrease) in net cash in year | 7 | (883) |
| Cash used to repay borrowings | 1,427 | 1,543 |
| Cash from new borrowings | (13,381) | (5,000) |
| Cash used to increase liquid resources | <u>5,200</u> | <u>8,800</u> |
| | | |
| (Increase)/decrease in net borrowings | <u>(6,747)</u> | 4,460 |
| New debt not affecting cash flow | (1,731) | - |
| Net borrowings at beginning of year | <u>(63,026)</u> | <u>(67,486)</u> |
| Net borrowings at end of year | <u>(71,504)</u> | <u>(63,026)</u> |

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

| | Opening net borrowings | Cash flows in year | Debt maturities | New debt not affecting cashflow | Closing net borrowings |
|--------------------------------|------------------------------|-----------------------|--------------------|---------------------------------------|---------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Cash at bank | 669 | 7 | - | - | 676 |
| Short term deposits | 8,800 | 5,200 | - | - | 14,000 |
| | <u>9,469</u> | <u>5,207</u> | <u>-</u> | <u>-</u> | <u>14,676</u> |
| | | | | | |
| Borrowings due within one year | (1,399) | 1,205 | (3,161) | - | (3,355) |
| Borrowings due after one year | (71,096) | (13,159) | 3,161 | (1,731) | (82,825) |
| Net borrowings | <u>(63,026)</u> | <u>(6,747)</u> | <u>-</u> | <u>(1,731)</u> | <u>(71,504)</u> |

Cash at bank includes overnight deposits.

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 which comprise the accounting policies, the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses, and the related notes.

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.

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 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 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 the company's affairs as at 31 March 2002 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

29 May 2002

Note: 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.

Financial history

PROFIT AND LOSS ACCOUNTS

| Years ended 31 March | 2002 | 2001 | 2000 | 1999 | 1998 |
|-----------------------------|---------|------------------|------------------|------------------|------------------|
| | £000 | Restated £000 | Restated £000 | Restated £000 | Restated £000 |
| Turnover | 68,013 | 64,887 | 69,672 | 67,032 | 64,112 |
| Operating profit | 17,741 | 17,629 | 18,962 | 19,539 | 17,729 |
| Profit on disposals | 760 | 268 | 207 | 135 | 46 |
| Interest | (4,598) | (4,543) | (4,970) | (4,650) | (3,773) |
| Profit before taxation | 13,903 | 13,354 | 14,199 | 15,024 | 14,002 |
| Taxation | (3,622) | (3,399) | (4,598) | (3,657) | (3,901) |
| Profit after taxation | 10,281 | 9,955 | 9,601 | 11,367 | 10,101 |
| Dividends paid and proposed | (6,606) | (6,102) | (5,449) | (5,144) | (5,083) |
| Profit retained | 3,675 | 3,853 | 4,152 | 6,223 | 5,018 |

BALANCE SHEETS

| At 31 March | 2002 | 2001 | 2000 | 1999 | 1998 |
|---------------------------------------|----------|----------|----------|----------|----------|
| | £000 | £000 | £000 | £000 | £000 |
| Fixed assets | 179,426 | 170,029 | 165,309 | 160,765 | 145,197 |
| Net current assets/(liabilities) | 977 | (6,912) | (9,559) | (10,922) | (12,531) |
| Total assets less current liabilities | 180,403 | 163,117 | 155,750 | 149,843 | 132,666 |
| Debt due after one year | (82,825) | (71,096) | (67,619) | (68,821) | (54,876) |
| Other liabilities | (8,396) | (8,780) | (9,372) | (8,254) | (7,895) |
| Provision for deferred taxation | (15,236) | (12,970) | (12,340) | (10,500) | (8,080) |
| Net operating assets | 73,946 | 70,271 | 66,419 | 62,268 | 61,815 |

CASH FLOW

| Years ended 31 March | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|----------|----------|----------|----------|----------|
| | £000 | £000 | £000 | £000 | £000 |
| Cash flow from operations | 28,869 | 32,304 | 29,624 | 30,355 | 30,129 |
| Interest and non-equity dividends paid | (5,709) | (5,321) | (5,893) | (6,144) | (5,885) |
| Tax and ACT paid | (1,995) | (2,764) | (2,015) | (1,604) | (2,307) |
| Capital expenditure | (22,761) | (15,130) | (17,420) | (29,992) | (24,625) |
| Dividends paid on equity shares | (5,151) | (4,629) | (3,888) | (3,686) | (3,410) |
| Cash flow before management of liquid resources and financing | (6,747) | 4,460 | 408 | (11,071) | (6,098) |
| Management of liquid resources | (5,200) | (8,800) | - | - | 11,250 |
| Net increase/(decrease) in financing | 11,954 | 3,457 | (1,306) | 8,313 | (45) |
| Increase/(decrease) in cash | 7 | (883) | (898) | (2,758) | 5,107 |

RATIOS AND STATISTICS

| | 2002 | 2001 | 2000 | 1999 | 1998 |
|-----------------------------|--------|--------|--------|--------|--------|
| Operating profit margin | 26.1% | 27.2% | 27.2% | 29.1% | 27.7% |
| Interest cover (times) | 3.86 | 3.88 | 3.82 | 4.20 | 4.70 |
| Earnings per ordinary share | 153.2p | 147.7p | 141.8p | 171.3p | 150.2p |
| Gearing ratio | 97% | 90% | 102% | 109% | 83% |

Notes: - All comparative data has been restated where necessary to conform with accounting practices adopted for the first time in the 1999 and 2002 financial statements.

- All data includes exceptional items where relevant.

Notice of Annual General Meeting

Notice is hereby given that the eleventh Annual General Meeting of Bristol Water plc will be held at the Registered Office, Bridgwater Road, Bristol, on Monday 22 July 2002 at 9:00am 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 2002.
- Resolution 2* To declare and approve a final dividend of 65.5 pence (net) per ordinary share, payable immediately.
- Resolution 3* To re-elect Mr A Parsons as a director of the company.
- Resolution 4* To re-elect Mr P D Knowlson as a director of the company.
- Resolution 5* To reappoint PricewaterhouseCoopers as auditors of the company and to authorise the directors to fix their remuneration.

By order of the Board
S C Robson
Company Secretary
29 May 2002

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.

The 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.