

Bristol Water Holdings plc  
Annual Report and accounts  
2003

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The Group contains 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. Bristol Water plc 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 Bristol and surrounding parts of Somerset, Gloucestershire and Wiltshire.

In addition, the Group carries out a range of contracting and consulting services primarily through its subsidiaries, Walter Lawrence Civil & Mechanical Limited and Bristol Water Services Limited.

# Financial highlights

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

# Financial calendar

Annual General Meeting	21 July 2003
Record date for 2003 final dividend	18 July 2003
Payment date for 2003 final dividend	1 October 2003
Interim announcement of unaudited results for the six months to 30 September 2003 (provisional)	27 November 2003
Payment date for 2004 interim dividend (provisional)	4 February 2004
Announcement of 2004 results (provisional)	27 May 2004

# Chairman's statement

**'Another strong performance'**

Moger Woolley

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

## Regulated water business

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

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

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

We have developed a new financing package for the regulated water business. This was completed shortly after the year end. Prior to completion, the business had a relatively short debt maturity profile. The new structure will provide a better mix of financing and a considerably longer maturity profile, more appropriate to the long-term nature of its asset base. The new facilities offer flexibility for the future including the ability to

substantially increase the financial gearing of the company. However, it is not the Board's current intention to do so.

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

## Other businesses

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

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

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

**‘Delivered high levels of service to customers’**

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

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

### **Financial result and dividends**

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

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

### **Higgs Report**

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

### **Corporate changes**

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

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

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

**‘Group will be placed in a strong position’**

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

The Board proposes to redesignate the 5,839,250 authorised but unissued 6.75% cumulative convertible redeemable preference shares as Ordinary Shares.

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

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

#### **Outlook**

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

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

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



**Moger Woolley**  
Chairman  
29 May 2003

# Chief Executive's report

**‘Commitment to delivery of high service standards’**

Alan Parsons

## **Bristol Water plc – the regulated business**

During the year, we have continued to consolidate the considerable operating cost reductions made in recent years.

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

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

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

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

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

## ‘Seeking further operational efficiency gains’

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

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

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

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

As noted in the Chairman's statement, profits for the next two years will be influenced by a range of additional costs,

in particular the financing, depreciation and operating cost implications of the continuing capital programme. We will continue to seek further operational efficiency gains whilst ensuring that we do not compromise our high standards of service.

### Other businesses

#### *Lawrence*

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

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

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

#### **Bristol Water Services(BWS)**

BWS is our international division providing network management services, specialising in leakage reduction.

Together with our joint venture partner, Premier Ayer Sdn Bhd, we are now three years into the nine-year phase 2 Selangor project in Malaysia. This project for non-revenue water reduction is being carried out by our joint venture company PABW and continues to meet all performance targets, making a useful contribution to satisfying the increasing demands for water in Kuala Lumpur and surrounding areas.

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

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

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

#### **Watergrid**

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

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



Alan Parsons  
Chief Executive  
29 May 2003

**‘Periodic Review process -  
outcome will be  
extremely important’**

# Operating and financial review

**‘Results represent a strong underlying performance’**

Andy Nield

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

## Results Overview

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

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

The group results include a total tax charge of some 40% compared to 23% in the previous year, which accounts for the

reduction in Earnings per Share. This includes a deferred tax charge of £3.8m (2002 - £1.3m) in addition to the underlying current tax charge of £2.7m. The deferred tax element is unusually high because of a reduction in the discount rates used to calculate the deferred tax liability. As required by FRS19, the discount rates applied are based on government gilts for relevant periods. The effect of the change in rates essentially reverses a corresponding gain made in the second half of 2001/02 when discount rates increased.

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

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

An actuarial review of the pension sections as at 1 April 2002 has recently been completed and shows combined net surpluses on an actuarial basis of £5.6m. The sections are currently invested primarily in equities. In consultation with both the trustees and the actuary, we have carefully examined the investment strategy and concluded that the appropriate long-term strategy is to reduce the proportion of equities with a corresponding increase in investments in bonds and other fixed

## ‘Reduction in real terms of operating costs in Bristol Water plc’

income securities. Given the current equity market position we have delayed the implementation of this change until we see some further recovery in equity market values.

We have agreed a significant increase in cash contributions to the pension funds effective from 1 April 2003. The total cash contributions will be broadly in line with the SSAP24 charge of £1.6m reflected in these accounts for 2002/03. The appropriate disclosures are set out in note 23.

### Regulated activities – Bristol Water plc

In November 1999, Ofwat issued the Periodic Review Final Determination. This set maximum price limits for charges to customers for the five years 2000-05. The limits, known as K

factors, plus movements in the RPI index, determine the allowed increase or decrease in overall charges each year. For 2002/03 the K factor was 1%, which together with an RPI movement of 0.9% meant an average increase in charges to customers of some 1.9%.

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

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

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

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

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

### Other businesses

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

## ‘New financing arrangement finalised - creates flexibility’

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

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

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

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

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

### Treasury

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

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

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

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

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

## ‘Group's strategy focussed around water business’

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

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

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

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

### Strategy/Objectives

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

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

### Monitoring the business

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

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

### Outlook

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

**Andy Nield**  
Group Finance Director  
29 May 2003

# The board of directors

This page from left to right  
Moger Woolley, Alan Parsons  
Sir Richard Gaskell, Roger Wyatt

Opposite page from left to right  
Trevor Smallwood, Andy Nield  
Professor David Blockley  
Peter McIlwraith, Thomas Lachelin

Above: The £12m project for a major upgrade of the Barrow Treatment Works is progressing well.

# Directors and advisers

## **John Moger Woolley DL**

Age 68

Non-executive Chairman,  
Member of Audit Committee,  
Member of Remuneration Committee

Appointed to the board of The Bristol Waterworks Company in 1990, which subsequently became Bristol Water Holdings plc in 1991, and became Chairman of the public limited company in 1998. Director of Brunel Holdings plc and Chairman of The Council of the University of Bristol. Until recently, High Sheriff of Gloucestershire. Former Chief Executive of DRG plc.

## **Sir Richard Kennedy Harvey Gaskell**

Age 66

Deputy Chairman and Non-executive Director, Chairman of Remuneration Committee

Appointed to the board of The Bristol Waterworks Company in 1989, which subsequently became Bristol Water Holdings plc in 1991, and became Deputy Chairman of Bristol Water Holdings plc in 1998. Former President of the Law Society. Former Senior Partner in Lawrence Tucketts, Solicitors, and former Trustee of the Laura Ashley Foundation.

## **Professor David Ian Blockley**

Age 61

Non-executive,  
Member of Audit Committee

Appointed to the board in 1998. Head of Department of Civil Engineering and formerly Dean of the Faculty of Engineering at the University of Bristol. Previously President of the Institution of Structural Engineers (2001/02).

## **Thomas Pierre Hilbery Lachelin**

Age 66

Non-executive,  
Chairman of Audit Committee and member of Remuneration Committee

Appointed to the board of The Bristol Waterworks Company in 1988, which subsequently became Bristol Water Holdings plc in 1991. Former Director of Imperial Tobacco Ltd and former Chairman of Imperial Tobacco International Limited.

## **SECRETARY AND REGISTERED OFFICE**

S C Robson, Solicitor,  
PO Box 218, Bridgwater Road, Bristol BS99 7AU

## **FINANCIAL ADVISERS**

Dresdner Kleinwort Wasserstein,  
20 Fenchurch Street, London EC3P 3DB

Hoare Govett Corporate Finance Limited,  
4 Broadgate, London EC2M 7LE

## **PRINCIPAL BANKERS**

The Royal Bank of Scotland plc,  
135 Bishopsgate, London EC2M 3UR

## **Peter McIlwraith**

Age 55

Non-executive, Member of Audit Committee Appointed to the board in 2001. Chairman of @Bristol Limited, and Director of Brandon Hire plc. Former partner with PricewaterhouseCoopers.

## **Trevor Smallwood OBE**

Age 55

Non-executive, Member of Remuneration Committee Appointed to the board in 1999. Director of Bristol Chamber of Commerce, Industry and Shipping, Chairman of Greater Bristol Foundation, former Chairman of FirstGroup plc and former Chairman of Bristol International Airport.

## **Alan Parsons**

Age 54

Group Chief Executive

Joined the company as Finance Director and was appointed to the board in 1991 and appointed as Group Chief Executive in 2000. Chairman of principal subsidiary companies, and director of certain associated companies. Chairman of WTI.

## **Andrew Simon Nield**

Age 47

Group Finance Director

Appointed to the board in 2000. Previously held a range of senior roles with Anglian Water plc. Also a Director of Bristol Water plc and other principal subsidiaries. Director of certain associated companies. Director of the Water Companies (Pension Fund) Trustee Company.

## **Roger William Wyatt**

Age 57

Managing Director - Bristol Water plc.

Joined the company in 1969 and held a range of technical and managerial posts with the group before becoming Managing Director of Bristol Water plc in 2000. Appointed to the board in 1995. Also a director of certain other subsidiaries.

## **AUDITORS**

PricewaterhouseCoopers LLP,  
31 Great George Street, Bristol BS1 5QD

## **REGISTRARS AND TRANSFER AGENTS**

Computershare Services plc,  
PO Box 82, The Pavilions,  
Bridgwater Road, Bristol BS99 7NH

## **STOCKBROKERS**

Hoare Govett Corporate Finance Limited,  
4 Broadgate, London EC2M 7LE

Rowan Dartington & Co Limited,  
7th Floor, The Colston Centre,  
Colston Street, Bristol BS1 4XE

# Directors' report

for the year ended 31 March 2003

The directors have pleasure in submitting their report and the accounts for the year ended 31 March 2003.

## PRINCIPAL ACTIVITIES

The group's principal activities are, through Bristol Water plc, 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, together with a range of contracting and consulting services through its subsidiaries Walter Lawrence Civil & Mechanical Limited and Bristol Water Services Limited.

## RESULTS FOR THE YEAR

The results for the year are shown in the profit and loss account and are discussed in the Chairman's statement, Chief Executive's report and Operating and Financial Review.

For the year ended 31 March 2003 shareholders received an interim dividend of 20.8p on 6 February 2003. A final dividend of 49.8p per ordinary share is proposed for holders of ordinary shares on the register at 18 July 2003, equating to a total dividend for the year of 70.6p. The final dividend will be paid on 1 October 2003.

## DIRECTORS AND THEIR INTERESTS

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

	1 April 2002	31 March 2003
J M Woolley, <i>Chairman</i>	2,830	2,830
Sir Richard Gaskell, <i>Deputy Chairman</i>	146	146
T Smallwood	-	-
Professor D I Blockley	175	175
T P H Lachelin	2,350	2,350
P McIlwraith	-	-
A Parsons, <i>Chief Executive</i>	9,276	9,282
A S Nield, <i>Finance Director</i>	500	500
R W Wyatt	5,103	5,103

T P H Lachelin, T Smallwood and R W Wyatt will offer themselves for re-election at the Annual General Meeting.

Details of options over ordinary shares granted and exercised under both the Executive Share Option Scheme and the Employee Savings Related Share Option Scheme are shown in the Remuneration Committee report.

No director's interest has changed in the period from 31 March 2003 to the date of this report.

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 the shareholdings set out above.

## FIXED ASSETS

In the opinion of the directors there is no material difference between the book value and market value of land expected to be disposed of within the next twelve months.

## EMPLOYEE MATTERS

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

## RESEARCH AND DEVELOPMENT

The group undertakes research and development projects in relation to its core business. Expenditure during the year amounted to £59,000 (2002 - £72,000).

## CHARITABLE DONATIONS

Donations by the group to charitable causes during the year amounted to £33,000 (2002 - £26,000).

## PAYMENT PRACTICES

It is group policy to comply with the terms of payment agreed with a supplier. Where payment terms are not negotiated, the group endeavours to adhere to the supplier's standard terms. The group pays creditors in accordance with payment terms on receipt of valid invoices. At the end of the year the group's trade creditors represented the equivalent of 43 days purchases (2002 - 48).

# Directors' report continued

for the year ended 31 March 2003

## SUBSTANTIAL SHAREHOLDINGS

According to notifications received, the following were interested in 3% or more of the company's voting capital on 19 May 2003:

	Shares held	%
Ecofin Water and Power Opportunities plc	1,776,718	24.5
Axa Sun Life Investment Management Limited	1,198,671	16.5
Royal London Asset Management	290,450	4.0
Royal Insurance Group	258,181	3.6
Dartington Portfolio Nominees	249,677	3.4

## CORPORATE GOVERNANCE

The company's and group's compliance with the Combined Code - Principles of Good Governance and Code of Best Practice is reported on page 17.

## POST BALANCE SHEET EVENTS

During April 2003, all the ordinary issued shares of Bristol Water plc were transferred to Bristol Water Core Holdings Limited, a wholly-owned subsidiary of Bristol Water Holdings plc.

During May 2003, Bristol Water plc entered into a new financing structure. Details are set out in the Operating and Financial Review and in Note 17 to the Accounts.

## AUDITORS

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) on 1 January 2003, PricewaterhouseCoopers resigned on 27 January 2003 and the directors appointed its successors PricewaterhouseCoopers LLP as its auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the company will be proposed at the Annual General Meeting.

## 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 and the group as at the end of the financial year and of the profit or loss of the group 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 group 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 the group 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 group 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 2003

# Corporate governance

## **DIRECTORS' STATEMENT**

The Board fully supports the recommendations of "The Combined Code - Principles of Good Governance and Code of Best Practice" (the Combined Code) which was appended to the London Stock Exchange Listing Rules in 1999. It has reviewed the Combined Code and considers that the company complies with the provisions set out in Section 1 of the Combined Code.

The directors report that, after making enquiries, they have a reasonable expectation that the company and group have adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

## **Board and Board Committees**

The Board of Bristol Water Holdings plc comprises three executive directors and six non-executive directors. All of the non-executive directors are, in the opinion of the Board, independent of management. The Board, which met nine times in the year, executes overall control of the group's affairs by the schedule of matters reserved for their decision. These include the approval of group strategy, financial statements, major acquisitions and disposals, authority levels for expenditure, treasury and risk management policies. In furtherance of their duties, there are agreed procedures for the directors to take independent professional advice, if necessary, at the company's expense. All directors have access to the advice and services of the Company Secretary.

The Board delegates day-to-day and business management control to the Boards of the operating subsidiary companies within the group which comprise the executive directors and certain other of the group's senior management. In the two principal subsidiaries, the Board of Bristol Water plc met 20 times during the year and the Board of Lawrence met formally nine times during the year, and their decisions are communicated throughout the relevant companies on a regular basis. The Board of each of the operating subsidiary companies is responsible for implementing group policy, the monitoring and performance of the business and reporting to the full Board of Bristol Water Holdings plc thereon.

The company has an Audit Committee, which met four times during the year, whose terms of reference include the points recommended by the Combined Code. Its duties include monitoring internal controls throughout the group, approving the group's accounting policies and reviewing the interim and annual financial statements before submission to the Board. The Committee is chaired by Mr T P H Lachelin and comprises three other non-executive directors. The auditors attended all meetings in the year.

The composition of the Remuneration Committee is described in the report of that committee on page 20.

The entire Board constitutes the Nominations Committee. It is responsible for selecting and appointing the company's executive and non-executive directors and considers such matters as required.

The Board considers the Chairman to be the principal point of reference to whom concerns of whatever nature may be conveyed. In the event that an individual does not wish to raise a concern with him, the Board has identified Sir Richard Gaskell as the senior independent member of the Board to whom such concerns may be addressed.

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

## **Shareholder Communications**

The company maintains open communication with its shareholders outside "closed periods" as defined by the Stock Exchange. Financial and other information is provided on Bristol Water's website.

## **Internal Controls - Risk Management**

The company, as required by the Financial Services Authority, has complied with the Combined Code provisions on internal control having established the procedures necessary to implement the guidance issued in September 1999 (the Turnbull Committee report) and by reporting in accordance with that guidance.

The Board has overall responsibility for the system of internal control for the group and for reviewing its effectiveness whilst the role of management is to implement Board policies on risk and control. The system of internal control is designed to manage risks to appropriate minima rather than eliminate any risk of failure in achieving business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

# Corporate governance<sub>continued</sub>

The Board encourages a culture of risk identification and management across all aspects of the business, and uses the following main processes to review the effectiveness of the system of internal control:

The Executive Directors:

- have delegated authority to manage the business and to implement internal control and risk management processes
- have established a system of Key Performance Indicators and risk identification matrices

Subsidiaries are operated through a formal Board structure. These Boards, subject to ratification by the Board of Bristol Water Holdings plc:

- consider material financing and investment decisions
- review the role of insurance in managing risks
- review on a regular basis detailed Key Performance Indicators reports which include the identification of material risks and the actions taken to manage such risks
- review and approve financial budgets

The Audit Committee:

- reviews external audit work plans and commissions, where appropriate, reviews of specific issues
- considers reports from management and external auditors on the system of internal control and any material control weaknesses identified
- discusses with management the actions taken on any problem areas identified by Board members and management or in the external audit reports
- the Chairman of the Committee reports the outcome of the Audit Committee meetings to the Board and the Board receives the minutes of all Audit Committee meetings

The Board:

- considers material financing and investment decisions across the group including the giving of guarantees and indemnities, and monitors policy and control mechanisms for managing treasury risk
- reviews the role of insurance in managing risks across the group
- reviews on a regular basis a summary Key Performance Indicators report which includes the identification of material risks and the actions taken to manage such risks
- reviews the effectiveness of the risk management process and significant risk issues
- reviews and approves financial budgets across the group
- receives the minutes of all subsidiary company Board meetings

The Board undertook a formal assessment of risk management and control arrangements on 19 May 2003 in order to form a view on the overall effectiveness of the system of internal control. This review included an assessment of the effectiveness of internal controls within material joint arrangements and joint ventures, namely Lawrence/NACAP and PABW in Malaysia.

The Board concluded that the overall internal control framework was working effectively.

The Audit Committee formally considered the need for an internal audit function and recommended to the Board that the current arrangements of reports from management, external auditors and other external advisers on the system of internal control are appropriate. The Board formally endorsed this recommendation on 19 May 2003. The Board will continue to review the need for an internal audit function on an annual basis.

By order of the Board  
S C Robson, *Secretary*  
29 May 2003

# Corporate social responsibility

The group continues to take its environmental, social and ethical responsibilities seriously.

## The regulated water business

**Bristol Water plc** is focused on delivering an essential service to over a million people every day. We recognise the impacts of our activities on the wider society and seek to make these as sustainable and positive as possible. Our vision is to be a water company balancing all stakeholders' interests, delivering world-class performance at best value, both now and in the future.

Among the ways we deliver this are by:

- taking account of the needs and priorities of all stakeholders
- understanding risks and managing them effectively
- having open, honest and full communication throughout the business
- motivating and developing staff, recognising their key role in the success of the company
- keeping health and safety issues a high priority
- maintaining ISO 9001 certification
- maintaining programmes of community involvement and encouraging the public to visit our facilities and understand our business
- providing open and honest channels of communication with the media, local government and others
- minimising water abstraction if there is a risk of environmental damage and encouraging others to use water resources in a sustainable way
- reviewing other impacts on the environment to minimise adverse effects
- dealing with suppliers in an ethical way but demanding high standards and full contractual compliance from them

Corporate responsibility activities fall into two main categories:

- **Environment:** We fulfil - and in many areas exceed - all the requirements of conservation and environmental duties placed upon us by the Water Act 1999 and the Code of Practice on Conservation, Access and Recreation. We have a well-established environment policy and demonstrate a strong commitment to the sustainable management of water resources. We carefully assess the risks associated with any potential environmental impact of our work and ensure that these risks are mitigated and managed through appropriate management and contingency planning.
- **Community:** We provide the best possible access, consistent with water quality and security needs, for people at our major reservoirs, such as Chew and Blagdon Lakes, and other suitable sites.

We have active programmes to support and engage with local communities, reflecting our role as an essential part of those communities. We regularly sponsor a wide range of community and charitable events, especially those related to water use. A structured programme of educational support for all age groups is provided, with the main thrust being to encourage all customers to use water wisely. This programme features open days, visitor centres, public information advertising and web sites.

We continually seek to find out what our customers think of our services and what they want, through regular market research and face-to-face contact.

## Other businesses

Our other businesses share the overall group vision of success through sustainability. They are committed to good practice in all fields of corporate social responsibility, including meeting the highest standards on health and safety.

All the group subsidiaries operate policies aimed at protecting the environment in which they work.

**Lawrence** operates successfully to the demanding standards of ISO 14001 environmental management certification. In addition, Lawrence also has an on-going programme of community sponsorship and support.

**BWS**, using skills developed by the regulated water business, is committed to protecting the environment by reducing water leakage and wastage. It also carefully respects the diversity and sensitivities of the many and varied cultures within which it operates worldwide.

# Remuneration committee report

## Role and composition of the Remuneration Committee

The Remuneration Committee determines the remuneration and other employment conditions of the executive directors and senior executives of Bristol Water Holdings plc and its subsidiary companies. The membership of the committee during the year comprised Sir Richard Gaskell (Chairman), Mr T P H Lachelin, Mr T Smallwood and Mr J M Woolley. It consists solely of non-executive directors. The Committee met four times during the year and all members were in attendance on each occasion.

In deciding appropriate levels of executive remuneration, the Committee relies on external research from independent remuneration consultants which gives up-to-date information on a comparator group of companies. During the year the Hay Group and Towers Perrin assisted the Committee on matters relating to directors' and senior executives' remuneration. Both organisations had previously been appointed by the Committee for this purpose and neither provided any other services to the company during the year, although during the year the Hay Group also worked on a job evaluation project for Bristol Water plc.

During the year Alan Parsons, Group Chief Executive; Andrew Nield, Group Finance Director; and Peter Knowlson, HR Director of Bristol Water plc also provided material advice and services to the Committee in connection with its consideration of matters relating to directors' remuneration.

## Remuneration policy

The key principles underpinning remuneration policy are the need to offer remuneration packages which can attract, motivate and retain directors of the calibre needed, and to reward those directors both for enhancing value to shareholders and for delivering quality service to customers.

The current policy on executive remuneration is to fix salaries and other elements of the remuneration package primarily having regard to median salary levels disclosed by the independent research.

There are three main elements of the remuneration package for executive directors.

1. Basic annual salary - based on independent salary surveys and reviewed annually, with changes based on assessed individual performance.
2. Annual bonus - based on the achievement of water quality, customer service and leakage targets and group financial targets in the previous year, and restricted to a maximum of 30% of basic salary.
3. Taxable benefits in kind - reflecting market practice and comprising the provision of a company car, private medical insurance and payment of home telephone rental.

The above remuneration policy will continue to apply for the financial year 2003/04 and there are no plans to change it for any subsequent financial year.

## Share options and long-term incentive schemes

No options were granted during the year under the terms of the Executive Share Option Scheme approved by shareholders in 1991, and renewed shareholder approval for that scheme was not sought at the 2001 Annual General Meeting. Under the terms of the scheme, options were issued at mid-market price and must be exercised between three and ten years after grant, subject to the achievement of real growth in earnings per share, ie after inflation (RPI), and to the approval of the Board. These performance conditions are considered both reasonable and in line with market practice when the scheme was introduced. Details of outstanding options are shown overleaf.

There is no long-term incentive scheme in place at present and there are no plans to introduce one.

## Service contracts

In November 2000 the Remuneration Committee decided that newly appointed executive directors would receive 12 month rolling contracts and transitional arrangements were put in place to reduce existing executive directors' contracts from 24 months to 12 months.

During the year Mr Parsons' and Mr Wyatt's service contracts (dated 1 September 2000) had notice periods of 24 months. With effect from 1 April 2003 their notice periods have reduced to 12 months.

Mr Parsons and Mr Wyatt have a provision in their service contracts for the enhancement of their Water Companies' Pension Scheme pensionable service by a maximum of 6<sup>2</sup>/<sub>3</sub> years in the event of redundancy. Executive Directors appointed since 1995 do not have this benefit.

### Service contracts (continued)

Mr Nield's current contract is dated 18 January 2002. He joined the company on 1 April 2000, and so has always had a service contract with a notice period of 12 months. Mr Nield's contract contains provision for the payment of liquidated damages equivalent to 12 months' basic salary in the event of a takeover of the company taking place before 31 March 2005. This arrangement was entered into at the recruitment stage as part of the contract negotiations.

There are no other provisions in any of the executive directors' contracts for compensation payable upon early termination and the normal principles of mitigation will apply.

### Directors' pension arrangements

Until 5 December 2001, newly-appointed executive directors were eligible to become contributory members of the Water Companies' Pension Scheme, a defined benefits, final salary scheme. Under the terms of that scheme the only elements of remuneration other than basic salary which are pensionable relate to the taxable benefits associated with company car provision for directors who first became company car holders before 4 July 1994, so retaining on a personal basis the contractual entitlements of such individuals at the date this change in remuneration policy was introduced. Since April 2001 a notional figure, indexed annually, has been used for this purpose based on the value of the taxable benefit as at 6 April 2001.

Any newly-appointed executive directors recruited externally will be offered membership of a Bristol Water group designated stakeholder pension scheme or the option of a company contribution to a personal pension plan.

### Non-executive directors

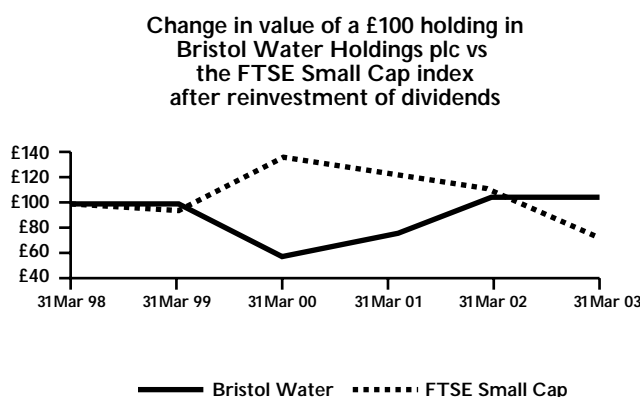
The remuneration of the non-executive directors is determined by the Board within the limits set by shareholders in 2002 and is based upon independent surveys of fees paid to non-executive directors. Fee levels are set having regard to the fees payable for similar roles in companies of comparable size and on the basis of time commitments. Additional responsibilities are also taken into account.

This policy is expected to continue to apply unchanged in the future.

Non-executive directors do not have contracts of service, do not participate in company pension, share or bonus schemes and do not receive any taxable benefits in kind.

### Performance Graph

The graph below indicates the company's total shareholder returns in comparison with the FTSE Small Cap index.



SOURCE: Datastream

### Details of directors' remuneration, pensions benefits and share options

This report includes the statutory disclosures required by The Companies Act 1985, as amended by the Company Accounts (Disclosure of Directors' Emoluments) Regulations 1997 and the Directors' Remuneration Report Regulations 2002. Full details of all elements in the remuneration package of each director and share options are set out overleaf. Details of directors' share interests are given in the Directors' Report.

# Remuneration committee report continued

(a)		Salary/fees £000	Benefits £000	Bonus £000	Total £000	2002 £000
	J M Woolley	39	-	-	39	34
	Sir Richard Gaskell	26	-	-	26	23
	Professor D I Blockley	20	-	-	20	18
	T P H Lachelin	24	-	-	24	20
	P McIlwraith	20	-	-	20	7
	A S Nield	123	9	29	161	152
	A Parsons	151	10	32	193	193
	T Smallwood	20	-	-	20	18
	R W Wyatt	114	8	24	146	147
	Charge to Profit and Loss Account	537	27	85	649	612

Bonus represents amounts accrued and approved, but not paid, as at 31 March 2003.

(b) Accrued pension scheme benefits earned by directors -

	A S Nield £000	A Parsons £000	R W Wyatt £000
<b>Listing Rules disclosure</b>			
Increase in accrued pension during 2002/03 in excess of inflation	4	2	2
Increase in accrued lump sum during 2002/03 in excess of inflation	13	7	7
Accumulated pension at 31.3.2003 per annum	37	32	56
Accumulated lump sum at 31.3.2003	110	95	168
Transfer value of increase	43	35	39
Transfer value of increase less director's contribution	37	27	33

	A S Nield £000	A Parsons £000	R W Wyatt £000
<b>Schedule 7A disclosure</b>			
Increase in accrued pension during 2002/03	5	3	3
Increase in accrued lump sum during 2002/03	15	8	9
Accumulated pension at 31.3.2003 per annum	37	32	56
Accumulated lump sum at 31.3.2003	110	95	168
Transfer value			
as at 31.3.2002	354	441	914
as at 31.3.2003	362	471	1,001
Increase in transfer value	8	30	87
Increase in transfer value less director's contributions	2	22	81

Only the three executive directors accrued retirement benefits under a defined benefits scheme during the year. No other director receives any pension benefits from the company.

(c) The following unexercised options over ordinary shares in the company have been granted to directors under the terms of the Executive Share Option Scheme and Savings Related Share Option Scheme -

	Date of Grant	Options		Exercise price £	Exercisable	
		Unexercised at 31. 3. 02	Unexercised at 31. 3. 03		from	to
A Parsons	20.12.95	2,434	2,434	11.80	Dec 1998	Dec 2005
	16.07.02*	-	1,628	10.16	Sept 2007	March 2008
A S Nield	13.07.01*	2,062	2,062	8.18	Sept 2006	March 2007
R W Wyatt	20.12.95	2,136	2,136	11.80	Dec 1998	Dec 2005
	16.07.02*	-	935	10.16	Sept 2005	March 2006

\*Savings Related Share Option Scheme

The market price of the relevant shares at 31 March 2003 was £11.63 and ranged from £10.50 to £12.80 during the year.

**Sir Richard Gaskell**  
Chairman of Remuneration Committee  
29 May 2003

# 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 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 (f) overleaf.

**b. Basis of consolidation**

The group accounts comprise the consolidation of the accounts of the company and all its subsidiary undertakings after eliminating inter-company transactions. As provided by the Companies Act 1985, a separate profit and loss account for the company is not disclosed.

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date and alignment with group accounting policies. All changes to those assets and liabilities, and the resulting gains and losses, that arise after the group has gained control of the subsidiary are reflected in the post acquisition profit and loss account.

The group's share of profits less losses of joint ventures is included in the consolidated profit and loss account, and the group's share of their net assets is included in the consolidated balance sheet under the gross equity method.

The group accounts for its own share of assets, liabilities and cash flows arising within joint arrangements, measured according to the terms of the agreement governing each arrangement.

**c. Goodwill**

Goodwill arising on consolidation represents the excess of fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill arising on the acquisition of subsidiaries and joint ventures is capitalised and amortised over the shorter of its estimated useful life and 20 years. If an impairment event occurs the carrying value of goodwill is reviewed, and if necessary written down to appropriate levels. Goodwill which arose prior to 1 April 1998 remains eliminated against reserves and will be charged in the profit and loss account on disposal of the business to which it relates.

**d. Turnover**

Turnover comprises charges to and accrued income from customers, exclusive of VAT, and after eliminating inter-company transactions.

Income from metered supplies is based upon volumes of water invoiced plus estimated volumes of uninvoiced water delivered to customers during the year.

**e. 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. The cost of infrastructure assets is their purchase cost together with incidental expenses of acquisition and directly attributable labour costs which are incremental to the group.

**(ii) Other assets**

Other assets include land and buildings, operational structures, fixed and mobile plant, equipment and motor vehicles. All are included at cost. The cost of other assets is their purchase cost together with incidental expenses of acquisition and any directly attributable labour costs which are incremental to the group.

**(iii) Depreciation**

Depreciation is charged, where appropriate, on a straight-line basis on the original cost of assets, less their estimated residual values, 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 group'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.

# Accounting policies continued

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 equipment	3 to 15 years
Vehicles and mobile plant	5 to 7 years

## f. Grants and contributions

Contributions received in respect of tangible assets other than infrastructure assets are treated as deferred income and amortised in 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 SSAP4 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 9(d) to the accounts.

## g. Leased assets

Assets financed by leasing agreements that transfer substantially all the risks and rewards of ownership of an asset to the group 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 as incurred over the term of the lease.

## h. 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 23 to the accounts.

## i. Research and development

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

## j. 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.

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.

## k. Stocks

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

## l. Long-term contracts

Profit attributable to the stage of completion of a contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts represents the value of work done in the period. Full provision is made for any losses that are foreseen. Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

**m. Financial instruments**

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

**n. Foreign exchange transactions**

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction, or where forward exchange contracts have been arranged, at the contracted rate. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date, and any exchange differences are taken to the profit and loss account.

Profits and losses of overseas subsidiaries, which have currencies of operation other than sterling, are translated into sterling at average rates of exchange ruling during the period. Differences between the profit and loss accounts translated at average rates and at the balance sheet rates are shown as a movement on reserves and in the statement of total recognised gains and losses.

Exchange differences arising from the retranslation of overseas net investments are shown as a movement on reserves and in the statement of total recognised gains and losses, as permitted under SSAP 20.

# Group profit and loss account

for the year ended 31 March 2003

	Note	2003 £000	2002 £000
<b>Turnover including share of joint ventures</b>	1	120,836	136,015
Less: share of turnover of joint ventures		(8,504)	(6,897)
<b>Group turnover</b>		112,332	129,118
Operating costs	2	(92,087)	(110,252)
<b>Group operating profit</b>		20,245	18,866
Share of operating profit of joint ventures		164	157
<b>Total operating profit: group and share of joint ventures</b>	1	20,409	19,023
Profit on disposal of tangible fixed assets	3	402	753
Profit on disposal of businesses	3	143	23
Net interest payable and similar charges	4	(4,861)	(4,224)
<b>Profit on ordinary activities before taxation</b>	1	16,093	15,575
Taxation on profit on ordinary activities	5	(6,448)	(3,525)
<b>Profit on ordinary activities after taxation</b>		9,645	12,050
Minority shareholders' non-equity interest	21	(1,094)	(1,094)
<b>Profit attributable to Bristol Water Holdings plc shareholders</b>		8,551	10,956
Dividends	6	(5,230)	(4,965)
<b>Profit retained for the year</b>	20	3,321	5,991
<b>Earnings per share -</b>			
On average number of ordinary shares in issue	7	115.5p	148.7p
On fully diluted basis		114.5p	147.5p

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

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

*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 2003

	2003 £000	2002 £000
Profit attributable to Bristol Water Holdings plc shareholders	8,551	10,956
Foreign currency translation differences	(17)	-
<b>Total recognised gains and losses for the financial year</b>	8,534	10,956
Prior year adjustments	-	(11,202)
<b>Total gain/(loss) recognised since last annual report</b>	8,534	(246)

The prior year adjustments first incorporated in 2002 relate to:

- the recognition of income from metered supplies on the basis of volumes of water delivered, rather than volumes invoiced - £1,768,000
- the application of FRS19 'Accounting for deferred tax' - £(12,970,000)

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

# Balance sheets

at 31 March 2003

	Note	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
<b>Fixed assets</b>					
Intangible fixed assets	8	6	23	-	-
Tangible fixed assets	9	185,769	180,770	-	-
Investments	10	-	-	12,914	14,211
Investments in joint ventures -	11				
Share of gross assets		6,878	6,289	-	-
Share of gross liabilities		(6,477)	(5,957)	-	-
Total		401	332	-	-
<b>Total fixed assets</b>		<b>186,176</b>	<b>181,125</b>	<b>12,914</b>	<b>14,211</b>
<b>Current assets</b>					
Stocks	12	683	512	-	-
Debtors	13	26,199	21,447	15,417	5,076
Cash at bank and on deposit	14	19,658	24,513	8,635	6,053
		46,540	46,472	24,052	11,129
<b>Creditors: amounts falling due within one year</b>					
Short term borrowings	14	6,760	3,138	-	81
Other creditors	15	32,136	33,249	3,982	3,696
		38,896	36,387	3,982	3,777
<b>Net current assets</b>		<b>7,644</b>	<b>10,085</b>	<b>20,070</b>	<b>7,352</b>
<b>Total assets less current liabilities</b>		<b>193,820</b>	<b>191,210</b>	<b>32,984</b>	<b>21,563</b>
<b>Creditors: amounts falling due after more than one year</b>					
Deferred income	16	(8,429)	(8,396)	-	-
Provisions for liabilities and charges	18	(19,189)	(14,926)	-	-
<b>Net assets</b>	1	<b>88,431</b>	<b>85,063</b>	<b>32,984</b>	<b>21,563</b>
<b>Capital and reserves</b>					
Called up share capital	19	7,404	7,397	7,404	7,397
Share premium	20	6,080	6,023	6,080	6,023
Other non-distributable reserves	20	4,024	4,024	-	-
Profit and loss account	20	58,423	55,119	19,500	8,143
<b>Total equity shareholders' funds</b>	20	<b>75,931</b>	<b>72,563</b>	<b>32,984</b>	<b>21,563</b>
Minority shareholders' non-equity interest	21	12,500	12,500	-	-
		88,431	85,063	32,984	21,563

The accounts were approved by the Board on 29 May 2003 and signed on its behalf by -

J M Woolley Chairman  
Sir Richard Gaskell Deputy Chairman

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

# Group cash flow statement

for the year ended 31 March 2003

	Note	2003 £000	2002 £000
Net cash inflow from operating activities	24(a)	28,537	29,671
Dividends received from joint ventures		129	-
<b>Returns on investments and servicing of finance</b>			
Interest received		903	1,282
Interest paid		(4,830)	(4,233)
Interest paid on finance leases		(1,354)	(1,287)
Dividends paid to minorities		(1,094)	(1,094)
		<u>(6,375)</u>	<u>(5,332)</u>
<b>Taxation</b>			
Corporation tax paid		(2,978)	(2,183)
<b>Capital expenditure</b>			
Purchase of tangible fixed assets		(20,748)	(26,444)
less contributions received		3,409	2,588
Proceeds from disposal of tangible fixed assets		1,215	957
		<u>(16,124)</u>	<u>(22,899)</u>
<b>Acquisitions and disposals</b>			
Proceeds on disposal of subsidiary		93	173
Cash eliminated on disposal of subsidiary		-	(60)
Investment in joint venture		(80)	-
		<u>13</u>	<u>113</u>
Dividends paid on equity shares		(5,020)	(4,786)
Cash outflow before management of liquid resources and financing		(1,818)	(5,416)
<b>Management of liquid resources</b>			
being decrease/(increase) in short term deposits		5,500	(295)
<b>Financing</b>			
Issue of shares		64	345
New term loans		47	5,000
Cash inflow from refinancing assets under new finance leases		-	8,159
Capital element of lease repayments		(1,585)	(1,430)
Capital element of loan repayments		(1,563)	(3,223)
		<u>(3,037)</u>	<u>8,851</u>
<b>Increase in cash</b>	24(c)	645	3,140
Cash, beginning of year		5,513	2,373
<b>Cash, end of year</b>		<u>6,158</u>	<u>5,513</u>

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

# Notes to the accounts

## 1. SEGMENTAL ANALYSIS

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

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

	2003 £000	2002 £000
<b>Operating profit of group and share of joint ventures -</b>		
Water supply and related activities	19,361	17,741
Contracting and other services	1,048	1,282
Group total	<u>20,409</u>	<u>19,023</u>

<b>Profit on ordinary activities before taxation -</b>		
Water supply and related activities	14,563	13,903
Contracting and other services	1,530	1,672
Group total	<u>16,093</u>	<u>15,575</u>

<b>Net assets employed -</b>		
Water supply and related activities	65,534	73,946
Contracting and other services	22,897	11,117
Group total	<u>88,431</u>	<u>85,063</u>

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

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

# Notes to the accounts

## 2. OPERATING COSTS

The directors believe that the nature of the group'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 group's principal business.

### (a) Operating costs comprise -

	2003 £000	2002 £000
Wages and salaries	23,160	26,281
Social security costs	1,902	2,212
Pension costs	1,632	1,024
<b>Total payroll cost</b>	<b>26,694</b>	<b>29,517</b>
Less charged to fixed assets	(3,003)	(2,721)
<b>Net payroll cost</b>	<b>23,691</b>	<b>26,796</b>
Other operating costs		
Operating lease rentals		
- Plant and machinery	482	530
- Other	236	19
Research and development expenditure	59	72
Auditors' remuneration -		
For statutory audit services		
- Company	9	9
- Subsidiaries	99	82
For other audit services including review of interim statements and audit of regulatory returns submitted by Bristol Water plc	36	32
For non-audit services mainly tax advice and compliance work	40	29
Raw materials, consumables, bad debts and other charges less recoveries	53,148	68,690
<b>Total other operating costs</b>	<b>54,109</b>	<b>69,463</b>
Depreciation of tangible fixed assets -		
On owned assets	11,991	11,489
On leased assets	2,571	2,770
Amortisation of related deferred income	(292)	(283)
<b>Net depreciation</b>	<b>14,270</b>	<b>13,976</b>
<b>Amortisation of intangible fixed assets</b>	<b>17</b>	<b>17</b>
<b>Total operating costs</b>	<b>92,087</b>	<b>110,252</b>

### (b) Directors' emoluments -

	2003 £000	2002 £000
Fees, management remuneration and benefits in kind	564	520
Performance bonuses	85	92
	<b>649</b>	<b>612</b>
Fees, remuneration, benefits in kind and performance bonuses included - Highest paid director in year, including accrued performance bonuses of £32,000 (2002 - £37,000)	<b>193</b>	<b>193</b>

Further details regarding directors are set out in the Remuneration Committee Report on pages 20 to 22.

# Notes to the accounts

## 3. PROFITS ON DISPOSALS

Profits on disposals comprise:

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

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

## 4. NET INTEREST PAYABLE AND SIMILAR CHARGES

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

	2003 £000	2002 £000
On bank borrowings	3,200	3,052
On other borrowings	1,166	1,140
Finance leases	1,375	1,339
Less bank interest receivable	(880)	(1,307)
Net interest expense	<u>4,861</u>	<u>4,224</u>

# Notes to the accounts

## 5. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

### (a) Analysis of charge for the year

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

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

#### 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.

Advance Corporation Tax (ACT) has only been recognised as an asset to the extent that it is foreseen to be recoverable in the next 12 months. There is a further £6.1m not recognised including ACT previously assumed to be recoverable in prior years, now not recovered following increases in capital allowances claimed for the relevant years.

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

### (b) Factors affecting the tax charge:

The current tax for the period is lower (2002 – lower) than the standard rate of corporation tax in the United Kingdom (30%). The differences are explained below:

	2003 £000	2002 £000
Profit on ordinary activities before taxation	16,093	15,575
Profit on ordinary activities multiplied by standard rate of Corporation tax in the United Kingdom at 30% (2002 - 30%)	4,828	4,673
<b>Effects of:</b>		
ACT set off for the current year	44	(1,027)
Expenses not deductible for tax purposes	(8)	199
Capital allowances in excess of depreciation	(1,979)	(73)
Other net changes	217	274
Current tax on profits for the year	3,102	4,046
Adjustments to tax in respect of prior period	(2,068)	(1,813)
Adjustments in respect of ACT for prior years	1,655	-
<b>Total current tax charge</b>	<b>2,689</b>	<b>2,233</b>

## 6. DIVIDENDS

Dividends paid and proposed comprise -

	2003 £000	2002 £000
On ordinary (equity) shares -		
Interim dividend paid of 20.8p (2002 - 20.2p)	1,543	1,488
Proposed final dividend of 49.8p (2002 - 47.0p)	3,687	3,477
<b>Total dividends paid and proposed</b>	<b>5,230</b>	<b>4,965</b>

# Notes to the accounts

## 7. EARNINGS PER SHARE

Earnings per share have been calculated as follows -

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

The weighted average number of fully diluted ordinary shares includes options over shares where the option price is less than or equal to the average share price during the year.

## 8. INTANGIBLE FIXED ASSETS

The movement for the year, all relating to subsidiaries, comprises -

	Goodwill £000	Intellectual property rights £000	Total £000
<b>Cost -</b>			
At 1 April 2002 and at 31 March 2003	30	87	117
<b>Amortisation -</b>			
At 1 April 2002	30	64	94
Charge for year	-	17	17
<b>At 31 March 2003</b>	<u>30</u>	<u>81</u>	<u>111</u>
<b>Net book value -</b>			
At 31 March 2003	-	6	6
At 31 March 2002	-	23	23

Intellectual property rights are being amortised on a straight-line basis over five years.

The amortisation periods are the periods over which the directors, having considered the nature of the trades, estimate that the value of the underlying businesses acquired are expected to exceed the value of the underlying assets.

## 9. TANGIBLE FIXED ASSETS

(a) The movements for the year, all relating to subsidiaries, comprise -

	Freehold land and operational structures £000	Plant and equipment £000	Infra- structure assets £000	Total £000
<b>Cost</b>				
At 1 April 2002	133,999	25,846	147,329	307,174
Additions	7,552	3,862	12,369	23,783
Disposals	(1,050)	(1,781)	(1,695)	(4,526)
Grants and contributions	(168)	-	(3,241)	(3,409)
<b>At 31 March 2003</b>	<u>140,333</u>	<u>27,927</u>	<u>154,762</u>	<u>323,022</u>
<b>Depreciation</b>				
At 1 April 2002	44,766	15,423	66,215	126,404
Charge for year	4,694	2,921	6,947	14,562
Disposals	(278)	(1,740)	(1,695)	(3,713)
<b>At 31 March 2003</b>	<u>49,182</u>	<u>16,604</u>	<u>71,467</u>	<u>137,253</u>
<b>Net book value</b>				
At 31 March 2003	<u>91,151</u>	<u>11,323</u>	<u>83,295</u>	<u>185,769</u>
At 31 March 2002	89,233	10,423	81,114	180,770

# Notes to the accounts

## 9. TANGIBLE FIXED ASSETS continued

(b) Included at 31 March 2003 is freehold land not subjected to depreciation in the year of £1,316,000 (2002 - £1,317,000).

(c) Included at 31 March 2003 are fixed assets held under finance leases with a cost of £49,414,000 (2002 - £50,788,000) and cumulative depreciation of £21,771,000 (2002 - £19,800,000). Comparative figures have been reanalysed following a review with the relevant leasing company of the allocation of expenditure on partly completed assets. The previously published values were cost £48,001,000 and cumulative depreciation of £16,874,000. There is no Profit and Loss account impact of the reanalysis.

This is analysed by asset type as follows -

	Freehold land and operational structures £000	Plant and equipment £000	Infra- structure assets £000	Total £000
<b>At 31 March 2003</b>				
Cost	38,568	9,694	1,152	49,414
Depreciation	(13,421)	(8,350)	-	(21,771)
<b>Net book value</b>	<b>25,147</b>	<b>1,344</b>	<b>1,152</b>	<b>27,643</b>
<b>At 31 March 2002</b>				
Cost	38,569	11,067	1,152	50,788
Depreciation	(11,439)	(8,361)	-	(19,800)
<b>Net book value</b>	<b>27,130</b>	<b>2,706</b>	<b>1,152</b>	<b>30,988</b>

(d) The net book value of infrastructure assets is stated after the deduction of cumulative contributions of £33,887,000 (2002 - £30,646,000) as explained in Accounting Policy (f).

(e) The charge for depreciation includes £Nil (2002 - £422,000) accelerated depreciation in respect of certain assets that are to be replaced significantly earlier than previously planned.

## 10. INVESTMENTS

The movement in investments shown in the company balance sheet comprises -

	Shares in subsidiaries £000	Shares in joint ventures £000	Loans to subsidiaries £000	Total £000
At 1 April 2002	7,498	-	6,713	14,211
New investment	-	80	-	80
Loan repayments	-	-	(1,377)	(1,377)
<b>At 31 March 2003</b>	<b>7,498</b>	<b>80</b>	<b>5,336</b>	<b>12,914</b>

Details of the investment in joint ventures are given in note 11 to these accounts.

The principal subsidiary companies, both of which are wholly owned and incorporated in England and Wales, comprise -

### Bristol Water plc:

a licensed water undertaker under the terms of the Water Industry Act 1991. The company owns all issued ordinary shares but none of its irredeemable preference shares (Note 21). After the year end, in connection with the refinancing described in the Operating and Financial Review, ownership of all issued ordinary shares of Bristol Water plc was transferred to Bristol Water Core Holdings Limited, a wholly-owned subsidiary of the company.

### Verdan Group Limited:

a wholly owned subsidiary whose principal wholly owned subsidiaries, Walter Lawrence Civil & Mechanical Limited and Bristol Water Services Limited provide contracting, consultancy and other environmental services.

The directors are of the opinion that the carrying value of the investments does not exceed their market value.

# Notes to the accounts

## 11. INVESTMENT IN JOINT VENTURES

The movement in investment in joint ventures in the group balance sheet comprises –

	BWBSL £000	Purton Carbons £000	PABW £000	Waternet £000	Watergrid* £000	Total £000
At 1 April 2002	-	221	111	-	-	332
Share of profit of joint venture	3	74	138	-	(51)	164
Tax charge	(1)	(1)	(44)	-	-	(46)
Dividends received	-	-	(129)	-	-	(129)
New investment	-	-	-	80	68	148
Investment made by JV	-	-	-	(68)	-	(68)
At 31 March 2003	2	294	76	12	17	401

\*Indirect holding (see below)

Joint ventures, for which the group's share of total assets and total liabilities is shown in the group balance sheet, comprise -

Bristol Wessex Billing Services Limited (BWBSL), registered in England and Wales, whose year end is 31 March. Bristol Water Holdings plc owns 100 class 'B' shares in the company, representing a holding of 50% of the voting and equity rights of the company. BWBSL has contracted to provide billing and customer services to both Bristol Water plc and Wessex Water Services Limited.

Purton Carbons Limited, registered in Scotland, whose year end is 31 December. Verdun Group Limited owns 50% of each class of the issued shares. Purton Carbons is involved in the regeneration of granular activated carbon, a highly competitive market. At 31 March 2000 the group reviewed the carrying value of the investment, in light of market conditions, and decided to make a substantial impairment provision of £1,563,000 at that date. The directors consider that these conditions still apply and the impairment provision has been retained. The group has recognised its share of the profit of the joint venture after adjustment for the depreciation charge recorded in the Purton Carbons' accounts in respect of the impaired assets.

PABW Sdn Bhd, registered in Malaysia, whose year end is 30 June. Bristol Water Services Limited has a beneficial interest in 49% of the issued shares but has a 50% share of the risks and rewards within the individual joint venture contract and exercises joint voting control of the company.

Waternet Limited, registered in England and Wales, whose year end is 31 March, was incorporated on 27 September 2000 under the name of JacLordan (8) Limited and subsequently changed its name. On 8 November 2002, Bristol Water Holdings plc acquired 80,000 Class 'B' ordinary shares in the company for £80,000, representing 50% of the voting and equity rights of the company. Waternet Limited represents the interests of Bristol Water Holdings plc in the Watergrid project. During the year, the company did not trade.

Watergrid Limited, registered in England and Wales, whose year end is 31 December, was incorporated on 12 March 2002 under the name of Precis (2001) Limited and subsequently changed its name. On 15 November 2002, Waternet Limited acquired £135,000 Class 'B' ordinary shares for £135,000, representing 45% of the voting rights (subject to certain special conditions), 35% of the dividend rights and 35% of the capital rights on liquidation (after repayment of nominal value of equity). Watergrid Limited entered into a concession contract with British Waterways in November 2002 and is actively seeking opportunities to use the canal and river network to serve multiple customer bases with bespoke water services and waste water treatment facilities.

The financial position of the joint ventures is as follows, as disclosed by accounts for the year ended 31 March 2003 unless otherwise stated.

# Notes to the accounts

## 11. INVESTMENT IN JOINT VENTURES continued

	BWBSL	Purton Carbons Note (1)	PABW Note (2)	Waternet Note (3)	Watergrid* Note (4)
	£000	£000	£000	£000	£000
<b>Profit and Loss accounts</b>					
Turnover	10,823	1,035	5,251	-	-
Profit/(loss) before taxation	5	4	376	-	(227)
Profit/(loss) after taxation	4	3	260	-	(227)
<b>Balance sheets</b>					
Fixed assets	152	1,973	730	-	16
Investment in Watergrid	-	-	-	135	-
Current assets	3,269	1,628	6,993	25	183
Current liabilities	(3,417)	(465)	(6,958)	-	(126)
Net current (liabilities)/assets	(148)	1,163	35	25	57
Total assets less current liabilities	4	3,136	765	160	73
Long term liabilities	-	-	(70)	-	-
<b>Shareholders' funds</b>	<b>4</b>	<b>3,136</b>	<b>695</b>	<b>160</b>	<b>73</b>

- Notes: (1) Results are for the year ended 31 December 2002 and are stated before adjustments for group accounting policies.  
(2) Results are stated before application of the group long-term accounting profit recognition policy. The group share of PABW's turnover, profit before tax and profit after tax are included in these accounts as £2,575,000, £138,000 and £94,000 respectively.  
(3) In these accounts, the consolidation of Watergrid means that the investment in Watergrid is not shown in the value of the Waternet joint venture, resulting in a net investment carried forward of £12,000.  
(4) The company commenced trading in November 2002.

The directors are of the opinion that the carrying value of the investments does not exceed their market value.

## 12. STOCKS

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

## 13. DEBTORS

Debtors comprise -

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Trade debtors	7,120	7,211	-	-
Amounts recoverable under long term contracts	8,665	8,425	-	-
Other debtors	1,160	1,179	259	2
Due from group and joint venture companies	2,653	1,567	15,142	5,023
Prepayments and accrued income	6,601	3,065	16	51
	<b>26,199</b>	<b>21,447</b>	<b>15,417</b>	<b>5,076</b>

Included within other debtors due to the group is £183,000 relating to amounts receivable after one year (2002 - £515,000).

# Notes to the accounts

## 14. NET BORROWINGS

(a) At 31 March 2003 group net borrowings were -

	Term loans less cash £000	Finance leases £000	Debentures £000	Total 2003 £000	Total 2002 £000
Repayment due -					
Between one and two years	-	1,682	3,455	5,137	1,544
Between two and five years	18,000	6,704	-	24,704	22,854
After five years -					
Other than by instalments	15,000	-	1,776	16,776	16,776
By instalments	12,000	17,584	-	29,584	40,081
Irredeemable debentures	-	-	1,570	1,570	1,570
Total borrowings due after one year	45,000	25,970	6,801	77,771	82,825
Current portion of debt	3,400	1,532	1,828	6,760	3,138
Less cash balances and short term deposits	(19,658)	-	-	(19,658)	(24,513)
Net borrowings	28,742	27,502	8,629	64,873	61,450

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

	2003 £000	2002 £000
Debentures (listed on the London Stock Exchange) -		
11.20% Redeemable 2005 to 2009 at the group's option	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 in instalments between 2006 and 2010, fixed interest at 7.75% pa to 2002 then LIBOR related	20,000	20,000
Unsecured, repayable 2008, fixed interest at 6.1% pa	5,000	5,000
Unsecured, repayable 2008, fixed interest at 6.5% pa	10,000	10,000
Finance leases	17,584	20,081
	55,930	58,427

The unsecured £20m bank loan, of which £12m was repayable after 5 years as at 31 March 2003, was repaid in May 2003 as part of the refinancing arrangements.

(c) At 31 March 2003 the company had £Nil of short term borrowings (2002 - £81,000).

## 15. OTHER CREDITORS DUE WITHIN ONE YEAR

Other creditors due within one year comprise -

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Receipts in advance	4,546	2,655	-	-
Trade creditors	10,403	13,051	-	-
Due to joint ventures	1,417	409	-	-
Due to group companies	-	-	79	-
Dividends payable	4,234	4,024	3,687	3,477
Corporation tax	809	1,648	-	-
Other taxation and social security	1,573	1,502	-	-
Accruals and deposits received	9,154	9,960	216	219
	32,136	33,249	3,982	3,696

# Notes to the accounts

## 16. DEFERRED INCOME

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

	2003 £000	2002 £000
Beginning of year	8,396	8,467
Contributions received	325	212
Less amortised	(292)	(283)
End of year	<u>8,429</u>	<u>8,396</u>

## 17. FINANCIAL INSTRUMENTS

The group's financial instruments, other than derivatives, comprise irredeemable 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 group's operations. The group also enters into interest rate swaps to manage the interest rate risk arising from its operations and sources of finance. It is the group's policy not to trade in financial instruments.

### Interest rate risk management

The group 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 group'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% (2002 - 72%) of the group's financial instruments, including irredeemable preference shares, were at fixed rates after taking into account interest rate swaps.

### Liquidity risk management

It is group policy to ensure continuity of funding. At the year end 62% (2002 - 60%) of its financial instruments, including irredeemable preference shares, mature after five years. This percentage will increase following the refinancing completed in May 2003. Short-term flexibility is achieved using committed bank facilities and short-term deposits.

### Interest rate risk profile of financial liabilities

The interest rate risk profile of the group's financial liabilities at 31 March, 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	37,405	45,556	82,961
Irredeemable debentures	-	1,570	1,570
Irredeemable preference shares	-	12,500	12,500
<b>At 31 March 2003*</b>	<u>37,405</u>	<u>59,626</u>	<u>97,031</u>
Financial liabilities	38,587	45,806	84,393
Irredeemable debentures	-	1,570	1,570
Irredeemable preference shares	-	12,500	12,500
<b>At 31 March 2002*</b>	<u>38,587</u>	<u>59,876</u>	<u>98,463</u>

\*Short-term debtors, creditors, cash and deposits have been excluded from the above disclosures. All the group's creditors falling due within one year (other than 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 2003, the group was party to one interest rate swap. This commenced in September 2001 and originally hedged for a five year period £20m of borrowings that became floating rate at that time. In preparation for the refinancing completed in May 2003, during the year, the Board redesignated the swap against a £10m variable rate bank loan and £10m of variable rate leases. At 31 March 2003, the variable rate bank loan had a maturity date approximately seven months less than the swap. As part of the refinancing the bank loan was replaced in May 2003 by a similar loan with a 5 year maturity with a 0.075% increase in margin. The swap exchanges LIBOR rates on a 3 monthly basis for a fixed rate of 7.72%. The Board's current intention is to maintain a future interest rate management profile consisting of financial liabilities at either fixed or index-linked rates amounting to 70% or more of such liabilities.

# Notes to the accounts

	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Financial liabilities*	7.6	3.8
Irredeemable debentures	4.0	-
Irredeemable preference shares	8.8	-
<b>At 31 March 2003</b>	<b><u>7.7</u></b>	
Financial liabilities	8.0	4.6
Irredeemable debentures	4.0	-
Irredeemable preference shares	8.8	-
<b>At 31 March 2002</b>	<b><u>8.0</u></b>	

\*including £10m variable rate bank loan, hedged by the swap, for its remaining term as at 31 March 2003.

Floating rate liabilities bear interest at rates based on relevant LIBOR equivalents, which are fixed in advance for periods of up to one year.

## Interest rate risk of financial assets

The financial assets comprise only 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 one year earning interest based on LIBID equivalents.

## Borrowing facilities

At 31 March 2003, Bristol Water plc had a £5m undrawn, committed 364-day borrowing facility available in respect of which all conditions precedent have been met. During May 2003, Bristol Water plc agreed a 5-year term £10m committed borrowing facility in which all conditions precedent have been met. The facility is floating rate and incurs non-utilisation fees at market rates. At the same time, Bristol Water plc cancelled the £5m 364-day facility referred to above.

## Fair values of financial assets and financial liabilities

Although the group 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 2003		31 March 2002	
	Book value £000	Fair value £000	Book value £000	Fair value £000
<b>Primary financial instruments held or issued to finance the group's operations:</b>				
Cash at bank	19,658	19,658	24,513	24,513
Short-term borrowings	(6,760)	(6,760)	(3,138)	(3,138)
Long-term borrowings	(77,771)	(79,401)	(82,825)	(84,130)
Preference shares	(12,500)	(16,625)	(12,500)	(17,188)
<b>Derivative financial instruments held to manage the interest rate profile:</b>				
Interest rate swaps	-	(2,145)	-	(2,579)
	<b><u>(77,373)</u></b>	<b><u>(85,273)</u></b>	<b><u>(73,950)</u></b>	<b><u>(82,522)</u></b>

# Notes to the accounts

## 17. FINANCIAL INSTRUMENTS continued

### Summary of methods and assumptions

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 group'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 group'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 group 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 will increase future interest costs as follows -

	£000
Unrecognised positions on hedges at 31 March 2002	2,579
Arising in previous years included in 2003 income	<u>(645)</u>
<b>Positions not included in 2003 income</b>	
Arising before 1 April 2002	1,934
Arising in 2003	<u>211</u>
<b>Positions on hedges at 31 March 2003</b>	<u><b>2,145</b></u>
of which:	
Expected to be included in 2004 income	804
Expected to be included in 2005 income or later	<u>1,341</u>

### Currency exposures

The group has no material unhedged monetary assets and liabilities denominated in a currency different from the currency of the particular operations.

## 18. PROVISIONS FOR LIABILITIES AND CHARGES

The total provisions for liabilities and charges are as follows:

	2003 £000	2002 £000
<b>Deferred taxation</b>	<u>19,189</u>	<u>14,926</u>
<b>Analysis of deferred taxation liability:</b>		
Accelerated capital allowances and capital element of finance leases	35,173	32,840
Deferred income	(2,529)	(2,519)
Short-term timing differences	(456)	(698)
Unrelieved Advance Corporation Tax	-	(504)
	<u>32,188</u>	<u>29,119</u>
Effect of discounting	(12,999)	(14,193)
Net provision	<u>19,189</u>	<u>14,926</u>
<b>Analysis of deferred tax movement</b>		
	2003 £000	2002 £000
Provision brought forward at 1 April	14,926	12,970
Charge to Profit and Loss Account	3,759	1,292
Advance Corporation Tax utilisation	504	664
Provision carried forward at 31 March	<u>19,189</u>	<u>14,926</u>

# Notes to the accounts

## 19. CALLED UP SHARE CAPITAL

The authorised and issued share capital of the company comprises shares of £1 par value -

	Authorised		Issued and fully paid	
	2003 £000	2002 £000	2003 £000	2002 £000
Ordinary shares	19,020	19,020	7,263	7,256
Non-voting ordinary shares	141	141	141	141
6.75% redeemable preference shares	5,839	5,839	-	-
	<b>25,000</b>	<b>25,000</b>	<b>7,404</b>	<b>7,397</b>

6,900 ordinary shares were issued fully paid during the year for a consideration of £63,967 under the Employee Savings Related Share Option Scheme.

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

Options over 5,932 ordinary shares have previously been granted, exercisable by 2006, to executive directors of group companies. Current options have been granted under the group's Employee Savings Related Share Option Scheme as follows:-

Exercisable in	At £10.48	At £6.40	At £8.18	At £10.16
2003	10,906	-	-	-
2003-04	-	76,269	-	-
2004-05	-	-	24,197	-
2005-06	-	23,607	-	22,923
2006-07	-	-	13,851	-
2007-08	-	-	-	21,402

The directors are empowered to issue further shares in respect of employee benefit schemes.

## 20. MOVEMENT IN SHAREHOLDERS' FUNDS

	Share capital £000	Share premium £000	Other reserves £000	Profit and loss account £000	Total 2003 £000	Total 2002 £000
<b>Group</b>						
Beginning of the year	7,397	6,023	4,024	55,119	72,563	66,227
Issue of new shares	7	57	-	-	64	345
Profit for the year	-	-	-	8,551	8,551	10,956
Dividends	-	-	-	(5,230)	(5,230)	(4,965)
Foreign currency translation difference	-	-	-	(17)	(17)	-
End of year	<b>7,404</b>	<b>6,080</b>	<b>4,024</b>	<b>58,423</b>	<b>75,931</b>	<b>72,563</b>
<b>Company</b>						
Beginning of the year	7,397	6,023	-	8,143	21,563	19,649
Issue of new shares	7	57	-	-	64	345
Profit for the year	-	-	-	16,587	16,587	6,534
Dividends	-	-	-	(5,230)	(5,230)	(4,965)
End of year	<b>7,404</b>	<b>6,080</b>	<b>-</b>	<b>19,500</b>	<b>32,984</b>	<b>21,563</b>

## 21. MINORITY SHAREHOLDERS' NON-EQUITY INTEREST

The minority shareholders' non-equity interest in the group balance sheet represents £12,500,000 8.75% cumulative irredeemable preference shares issued by Bristol Water plc. The minority interest in the profit and loss account is limited to the net dividend on such preference shares.

# Notes to the accounts

## 22. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments, all relating to subsidiaries, at 31 March 2003 contracted for but not provided were £10,890,000 (2002 - £7,493,000).

(b) Subsidiaries have the following non-cancellable operating lease commitments payable during the next financial year -

	2003 £000	2002 £000
Operating leases expiring -		
Within one year, in respect of buildings	-	5
Within one year, in respect of other plant and machinery	97	23
Within two to five years, in respect of buildings	55	27
Within two to five years, in respect of other plant and machinery	324	382
After five years, in respect of buildings	161	161
	<u>637</u>	<u>598</u>

(c) Contingencies

The company is a member of a VAT group and is jointly liable for the VAT liabilities of its principal subsidiary. The group has contingent liabilities in respect of contracts in the normal course of business. Other than as shown in these accounts the directors are not aware of any other contingent liabilities that require disclosure.

(d) The group and company have entered into performance bonding and guarantee arrangements in the normal course of business. The company continues to support the performance bond for 15mRM (Malaysian Ringgit, approximately £2.5m) provided by a bank and guaranteed by the company that was given in respect of the group's obligations in relation to the Selangor, Malaysia project. The company also provides guarantees of subsidiary companies' obligations under specific contracts.

## 23. PENSIONS

### (a) Pension arrangements

Pension arrangements for the majority of the group's employees are provided through the group's membership of the Water Companies' Pension Scheme (WCPS) which provides defined benefits based on final pensionable pay. The group's membership of WCPS is through separate sections. The principal section is the Bristol Water plc section. The assets of each section are held separately from those of the group and are invested by discretionary fund managers appointed by the trustees of the Scheme. All sections have been closed to new entrants and all new eligible employees are offered stakeholder pensions.

The financial position of the sections are determined by an independent actuary based on triennial valuations using the projected unit method. The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return on section investments and the rate of increase in salaries, wages, pensions and dividends. The most recent triennial actuarial valuation at 1 April 2002 assumed that investment returns would be 7.2% per annum pre-retirement and 5.2% post retirement, salaries and wages would increase on average by 4.8% and pensions by 2.8%.

The actuarial valuation at 1 April 2002 showed the market value of section assets relating to the group as £103 million and that the actuarial value of these assets represented 106% of accrued benefits allowing for future earnings increases.

The sections are currently invested primarily in equities. The investment strategy has been carefully examined and it has been concluded that the appropriate long term strategy is to reduce the proportion of equities with a corresponding increase in investments in bonds and other fixed income securities. The implementation of this change has been delayed until there is further recovery in equity market values. This policy has been agreed with the Trustees.

A significant increase in cash contributions, to approximately £1.6m per annum, to the WCPS sections effective from 1 April 2003 has been agreed with the Trustees.

### (b) Accounting under SSAP24

Pension costs charged to the profit and loss account are computed in accordance with SSAP24 to spread the cost of pensions over the employees' expected working lives with the company.

For the purpose of the SSAP24 charge the same assumptions have been made as for the triennial actuarial review, with the exception of a more prudent assumption for future salaries and wages increases of 5.3% per annum for the Bristol Water plc section.

The SSAP24 charge is broadly in line with the anticipated contribution rates effective from 1 April 2003.

The total pension charge for the year was £1,632,000 (2002 - £1,024,000) including £818,000 (2002 - £200,000) accrued in accordance with SSAP24, bringing the total accrued at 31 March 2003 to £1,018,000 (2002 - £200,000). 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.

# Notes to the accounts

## (c) Accounting under FRS17 "Retirement Benefits"

Full implementation of FRS17 "Retirement Benefits" in the primary financial statements will not be mandatory for the group until the year ending 31 March 2007. The following transitional disclosures are required.

### Basis of valuation

The actuarial valuations of both the Bristol Water plc and Verdan Group Limited sections of WCPS were updated to 31 March 2003, 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 2003 were £814,000 (2002 - £824,000). In accordance with the terms of the scheme, the contribution rates to the sub-sections during the year, and the increased rates effective from 1 April 2003 following the 1 April 2002 actuarial valuation, expressed as a percentage of pensionable earnings, were:

		2003	from 1.4.03
Bristol Water plc	- main sub-section	9.8%	18.1%
	- alternative sub-section	Nil%	8.1%
Verdan Group Ltd and its subsidiaries	- main sub-section	12.7%	18.4%
	- alternative sub-section	4.4%	12.8%

### Valuation base

	2003	2002
RPI Inflation	2.5%	2.8%
Pension increases (RPI)	2.5%	2.8%
Pension increases (LPI)	2.4%	2.8%
Salary increases	4.5%	4.8%
Discount rate	5.6%	6.1%

### Analysis of group WCPS pension section assets and liabilities

	2003	2002
Expected long-term rate of return for:		
Equities	7.5%	8.3%
Bonds	4.5%	5.2%
Corporate bonds	5.6%	6.1%
Property	6.0%	6.7%
Cash	3.8%	5.2%

	Values at 31 March 2003			Values at 31 March 2002		
	Bristol Water plc £000	Verdan Group Ltd £000	Total £000	Bristol Water plc £000	Verdan Group Ltd £000	Total £000
<b>Market value of fund assets</b>						
Equities	53,900	3,391	57,291	77,092	4,739	81,831
Bonds	5,400	342	5,742	11,198	688	11,886
Corporate bonds	7,000	442	7,442	4,445	273	4,718
Property	1,600	103	1,703	2,900	178	3,078
Cash	5,700	361	6,061	1,597	98	1,695
<b>Total market value of assets</b>	<b>73,600</b>	<b>4,639</b>	<b>78,239</b>	<b>97,232</b>	<b>5,976</b>	<b>103,208</b>
<b>Present value of the sections' liabilities</b>	<b>(92,100)</b>	<b>(7,150)</b>	<b>(99,250)</b>	<b>(82,882)</b>	<b>(5,949)</b>	<b>(88,831)</b>
<b>(Deficit)/surplus in the sections</b>	<b>(18,500)</b>	<b>(2,511)</b>	<b>(21,011)</b>	<b>14,350</b>	<b>27</b>	<b>14,377</b>
Deferred taxation	5,500	753	6,253	(4,305)	(8)	(4,313)
<b>Net pension (liability)/asset</b>	<b>(13,000)</b>	<b>(1,758)</b>	<b>(14,758)</b>	<b>10,045</b>	<b>19</b>	<b>10,064</b>

# Notes to the accounts

## 23. PENSIONS continued

If the amounts shown on the previous page had been recognised in the financial statements, the group's net assets and reserves at 31 March 2003 would have been:

	2003 £000	2002 £000
Net assets:		
Net assets excluding pension (liability)/asset	88,431	85,063
Adjustment in respect of SSAP24 accrual	1,018	200
Deferred tax related to SSAP24 accrual	(305)	(60)
Pension (liability)/asset	(14,758)	10,064
Net assets including pension (liability)/asset	<u>74,386</u>	<u>95,267</u>
Reserves:		
Profit and Loss Account excluding pension (liability)/asset	58,423	55,119
Adjustment in respect of SSAP24 accrual	1,018	200
Deferred tax related to SSAP24 accrual	(305)	(60)
Pension (liability)/asset	(14,758)	10,064
Profit and Loss Account including pension (liability)/asset	<u>44,378</u>	<u>65,323</u>

### Analysis of charges to Profit and Loss Account had FRS17 been fully implemented:

	Bristol Water plc £000	Verdan Group Ltd £000	Total £000
Employer's part of current service cost	1,700	262	1,962
Total operating charge	<u>1,700</u>	<u>262</u>	<u>1,962</u>

### Analysis of amount credited/(charged) to other finance income

	Bristol Water plc £000	Verdan Group Ltd £000	Total £000
Expected return on pension sections' assets	7,400	464	7,864
Interest on pension sections' liabilities	(5,100)	(368)	(5,468)
Net return	<u>2,300</u>	<u>96</u>	<u>2,396</u>

### Analysis of amount recognised in the Statement of Recognised Gains and Losses (STRGL)

	Bristol Water plc £000	Verdan Group Ltd £000	Total £000
Actual return less expected return on pension sections' assets	(28,450)	(1,823)	(30,273)
Experience gains/(losses) arising on sections' liabilities	2,100	(59)	2,041
Changes in assumptions underlying the present value of sections' liabilities	(7,800)	(630)	(8,430)
Actual (loss) recognised in STRGL	<u>(34,150)</u>	<u>(2,512)</u>	<u>(36,662)</u>

### Movement in sections' pre-tax surplus/(deficit) during the year

	Bristol Water plc £000	Verdan Group Ltd £000	Total £000
Surplus in sections' at beginning of the year	14,350	27	14,377
Movement in year:			
Current service cost	(2,100)	(329)	(2,429)
Aggregate contributions	1,100	207	1,307
Other financial income	2,300	96	2,396
Actuarial loss recognised in STRGL	(34,150)	(2,512)	(36,662)
(Deficit) in sections' at end of the year	<u>(18,500)</u>	<u>(2,511)</u>	<u>(21,011)</u>

# Notes to the accounts

	Bristol Water plc £000	Verdan Group Ltd £000	Total £000
<b>History of experience gain and losses</b>			
Difference between expected and actual return on sections' assets:			
Amount – (loss)	(28,450)	(1,823)	(30,273)
Percentage of sections' assets	39%	39%	39%
<b>Experience gains and losses on sections' liabilities</b>			
Amount – gain	2,100	(59)	2,041
Percentage of the present value of the sections' liabilities	2%	1%	2%
<b>Total amount recognised in STRGL</b>			
Amount – (loss)	(34,150)	(2,512)	(36,612)
Percentage of the present value of the sections' liabilities	37%	35%	37%

## 24. ADDITIONAL INFORMATION TO THE GROUP CASH FLOW STATEMENT

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

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

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

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

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

	Opening net borrowings £000	Cash flows in year £000	Debt maturities £000	New debt not affecting cashflow* £000	Closing net borrowings £000
Cash	5,513	645	-	-	6,158
Short-term deposits	19,000	(5,500)	-	-	13,500
Cash at bank and on deposit	24,513	(4,855)	-	-	19,658
Borrowings due within one year	(3,138)	3,148	(5,101)	(1,669)	(6,760)
Borrowings due after one year	(82,825)	(47)	5,101	-	(77,771)
Net borrowings	<u>(61,450)</u>	<u>(1,754)</u>	-	<u>(1,669)</u>	<u>(64,873)</u>

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

# Notes to the accounts

## 25. RELATED PARTY TRANSACTIONS

In the ordinary course of business, group companies have contracted on an arm's length basis with joint ventures. Transactions with joint ventures during the year comprised -

	BWBSL	PABW	Purton Carbons Ltd	Watergrid Ltd
	£000	£000	£000	£000
Purchases from	2,859	-	180	-
Services rendered to	421	1,443	50	33
Balance at year end due from	2,004	616	-	33
Balance at year end due to	1,152	-	265	-

## 26. POST BALANCE SHEET EVENTS

During April 2003, all the ordinary issued shares of Bristol Water plc were transferred to Bristol Water Core Holdings Limited, a wholly-owned subsidiary of the ultimate parent company, Bristol Water Holdings plc.

During May 2003, Bristol Water plc entered into a new financing structure. Details are set out in the Operating and Financial Review and in Note 17 to the Accounts.

# Independent auditors' report to the shareholders of Bristol Water Holdings 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. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Remuneration Committee Report ("the auditable part").

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the Remuneration Committee 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 and the auditable part of the Remuneration Committee Report in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Remuneration Committee Report have been 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 regarding directors' remuneration and transactions 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 Chief Executive's Report, the Operating and Financial Review, the Corporate Governance Statement, the Corporate Social Responsibility statement and the Remuneration Committee Report.

We review whether the Corporate Governance Statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

## 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 affairs of the company and the group at 31 March 2003 and of the profit and cash flows of the group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Remuneration Committee Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Bristol  
29 May 2003

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	2003 £000	2002 £000	2001 £000	2000 £000	1999 £000
Group turnover	112,332	129,118	101,488	85,976	79,891
Operating profit	20,409	19,023	14,095	15,228	20,437
Profit/(loss) on disposals	545	776	380	(157)	143
Net interest	(4,861)	(4,224)	(4,036)	(4,351)	(3,876)
Profit before taxation	16,093	15,575	10,439	10,720	16,704
Taxation	(6,448)	(3,525)	(3,582)	(4,721)	(4,509)
Profit after taxation	9,645	12,050	6,857	5,999	12,195
Minority interests	(1,094)	(1,094)	(1,094)	(1,094)	(1,094)
Dividends paid and proposed	(5,230)	(4,965)	(4,711)	(4,528)	(4,528)
Profit retained	3,321	5,991	1,052	377	6,573

## BALANCE SHEETS

At 31 March	2003 £000	2002 £000	2001 £000	2000 £000	1999 £000
Fixed assets	186,176	181,125	171,799	170,272	164,182
Net current assets/(liabilities)	7,644	10,085	(224)	77	324
Total assets less current liabilities	193,820	191,210	171,575	170,349	164,506
Debt due after one year	(77,771)	(82,825)	(71,098)	(71,342)	(69,153)
Other liabilities	(8,429)	(8,396)	(8,780)	(9,372)	(8,254)
Provision for deferred tax	(19,189)	(14,926)	(12,970)	(11,960)	(10,080)
Net assets	88,431	85,063	78,727	77,675	77,019

## CASH FLOW

Years ended 31 March	2003 £000	2002 £000	2001 £000	2000 £000	1999 £000
Cash flow from operations	28,537	29,671	32,062	28,273	32,712
Dividends received from joint ventures	129	-	-	-	-
Interest and non-equity dividends paid	(6,375)	(5,332)	(4,827)	(5,242)	(5,211)
Tax and ACT paid	(2,978)	(2,183)	(3,192)	(2,126)	(1,783)
Capital expenditure	(16,124)	(22,899)	(15,189)	(18,033)	(30,751)
Acquisitions and disposals	13	113	(68)	1,141	(355)
Dividends paid on equity shares	(5,020)	(4,786)	(4,579)	(5,890)	(2,927)
Cash flow before management of liquid resources and financing	(1,818)	(5,416)	4,207	(1,877)	(8,315)
Management of liquid resources	5,500	(295)	(15,901)	(489)	(377)
Net (decrease)/increase in financing	(3,037)	8,851	2,821	(1,385)	14,436
Increase/(decrease) in cash	645	3,140	(8,873)	(3,751)	5,744

## RATIOS AND STATISTICS

	2003	2002	2001	2000	1999
Operating profit margin	18%	15%	14%	18%	26%
Interest cover (times)	4.2	4.5	3.5	3.5	5.3
Earnings per ordinary share	115.5p	148.7p	78.3p	66.6p	150.9p
Fully diluted earnings per share	114.5p	147.5p	78.0p	66.3p	149.5p
Ordinary dividend per share	70.6p	67.2p	64.0p	61.5p	61.5p
Ordinary dividend cover (times)	1.6	2.2	1.2	1.1	2.5
Net gearing ratio	73%	72%	70%	76%	70%

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

All data include exceptional items where relevant.

# Analysis of shareholders

at 31 March 2003

	Number of shareholders	Holding	%
<b>ORDINARY VOTING SHARES</b>			
<b>By size of holding -</b>			
Up to 100 shares	993	44,202	0.6
101 to 1,000 shares	1,542	525,609	7.2
1,001 to 10,000 shares	259	730,862	10.1
Over 10,000 shares	61	5,962,314	82.1
Total	2,855	7,262,987	100.0
<b>By type of shareholder</b>			
Private individuals	2,351	636,161	8.8
Institutions, nominees and banks	464	6,288,766	86.6
Other companies	40	338,060	4.6
Total	2,855	7,262,987	100.0