
Bournemouth & West Hampshire
WATER

REGULATORY

ACCOUNTS

2003

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COMPANY INFORMATION

Directors *J W Green OBE (Chairman)*†*
 N B E Beale†*
 J S Cox†*
 T J R Kirkhope†*
 *S M J Richer**
 A R F Cooke (Managing Director)
 A J D Ferrar (Finance Director and Secretary)
 R I Harrington (Technical Director)

 **Non-Executive †Independent*

Registered Office *George Jessel House*
 Francis Avenue
 Bournemouth
 Dorset BH11 8NB
 Telephone Number (01202) 591111
 Facsimile Number (01202) 597022

Auditors *PricewaterhouseCoopers LLP*

Bankers *Lloyds TSB Bank Plc*

Stockbrokers *Collins Stewart Ltd*

Registrars *Lloyds TSB Bank Registrars*

Registered in England *Company Number: 2924312*

FINANCIAL REVIEW OF THE APPOINTED BUSINESS

Profit and Loss Account (HCA)

The regulated water business turnover for the year has increased slightly to £27.2 million reflecting the tariff increase of 1.27%. The impact of additional income from new properties was generally negated by overall lower demand. The metering programme has again resulted in a transfer of turnover from unmeasured to measured. The total number of properties on charge increased from 183,000 to 184,600 during the year.

Operating costs (excluding depreciation) in the appointed business have reduced by £1.0 million. Depreciation charges have increased by 22.4% to £3.8 million as a result of the extensive capital programme. There was a loss on disposal of fixed assets of £0.3 million.

As a result operating profit has increased by 4.1% to £8.8 million. Net interest payable has increased slightly to £0.9 million, which is a combination of increased net debt of £2.9 million and lower interest rates. Interest is covered 9.8 times. Profit before tax has increased by 4.4% to £7.9 million for reasons detailed above.

Profit and Loss Account (CCA)

Current cost operating profit has decreased by £0.4 million to £6.0 million. This was the net effect of an increased CC operating profit of £0.4 million and a loss of £0.7 million on the disposal of assets.

The Regulatory Capital Value (as calculated by Ofwat) at 31 March 2003 was £96.0 million.

The post tax return on the Regulatory Capital Value for the year was 3.4%, which is below the amount allowed by Ofwat in PRO3 (5.5%). However, the implementation of FRS 19 (Deferred Tax) has increased the tax charge by £1.0 million and if this is added back the return is 4.5% which is still below the PRO3 allowance. The principal reason for the shortfall is lower than expected revenue from customers who have opted to be metered compared with the Final Determination assumptions made in 1999.

Shareholders' Returns

Preference share dividends of £2.125 million were paid during the year bringing the total appointed business dividend to £3.5 million, which represents a 3% increase on last year. This is in line with our stated policy of providing some modest real growth.

Capital Investment

Capital investment in the year amounted to £12.1 million, with a further £2.1 million arising from revaluation of an asset (Longham raw water reservoir).

Net Debt and Gearing

Net debt has increased by £4.3 million during the year to £22.3 million and as a result gearing (debt/debt + equity) has increased from 21% to 24%.

Financing

A loan agreement of £7.5 million with Bank of Ireland was signed in December 2001, which was fully utilised at 31 March 2003. The Brown Shipley loan facility of £9 million was repaid in May 2003. New facilities have been agreed with both Brown Shipley and Lloyds TSB totalling £15 million.

A J D Ferrar

Finance Director
6 June 2003

DIRECTORS' STATEMENTS AND RESPONSIBILITIES

The Directors are responsible, under Condition F of the Instrument of Appointment by the Secretary of State for the Environment and as a water undertaker under the Water Industry Act 1991, for preparing financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that year.

The Directors select applicable accounting policies and follow relevant accounting standards, so as to ensure the Regulatory Accounts show a true and fair view, except for the application of infrastructure renewals accounting as set out below. Accounting policies are reviewed regularly to ensure that they continue to be appropriate and are amended when necessary. The Company's policies are consistent with other companies in the water industry and the accounts also comply with Regulatory Accounting Guidelines.

The policies are applied consistently, and reasonable, prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 2003. The financial statements have been prepared on the going concern basis. In the opinion of the directors, all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to be supplied to the appointee, to ensure that it is able to meet all its obligations as a water undertaker.

In accordance with instructions from Ofwat the requirements of Financial Reporting Statement (FRS)12 and FRS15 have not been applied to infrastructure maintenance expenditure. Consequently the information on pages 8 to 31 present a balance sheet, cashflow and notes using the accounting principles for infrastructure maintenance expenditure applied in previous years. The Current Cost Accounts are included on pages 32 to 42.

The Directors are responsible for keeping proper accounting records as required by United Kingdom company law, for taking reasonable steps to safeguard the assets of the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements for the year ended 31 March 2003 are published in hard-copy printed form and on the Company's website on the internet. The Directors are responsible for the maintenance and integrity of the website in accordance with UK legislation governing the preparation and dissemination of financial statements. Access to the website is available from outside the UK, where comparable legislation may be different.

Certificate of Compliance with Licence Condition F6A

In arriving at the certificate provided below, the Audit Committee met on 21 May 2003 to consider the Appointee's financial and management requirements over the next 12 months and the available resources. The Committee were satisfied that sufficient resources existed and recommended that the Board could provide the necessary assurance. In addition, compliance with the relevant sections of RAG 5.03 was also reviewed. The Board duly considered the recommendations from the Audit Committee on 6 June 2003 and resolved that the certificate would be signed by the Company Secretary on behalf of the Board.

This is to certify that in the opinion of the Directors, the Appointee:

- will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated activities (including the investment programme necessary to fulfil the Company's obligations under the Appointment);*
- will for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out those functions:*
- is in compliance with paragraph 3.1 of Condition K of the Licence.*
- all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to be supplied to the appointee, to ensure that it is able to meet all its obligations as a water undertaker.*

By order of the Board

A J D Ferrar
Secretary
6 June 2003

INDEPENDENT AUDITORS' REPORT

Independent Auditors' report to the Director General of Water Services ("the Regulator") and the Directors of Bournemouth & West Hampshire Water Plc

We have audited the Regulatory Accounts of Bournemouth & West Hampshire Water Plc ("the Company" or "the appointee") on pages 7 to 42, which comprise:

- the regulatory historical cost accounting statements comprising the historical cost profit and loss account, balance sheet, cash flow statement, statement of total recognised gains and losses and the related notes including the statement of accounting policies; and
- the regulatory current cost accounting statements comprising the current cost profit and loss account, balance sheet, cash flow statement and the related notes including the statement of accounting policies.

This report is made solely to the Company and the Regulator in accordance with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the company as a water undertaker under the Water Industry Act 1991. Our audit work has been undertaken so that we might state to the Company and the Regulator those matters we have agreed to state to them in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility for our audit work, for our report, or for the opinions we have formed to any other person than those to whom we have agreed in writing to accept responsibility.

Basis of preparation

The Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention as modified by the revaluation of certain fixed assets. As such, the Regulatory Accounts are separate from the statutory financial statements of the company and have not necessarily been prepared under the basis of Generally Accepted Accounting Principles. Financial information other than that prepared on the basis of Generally Accepted Accounting Principles does not necessarily represent a true and fair view of the financial position of a company as shown in financial statements prepared in accordance with the Companies Act 1985.

Respective responsibilities of the Regulator, the Directors and Auditors

The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no assessment.

The Directors' responsibilities for preparing the Regulatory Accounts in accordance with Regulatory Accounting Guidelines are set out in the statement of directors' responsibilities for regulatory information on page 4.

Our responsibility is to audit the Regulatory Accounts in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board, except as stated in the "Basis of audit opinion", below.

We report to you our opinion as to whether the regulatory historical cost accounting statements present fairly, under the historical cost convention as modified by the revaluation of certain fixed assets, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guideline 2.03 (Guideline for classification of expenditure), Regulatory Accounting Guideline 3.05 (Guideline for the contents of regulatory accounts) and Regulatory Accounting Guideline 4.02 (Guideline for the analysis of operating costs and asset); and whether the regulatory current cost accounting statements on pages 32 to 42 have been properly prepared in accordance with Regulatory Accounting Guideline 1.03 (Guideline for accounting for current costs and regulatory capital values), Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02. We also report to you if, in our opinion, the Company has not kept proper accounting records as required by paragraph 3 of Condition F and whether the information is in agreement with the appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1.03, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02.

We read the other information contained in the Regulatory Accounts, including any supplementary schedules on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts. The other information comprises the financial review, the notes on regulatory information, and the additional information required by the License.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board except as noted below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Regulatory Accounts, 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 Regulatory Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards.

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company, which are prepared for a different purpose. We do not and will not, by virtue of this report assume any responsibility, whether in contract, negligence or otherwise, in relation to our audits of the Company's statutory financial statements required by the Companies Act 1985.

The regulatory historical cost accounting statements on pages 7 to 31 have been drawn up in accordance with Regulatory Accounting Guideline 3.05 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly that the relevant sections of Financial Reporting Standards 12 and 15 be disappplied. The effect of this departure from Generally Accepted Accounting Principles, and a reconciliation of the balance sheet drawn up on this basis with that drawn up under Companies Act 1985 is given on page 22.

Opinion

In our opinion the Regulatory Accounts for the Company contain the information for the year ended 31 March 2003, to comply with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the company as a water undertaker under the Water Industry Act 1991.

In respect of this information we report that in our opinion:

- (a) proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F of the instrument;
- (b) the information is in agreement with the appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1.03, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the Regulator;
- (c) the regulatory historical cost accounting statements on pages 7 to 31 present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the company's Instrument of Appointment and Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the Regulator;
- (d) the regulatory current cost accounting statements on pages 32 to 42 have been properly prepared in accordance with Regulatory Accounting Guideline 1.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the Regulator.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Southampton
6 June 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 March 2003

2003

2002

		Appointed Business £000	Non- Appointed Business £000	Total £000	Appointed Business £000	Non- Appointed Business £000	Total £000
Turnover	<i>Note</i>						
- Continuing operations		27,166	1,945	29,111	26,792	1,323	28,115
- Discontinued operations		-	-	-	-	1,745	1,745
	1	27,166	1,945	29,111	26,792	3,068	29,860
Operating Costs		(18,099)	(1,647)	(19,746)	(18,416)	(3,298)	(21,714)
(Loss)/profit on disposal of fixed assets		(312)	235	(77)	38	-	38
Operating profit/(loss)							
- Continuing operations		8,755	533	9,288	8,414	303	8,717
- Discontinued operations		-	-	-	-	(533)	(533)
		8,755	533	9,288	8,414	(230)	8,184
Loss on disposal of business (discontinued operation)	8	-	-	-	-	(328)	(328)
Net interest payable	5	(893)	(90)	(983)	(883)	(149)	(1,032)
Profit/(loss) on ordinary activities before taxation		7,862	443	8,305	7,531	(707)	6,824
Tax on profit/(loss) on ordinary activities	6	(2,505)	(133)	(2,638)	(1,721)	202	(1,519)
Profit/(loss) on ordinary activities after taxation		5,357	310	5,667	5,810	(505)	5,305
Minority interest	25	(27)	-	(27)	(27)	-	(27)
Profit/(loss) for the year attributable to shareholders		5,330	310	5,640	5,783	(505)	5,278
Dividends - non-equity interests	7	(2,125)	-	(2,125)	(2,125)	-	(2,125)
- equity interests	7	(1,385)	(155)	(1,540)	(1,282)	-	(1,282)
Profit/(loss) for the year	19	1,820	155	1,975	2,376	(505)	1,871
Earnings per share (basic and fully diluted)				15.6p			14.0p

There is no difference between the results disclosed above and the results on the unmodified historical cost basis.

CONSOLIDATED BALANCE SHEET

At 31 March 2003

2003

2002

		Appointed Business £000	Non- Appointed Business £000	Total £000	Appointed Business £000	Non- Appointed Business £000	Total £000
Fixed assets	<i>Note</i>						
Tangible fixed assets	9	101,179	790	101,969	92,114	1,023	93,137
Current assets							
Stocks and work in progress	10	159	110	269	149	127	276
Debtors	11	6,365	521	6,886	5,594	716	6,310
Investments		-	594	594	-	510	510
Cash at bank and in hand		795	8	803	2,103	3	2,106
		7,319	1,233	8,552	7,846	1,356	9,202
Creditors: amounts falling due within one year	12	(17,423)	(2,808)	(20,231)	(9,244)	(1,799)	(11,043)
Net current liabilities		(10,104)	(1,575)	(11,679)	(1,398)	(443)	(1,841)
Total assets less current liabilities		91,075	(785)	90,290	90,716	580	91,296
Creditors: amounts falling due after more than one year	13	(15,041)	-	(15,041)	(19,591)	(1,500)	(21,091)
Provision for liabilities and charges	16	(6,111)	(80)	(6,191)	(5,102)	(100)	(5,202)
		69,923	(865)	69,058	66,023	(1,020)	65,003
Capital and reserves							
Called up share capital	18	47,483	-	47,483	47,483	-	47,483
Profit and loss account	19	19,939	(865)	19,074	18,119	(1,020)	17,099
Revaluation Reserve	20	2,145	-	2,145	-	-	-
Total shareholders' funds/(deficit)	21	69,567	(865)	68,702	65,602	(1,020)	64,582
<i>Analysed as</i>							
- equity shareholders' funds		44,567	(865)	43,702	40,602	(1,020)	39,582
- non-equity shareholders' funds		25,000	-	25,000	25,000	-	25,000
Minority shareholders' non-equity interest	25	356	-	356	421	-	421
		69,923	(865)	69,058	66,023	(1,020)	65,003

Approved by the Board on 6 June 2003

John Green
Chairman

CONSOLIDATED STATEMENT OF CASHFLOWS

Year ended 31 March 2003		2003			2002		
	Note	Appointed Business £000	Non- Appointed Business £000	Total £000	Appointed Business £000	Non- Appointed Business £000	Total £000
Net cash inflow from operating activities	A	14,301	378	14,679	11,372	440	11,812
Returns on investments and the servicing of finance							
Interest received - external		91	19	110	67	-	67
Interest received - internal		109	-	109	149	-	149
Interest paid on finance leases		(326)	-	(326)	(442)	-	(442)
Interest paid - external		(731)	-	(731)	(634)	-	(634)
Interest paid - internal		-	(109)	(109)	-	(149)	(149)
Dividends paid on non-equity shares		(2,125)	-	(2,125)	(2,125)	-	(2,125)
Dividends paid to minority interests		(27)	-	(27)	(27)	-	(27)
		(3,009)	(90)	(3,099)	(3,012)	(149)	(3,161)
Taxation		(1,789)	135	(1,654)	(1,167)	365	(802)
Capital expenditure and financial investment							
Purchase of tangible fixed assets		(11,888)	(121)	(12,009)	(9,148)	(116)	(9,264)
Infrastructure renewals expenditure		(1,608)	-	(1,608)	(1,005)	-	(1,005)
Contributions received		1,003	-	1,003	1,056	-	1,056
Sale of tangible fixed assets		61	476	537	87	5	92
		(12,432)	355	(12,077)	(9,010)	(111)	(9,121)
Acquisitions and disposals							
Cash received in respect of disposals		-	233	233	-	61	61
Disposal costs paid		-	(76)	(76)	-	(120)	(120)
Cash balances of business sold		-	-	-	-	(11)	(11)
Purchase of shares in subsidiary undertakings		(65)	-	(65)	-	-	-
		(65)	157	92	-	(70)	(70)
Equity dividends paid		(1,295)	(66)	(1,361)	(1,091)	-	(1,091)
Management of liquid resources							
Increase in short term deposits		-	(594)	(594)	-	-	-
Sale/(purchase) of current asset investments		-	510	510	-	(98)	(98)
	C	-	(84)	(84)	-	(98)	(98)
Financing							
Finance lease capital repaid		(519)	-	(519)	(506)	-	(506)
Bank loan raised - long term		3,500	-	3,500	4,000	-	4,000
Bank loan repaid - short term		-	-	-	-	(500)	(500)
		2,981	-	2,981	3,494	(500)	2,994
(Decrease)/increase in cash	C	(1,308)	785	(523)	586	(123)	463

The Statement of Cashflows should be read in conjunction with the notes to the Statement of Cashflows on pages 10 to 12.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 March 2003	2003			2002		
	Appointed Business £000	Non- Appointed Business £000	Total £000	Appointed Business £000	Non- Appointed Business £000	Total £000
Profit attributable to ordinary shareholders	1,820	155	1,975	2,376	(505)	1,871
Revaluation of fixed asset (see note 9)	2,145	-	2,145	-	-	-
Total recognised gains and losses relating to the year	3,965	155	4,120	2,376	(505)	1,871
Prior year adjustment re discounted deferred tax	-	-	-	(4,530)	(91)	(4,621)
Total recognised gains and losses since last annual report	3,965	155	4,120	(2,154)	(596)	(2,750)

NOTES TO THE STATEMENT OF CASHFLOWS

A. Reconciliation of operating profit to net cash inflow from operating activities

Operating profit/(loss)	8,755	533	9,288	8,414	(230)	8,184
Depreciation	3,786	113	3,899	3,094	118	3,212
Loss/(profit) on sale of fixed assets	312	(235)	77	(38)	-	(38)
(Decrease)/increase in stocks	(10)	17	7	(31)	(204)	(235)
(Decrease)/increase in debtors	(774)	(249)	(1,023)	(1,025)	1,107	82
Increase/(decrease) in creditors	624	199	823	(144)	(254)	(398)
Reallocation of fixed assets to non-appointed Business	-	-	-	97	(97)	-
Infrastructure renewals expenditure	1,608	-	1,608	1,005	-	1,005
Net cash inflow from operating activities	14,301	378	14,679	11,372	440	11,812

NOTES TO THE STATEMENT OF CASHFLOWS

B. Analysis of the balances of cash at bank and in hand shown in the balance sheet

Appointed Business	2001	2002	2003	Change in year
	£000	£000	£000	£000
Cash at bank and in hand	1,517	2,103	795	(1,308)
Non-Appointed Business				
Cash at bank and in hand	(1,404)	(1,527)	(742)	785
Group				
Cash at bank and in hand	113	576	53	(523)

C. Reconciliation of net cashflow to movement in net debt

	Appointed Business £000	2003 Non-Appointed Business £000	Total £000	Appointed Business £000	2002 Non-Appointed Business £000	Total £000
(Decrease)/increase in cash in the year	(1,308)	785	(523)	586	(123)	463
(Decrease)/increase in debt and lease financing	(2,981)	-	(2,981)	(3,494)	500	(2,994)
Increase in liquid resources	-	84	84	-	98	98
(Decrease)/increase in net debt from cashflows	(4,289)	869	(3,420)	(2,908)	475	(2,433)
Net debt at 1 April	(18,007)	(2,517)	(20,524)	(15,099)	(2,992)	(18,091)
Balance at 31 March	(22,296)	(1,648)	(23,944)	(18,007)	(2,517)	(20,524)

D. Reconciliation of movement in debtors, creditors and stock to working capital

(Increase)/decrease in debtors	(771)	(16)	(787)	(1,006)	841	(165)
Decrease in interest payment	(3)	-	(3)	(19)	-	(19)
Disposal of debtor in respect of discontinued operations	-	-	-	-	(77)	(77)
(Decrease)/increase in consideration due from disposal of discontinued operations	-	(233)	(233)	-	343	343
Net movement in debtors working capital	(774)	(249)	(1,023)	(1,025)	1,107	82
Increase/(decrease) in creditors	851	123	974	649	(178)	471
Increase in interest accrual	(33)	-	(33)	(4)	-	(4)
Increase in fixed asset accrual	(194)	-	(194)	(789)	-	(789)
Decrease/(increase) in creditor in respect of disposal costs	-	76	76	-	(76)	(76)
Net movement in creditors working capital	624	199	823	(144)	(254)	(398)

NOTES TO THE STATEMENT OF CASHFLOWS

D. Reconciliation of movement in debtors, creditors and stock to working capital - continued

	Appointed Business £000	2003 Non- Appointed Business £000	Total £000	Appointed Business £000	2002 Non- Appointed Business £000	Total £000
(Increase)/decrease in stocks	(10)	17	7	(31)	169	138
Disposal of stocks in respect of discontinued operations	-	-	-	-	(373)	(373)
Net movement in stocks working capital	(10)	17	7	(31)	(204)	(235)

E. Analysis of net debt

Appointed Business	1 April 2002 £000	Cash flow £000	Other non-cash changes £000	31 March 2003 £000
Cash and overdraft	2,103	(1,308)	-	795
Debt due within one year	-	-	(7,500)	(7,500)
Debt due after one year	(11,663)	(3,500)	7,500	(7,663)
Finance leases	(8,447)	519	-	(7,928)
	(18,007)	(4,289)	-	(22,296)

Analysis of net debt

Non-Appointed Business

Cash and overdraft	(1,527)	785	-	(742)
Current asset investment	510	84	-	594
Debt due within one year	-	-	(1,500)	(1,500)
Debt due after one year	(1,500)	-	1,500	-
	(2,517)	869	-	(1,648)

Analysis of net debt

Group

Cash and overdraft	576	(523)	-	53
Debt due after one year	(13,163)	(3,500)	9,000	(7,663)
Debt due within one year	-	-	(9,000)	(9,000)
Finance leases	(8,447)	519	-	(7,928)
Current asset investment	510	84	-	594
	(20,524)	(3,420)	-	(23,944)

HISTORICAL COST ACCOUNTING POLICIES

Basis of accounting

The regulatory accounting information on pages 7 to 31 has been prepared in accordance with guidance issued by the Director General of Water Services.

The accounting policies used are the same as those adopted in the statutory historical cost accounts except for the application of infrastructure renewals accounting, which has been dealt with in accordance with RAG 2.03 "Classification of Infrastructure Expenditure" and RAG 3.05 "Guidelines for the Contents of Regulatory Accounts".

The regulatory financial information on pages 7 to 31 has been prepared in accordance with applicable accounting standards, with the exception of FRS12 and FRS15 as applied to infrastructure accounting, and the treatment of certain contributions, with the Companies Act 1985 ('the Act'). An explanation of this departure from the requirements of the Act is given in the 'depreciation of fixed assets' section below.

Basis of consolidation

The consolidated financial statements incorporate the accounts of Bournemouth and West Hampshire Water Plc and its subsidiary undertakings, Bournemouth Water Plc, West Hampshire Water Plc and Mill Stream Insurance Limited.

Turnover

Turnover comprises the value of water supplied and other work carried out.

Fixed assets

Where expenditure on an asset exceeds £500 (£5,000 for computer software), the Company capitalises that expenditure. Depreciation policies are set out below.

Infrastructure assets

Infrastructure assets comprise a network of systems (including mains and impounding and raw water storage reservoirs). Expenditure on infrastructure assets relating to increases in capacity or enhancement of the network is treated as additions and included at cost. Expenditure on impounding and raw water storage reservoirs is treated in the same manner. Raw water reservoirs are held at valuation as determined by an independent qualified chartered engineer when they are commissioned. These revaluations are reviewed annually by the directors. Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost. No depreciation is charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life. The charge for infrastructure renewals expenditure takes account of planned expenditure on maintaining the operating capability of infrastructure assets in accordance with the operational policies and standards underlying the Company's Asset Management Plan. The timing of the investment programme and other operational considerations results in uneven patterns of infrastructure renewals expenditure. Charges to the profit and loss account, therefore comprise actual expenditure together with accruals or prepayments which recognise planned expenditure identified in the Asset Management Plan.

The regulatory accounts comply with Ofwat's requirement to disapply certain sections of FRS12 and FRS15 with regard to infrastructure accounting. A reconciliation of this departure between statutory and regulatory accounts can be seen on page 22.

Grants and contributions receivable relating to infrastructure assets have been deducted from the cost of tangible fixed assets. This is not in accordance with the Companies Act 1985 which requires tangible fixed assets to be shown at cost and hence grants and contributions as deferred income. This departure from the requirements of the Companies Act 1985 is, in the opinion of the Directors, necessary for the financial statements to show a true and fair view as, these assets do not have determinable finite lives and therefore no basis exists on which to recognise grants and contributions and deferred income. The effect of this treatment on the value of tangible fixed assets is disclosed in note 9.

Other fixed assets

Other assets are included at cost less accumulated depreciation. Cost includes direct labour and an appropriate proportion of related overhead. Provision for depreciation is made in respect of all assets other than freehold land and easements. It is based on the historical cost of the assets and is designed to write them off in equal annual instalments over their useful lives which are estimated as follows:-

Property and service reservoirs	80 – 100 years
Office equipment	3 – 5 years
Plant and equipment	5 – 40 years
Motor vehicles	4 – 7 years

Leased Assets

Tangible fixed assets acquired under finance lease agreements are capitalised and the net obligations resulting are shown as liabilities. The fair value of each asset is depreciated over the estimated useful life of the asset. The interest element of the rental charges is charged to the profit and loss account so as to produce a constant periodic rate of charge on the outstanding capital balance. Rental costs arising under operating leases are charged against profits in the year they are incurred.

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing, any excess of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off over its useful economic life. Provision is made for any impairment.

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost, which includes an appropriate proportion of overheads or net realisable value. In accordance with established practice in the Water Industry no value has been placed upon the water in reservoirs, mains and in the course of treatment.

Deferred taxation

Deferred taxation is provided on a discounted basis on all timing differences that have originated but not reversed at the balance sheet date except as referred to below. Amounts provided are calculated with reference to tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Pension costs

The expected cost of pensions in respect of the defined benefit pension scheme is charged to the profit and loss account so as to spread the cost over the service lives of the employees in the scheme. Variations from regular cost are spread over the expected remaining service lives of employees in the scheme. The pension cost is assessed in accordance with the advice of an independent qualified actuary.

Basis of allocation of costs and assets between appointed and non-appointed business

Costs and assets, where separately identifiable, are charged to the relevant business. Shared costs and assets are recharged from the appointed business using an activity based method by means of a service charge. The tax charge and dividends are allocated on the basis of profit levels. Cash balances are allocated on the basis of the net assets of the relevant businesses. £1.5 million of the bank loan has been allocated to the non-appointed business representing its utilisation of that facility. Interest has been allocated on a net debt basis.

Current and fixed assets investments

Current and fixed asset investments are stated at cost less any provision for permanent diminution in value.

Financial instruments

The Group limits its exposure to movements in interest rates through entering into interest rate swaps on a selective basis to increase and extend the amount of borrowings subject to fixed rates of interest. Interest expense reflects the underlying cost of borrowing.

Financial instruments used to hedge interest rates are valued at cost. Gains or losses on instruments are matched in the profit and loss account to the gains or losses on the transactions and to the interest to which they relate.

Premiums and fees are amortised over the life of the underlying instruments.

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS

1. By class of business

	Appointed Business		Non-Appointed Business		Discontinued Non-Appointed Business		Total	Total
	2003	2002	2003	2002	2003	2002	2003	2002
	£000	£000	£000	£000	£000	£000	£000	£000
Turnover	27,166	26,792	2,691	2,294	-	1,745	29,857	30,831
Inter-segment trading	-	-	(746)	(971)	-	-	(746)	(971)
Turnover to third parties	27,166	26,792	1,945	1,323	-	1,745	29,111	29,860
Profit/(loss) before tax	7,862	7,531	443	313	-	(1,020)	8,305	6,824
Net assets/(liabilities)	69,923	66,023	(865)	(1,020)	-	-	69,058	65,003

All activities take place within the UK

2. Other analysis

	Continuing operations	2003 Discontinued operations	Total	Continuing operations	2002 Discontinued operations	Total
	£000	£000	£000	£000	£000	£000
Operating costs – appointed	18,099	-	18,099	18,416	-	18,416
Operating costs – non-appointed	1,647	-	1,647	1,020	2,278	3,298
Other operating income – appointed	(312)	-	(312)	38	-	38
Other operating income – non-appointed	235	-	235	-	-	-

The Airmec business was sold on 25 September 2001 and its results for the period are classified as a discontinued operation in the prior year.

3. 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.

	Appointed Business £000	2003 Non- Appointed Business £000	Total £000	Appointed Business £000	2002 Non- Appointed Business £000	Total £000
Operating costs comprise;						
Payroll costs						
Wages and salaries	4,193	896	5,089	4,272	1,541	5,813
Social security costs	359	79	438	370	136	506
Pension costs	133	7	140	-	-	-
Redundancy costs	70	-	70	40	-	40
Less charged to fixed assets	(716)	-	(716)	(443)	-	(443)
Net payroll cost	4,039	982	5,021	4,239	1,677	5,916
Other operating costs						
Operating lease rentals – Plant and machinery	58	14	72	47	145	192
Auditors' remuneration – statutory accounts (Group)*	26	5	31	25	5	30
- non-audit services (Group and Company)*	84	-	84	105	3	108
Raw materials, consumables and other charges	10,106	533	10,639	10,906	1,350	12,256
Total other operating costs	10,274	552	10,826	11,083	1,503	12,586
Depreciation of tangible assets						
On assets	3,421	113	3,534	2,724	118	2,842
On leased assets	365	-	365	370	-	370
Total depreciation	3,786	113	3,899	3,094	118	3,212
Total operating costs	18,099	1,647	19,746	18,416	3,298	21,714

*Auditors' remuneration for the company is £28,000 (2002 £27,000).

Included within appointed business total operating costs is £1,351,000 (2002 £1,304,000) in respect of the infrastructure renewals charge.

The average number of employees during the year was:

	2003 Total	2002 Total
Appointed business	178	188
Non-appointed business	46	77
	224	265

All employees were in the UK.

4. Directors' emoluments

The remuneration (excluding pension contributions) of the Directors was as follows:

	Salary or Fees £000	Bonus £000	2003 Benefits £000	Total £000	2002 Total £000
Chairman					
J W Green	26	-	-	26	25
Executive directors					
A R F Cooke	94	24	10	128	115
A J D Ferrar	76	16	9	101	92
R I Harrington	76	16	12	104	92
Non-executive directors					
N B E Beale	14	-	-	14	12
J S Cox	14	-	-	14	12
T J R Kirkhope	14	-	-	14	12
S M J Richer (appointed 26 July 2002)	10	-	-	10	-
D O Lloyd (resigned 26 July 2002)	4	-	-	4	6
Total remuneration	328	56	31	415	366

- Fees paid in respect of S M J Richer are paid to Cascal Services Ltd . Fees paid in respect of D O Lloyd were paid to Cascal Services Ltd.
- Benefits consisted of the provision of a company car or a cash equivalent, petrol, medical insurance, telephone facilities and an allowance for overseas work.
- Bonus payments related to a performance related scheme based on the Company's financial performance compared with budget and the regulated customer service performance. The maximum payable to executive directors is 30% per annum of basic salary at the start of the bonus payment period.
- For further information on the remuneration of Directors see the Report of the Remuneration Committee on page 16 of the Company's statutory accounts.
- Emoluments are not specifically allocated between the appointed and non-appointed businesses.

The accrued pension benefits of the Directors at 31 March 2003 were as follows:-

Name	Accrued pension at 31 Mar 2003	Increase in accrued pension from previous year (with no adjustment for inflation)	Increase in accrued pension in excess of inflation in year	Transfer value of accrued pension in excess of inflation and members contributions in year	Transfer value of accrued pension at 31 Mar 2002	Transfer value of accrued pension at 31 Mar 2003	Additional transfer value accrued in excess of members contributions in year
	£	£	£	£	£	£	£
A R F Cooke	18,079	2,123	1,325	4,737	141,351	128,008	(18,053)
A J D Ferrar	23,505	1,878	797	(1,939)	128,945	102,386	(30,372)
R I Harrington	12,425	1,550	1,006	2,493	80,658	68,944	(15,489)

5. Net interest payable

	Appointed Business £000	2003 Non- Appointed Business £000	Total £000	Appointed Business £000	2002 Non- Appointed Business £000	Total £000
Interest payable						
Perpetual debenture stocks	(7)	-	(7)	(7)	-	(7)
Finance lease agreements	(321)	-	(321)	(460)	-	(460)
Bank borrowings	(744)	-	(744)	(610)	-	(610)
Other	(19)	-	(19)	(25)	-	(25)
Related party	-	(109)	(109)	-	(167)	(167)
	(1,091)	(109)	(1,200)	(1,102)	(167)	(1,269)
Interest receivable						
Short term and bank deposits	67	19	86	52	18	70
Related party	131	-	131	167	-	167
	198	19	217	219	18	237
Net interest payable	(893)	(90)	(983)	(883)	(149)	(1,032)

6. Tax on profit on ordinary activities

Current tax

Corporation tax based on profit for the period at 30%	1,525	153	1,678	1,729	(211)	1,518
Adjustment in respect of prior years	(29)	-	(29)	(460)	-	(460)
	1,496	153	1,649	1,269	(211)	1,058

Deferred tax

Origination and reversal of discounted timing differences	644	(30)	614	514	9	523
Movement in discount rate	500	10	510	(62)	-	(62)
Adjustment in respect of prior years (discounted)	(135)	-	(135)	-	-	-
	1,009	(20)	989	452	9	461

Tax on profit on ordinary activities	2,505	133	2,638	1,721	(202)	1,519
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The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%).
The differences are explained below:

Profit on ordinary activities before taxation	7,862	443	8,305	7,531	(707)	6,824
Profit on ordinary activities multiplied by the standard rate of UK tax (30%)	2,358	133	2,491	2,259	(212)	2,047
Adjusted by:						
Capital allowances for year in excess of depreciation	(909)	20	(889)	(632)	-	(632)
Other timing differences	(58)	-	(58)	51	-	51
Expenditure not deductible for tax purposes	134	-	134	51	1	52
Adjustments to tax charge in respect of prior periods	(29)	-	(29)	(460)	-	(460)
Current tax charge for the year	1,496	153	1,649	1,269	(211)	1,058

7. Dividends	Appointed Business £000	Non- Appointed Business £000	2003 Total £000	2002 Appointed Business £000
Paid				
8.5% cumulative irredeemable preference shares	1,062	-	1,062	1,062
Ordinary shares (2.8p per share; 2002 2.45p per share)	564	66	630	551
	1,626	66	1,692	1,613
Proposed				
8.5% cumulative irredeemable preference shares	1,063	-	1,063	1,063
Ordinary shares (4.05p per share; 2002 3.25p per share)	821	89	910	731
	3,510	155	3,665	3,407
Analysed as:				
Non-equity interest	2,125	-	2,125	2,125
Equity interest	1,385	155	1,540	1,282
	3,510	155	3,665	3,407

8. Discontinued operations – Non-Appointed Business

On 25 September 2001 the Group disposed of its Airmec division. There was a loss on disposal of £328,000 and a tax credit of £100,000 (included in the tax charge for the year).

9. Tangible fixed assets

Appointed business	2003						Total £000
	Freehold land £000	Property & service reservoirs £000	Plant and equipment £000	Infra- structure assets £000	Office equip- ment £000	Motor vehicles £000	
Cost							
1 April 2002	1,394	25,846	41,194	47,988	3,955	2,322	122,699
Reclassification	(71)	(199)	215	55	-	-	-
Additions	-	912	7,592	2,427	771	380	12,082
Revaluation	-	-	-	2,145	-	-	2,145
Disposals	(9)	(35)	(1,482)	-	(1228)	(394)	(3,148)
31 March 2003	1,314	26,524	47,519	52,615	3,498	2,308	133,778
Contributions							
1 April 2002	-	-	-	7,321	-	-	7,321
Additions	-	-	-	1,003	-	-	1,003
31 March 2003	-	-	-	8,324	-	-	8,324
Depreciation							
1 April 2002	-	4,664	13,909	-	3,107	1,584	23,264
Reclassification	-	(6)	6	-	-	-	-
Charge in the year	-	354	2,811	-	376	245	3,786
Disposals	-	(48)	(1,139)	-	(1,216)	(372)	(2,775)
31 March 2003	-	4,964	15,587	-	2,267	1,457	24,275
Net book amount							
31 March 2003	1,314	21,560	31,932	44,291	1,231	851	101,179
1 April 2002	1,394	21,182	27,285	40,667	848	738	92,114

Property and service reservoirs includes an amount of £62,000 (2002 £782,000), plant and equipment includes an amount of £17,000 (2002 £342,000), and raw water reservoirs includes an amount of £27,000 (2002 £nil) relating to assets in the course of construction. Raw water reservoirs have been revalued on a replacement cost basis at 31 March 2003, by an independent qualified chartered engineer from Halcrow Group Limited. The valuation was completed on 5 June 2003 and valued the completed raw water reservoir at £4,768,000. The historic cost and net book amount of this asset category amounts to £2,650,000 at 31 March 2003.

9. Tangible fixed assets – continued

Leased assets – Appointed business	Property and service reservoirs £000	Plant and equipment £000	2003		Office equip- ment £000	Motor vehicles £000	Total £000
			Under- ground network £000				
Cost							
1 April 2002	1,472	9,050	1,582		226	59	12,389
Disposals	-	(304)	-		(30)	(41)	(375)
31 March 2003	1,472	8,746	1,582		196	18	12,014
Depreciation							
1 April 2002	138	2,175	-		224	57	2,594
Charge in the year	17	348	-		-	-	365
Disposals	-	(303)	-		(30)	(40)	(373)
31 March 2003	155	2,220	-		194	17	2,586
Non-appointed business	Freehold land and easements £000	Property £000	2003		Office equip- ment £000	Motor vehicles £000	Total £000
			Plant and equipment £000				
Cost							
1 April 2002	10	630	241		102	353	1,336
Additions	-	44	25		2	50	121
Disposals	(1)	(251)	-		(5)	-	(257)
31 March 2003	9	423	266		99	403	1,200
Depreciation							
1 April 2002	-	29	65		68	151	313
Charge in the year	-	5	14		21	73	113
Disposals	-	(12)	-		(4)	-	(16)
31 March 2003	-	22	79		85	224	410
Net book amount							
31 March 2003	9	401	187		14	179	790
1 April 2002	10	601	176		34	202	1,023

There were no assets financed by leasing or under construction (2002 £nil).

9. Tangible fixed assets – continued

In the preparation of its statutory accounts, the Company has adopted the infrastructure renewals accounting basis as set out in FRS15 (Tangible Fixed Assets). However, for the purposes of these Regulatory Accounts, Ofwat has requested that FRS12 and FRS15 are not applied for infrastructure renewals accounting, thereby providing a basis consistent with prior years. A reconciliation to the balance sheet shown in the statutory accounts is set out below:-

Reconciliation of Infrastructure Assets

	Infrastructure Assets	
	2003 £000	2002 £000
Cost		
Cost at 31 March per Regulatory Accounts	52,615	47,988
Prior years' net infrastructure expenditure	10,730	9,905
Infrastructure renewals expenditure capitalised in the year	1,608	1,005
Infrastructure disposals	(219)	(180)
At 31 March 2003 per Statutory Accounts	64,734	58,718
Contributions		
Contributions per Regulatory Accounts at 31 March	8,324	7,321
Prior years' net infrastructure contributions	(100)	(80)
Disposals	(23)	(20)
At 31 March 2003 per Statutory Accounts	8,201	7,221
Depreciation		
At 31 March per Regulatory Accounts	-	-
Prior years' net infrastructure depreciation	10,330	9,186
Depreciation - infrastructure renewals charge	1,351	1,304
Infrastructure disposal	(196)	(160)
At 31 March 2003 per Statutory Accounts	11,485	10,330
Net Book Value		
At 31 March 2003 per Regulatory Accounts	44,291	40,667
Adjustment for infrastructure renewals accounting	757	500
At 31 March 2003 per Statutory Accounts	45,048	41,167

10. Stock and work in progress

	Appointed Business £000	2003 Non- Appointed Business £000	Total £000	Appointed Business £000	2002 Non- Appointed Business £000	Total £000
Raw materials and consumables	159	81	240	149	66	215
Work in progress	-	29	29	-	61	61
	159	110	269	149	127	276

11. Debtors

	Appointed Business £000	2003 Non- Appointed Business £000	Total £000	Appointed Business £000	2002 Non- Appointed Business £000	Total £000
Trade debtors	3,800	389	4,189	3,389	180	3,569
Amounts owed by related parties	401	-	401	691	-	691
Other debtors	785	-	785	586	-	586
Corporation tax	-	-	-	-	211	211
Prepayments	1,379	132	1,511	928	325	1,253
Regulatory accounts	6,365	521	6,886	5,594	716	6,310
Less infrastructure renewals prepayment			(757)			(500)
Less corporation tax transferred from creditors			-			(211)
Statutory accounts			6,129			5,599

12. Creditors : amounts falling due within one year

Bank loans	7,500	1,500	9,000	-	1,500	1,500
Overdrafts	-	750	750	-	30	30
Payments on account	1,421	179	1,600	1,637	-	1,637
Trade creditors	2,757	104	2,861	2,324	18	2,342
Amounts owed to group undertakings	87	-	87	-	-	-
Amounts owed to related parties	366	-	366	183	-	183
Other creditors	229	-	229	171	-	171
Dividends payable	1,884	89	1,973	1,794	-	1,794
Dividends payable – minority interests	20	-	20	20	-	20
Net obligations under finance leases	550	-	550	519	-	519
Corporation tax	1,175	77	1,252	1,468	-	1,468
Accruals and deferred income	1,434	109	1,543	1,128	251	1,379
Regulatory accounts	17,423	2,808	20,231	9,244	1,799	11,043
Less corporation tax transferred to debtors			-			(211)
Less overdraft netted to cash			(750)			(1,530)
Statutory accounts			19,481			9,302

13. Creditors – amounts falling due after more than one year

	Appointed Business £000	2003 Non- Appointed Business £000	Total £000	Appointed Business £000	2002 Non- Appointed Business £000	Total £000
Bank loans	7,500	-	7,500	11,500	1,500	13,000
Net obligations under finance leases	7,378	-	7,378	7,928	-	7,928
Perpetual debentures	163	-	163	163	-	163
	15,041	-	15,041	19,591	1,500	21,091

Analysis of borrowings

Borrowings are repayable as follows:

Due within one year						
Bank loans	7,500	1,500	9,000	-	1,500	1,500
Overdrafts	-	750	750	-	30	30
Finance leases	550	-	550	519	-	519
	8,050	2,250	10,300	519	1,530	2,049
Due within one to two years						
Bank Loans	-	-	-	7,500	1,500	9,000
Finance leases	583	-	583	550	-	550
	583	-	583	8,050	1,500	9,550
Due within two to five years						
Bank loans	750	-	750	-	-	-
Finance leases	1,779	-	1,779	1,777	-	1,777
	2,529	-	2,529	1,777	-	1,777
Due after five years						
Bank loans	6,750	-	6,750	4,000	-	4,000
Perpetual Debentures	163	-	163	163	-	163
Finance leases	5,016	-	5,016	5,601	-	5,601
	11,929	-	11,929	9,764	-	9,764
Total due in over one year	15,041	-	15,041	19,591	1,500	21,091

Borrowings are made to Bournemouth and West Hampshire Water Plc, rather than to the appointed or non-appointed business.

The Company had a loan with Brown Shipley and Company Limited for £9,000,000 at 31 March 2003. The total facility was repaid on 6 May 2003. Interest on £3,000,000 of the facility had been fixed at 7.35% per annum by way of an interest rate swap with Lloyds TSB on 7 January 1998, which expired on 6 January 2003. The remainder of the facility incurred interest based on the short term LIBOR rates prevailing at the time.

A 15 year loan agreement was signed with Bank of Ireland on 12 December 2001. This agreement provides a term loan facility of £7.5 million all of which was drawn down by 31 March 2003. Repayment of the loan commences in tranches in April 2007 and is due for repayment by 14 January 2017. Interest on the facility is based on short-term LIBOR rates. The Company also has a £3,000,000 overdraft facility with Lloyds TSB Bank Plc. This facility is available to 31 January 2004, when it is expected to be rolled over. Some of this facility may be drawn down as short term loans. The undrawn facility at 31 March 2003 was £3,000,000 (2002 £3,000,000).

There are three finance leases due for completion in 3, 5 and 7 years. Repayments of principal and interest are made on a half year basis with interest calculated at the six month LIBOR rate prevailing at the time of payment. In addition, the Company has entered into a 20 year finance lease of which £7,005,000 (2002 £7,356,000) was outstanding at 31 March 2003. Repayments of the principal and interest are made annually and commenced in January 1998. Interest is based on the three month variable rate of LIBOR. The perpetual debentures consist of £88,000 at 4% per annum and £75,000 at 5% per annum.

14. Derivatives and other financial instruments

The narrative and numerical disclosures relating to financial instruments are set out below. The Group has taken advantage of the exemption available under FRS 13 "Derivatives and other financial instruments" not to provide numerical disclosures in relation to short-term debtors and creditors. The Group pools appointed and non-appointed assets and liabilities to maximise returns.

Financial instruments

The Group finances its operations through a mixture of retained profits and borrowings. The Group does not use complex derivative financial instruments. Where it does use financial instruments these are mainly to manage the interest rate risks arising from normal operations and to raise finance for the Groups' operations. The Groups' financial instruments, other than derivatives, comprise borrowings, cash and various items such as trade debtors and trade creditors that arise directly from its operations.

The Group is exposed to interest rate risk and liquidity risk. The Board has reviewed the Groups' exposure to these risks and have agreed the following policies to manage them. The policies have remained unchanged throughout the period.

Interest rate risk

The Group has various long and short-term borrowings in sterling at fixed and floating rates of interest. The Group is continually monitoring its exposure to movements in interest rates in order to bring greater stability and certainty with respect to borrowing costs. The Group generally sources borrowings on a floating rate basis as long as market conditions indicate that the floating rate is beneficial. This also includes instances where interest rate swaps are used to fix floating rates of interest. Surplus funds are placed on short-term deposit. These deposits have floating rates of interest, and thus there is some modest exposure to interest rates.

Liquidity risk

The Group has a strong operating cash flow. For short-term working capital purposes, the Group utilises bank facilities.

As regards liquidity, the Groups' policy throughout the year has been to maintain a mix of short, medium and long-term borrowings with its lenders. Short-term flexibility is achieved by overdraft facilities whereas long-term finance is used to finance the capital programme. Details of the year end position, which is in accordance with this policy, are given in note 13. It is, in addition, the Business' policy to maintain undrawn committed borrowing facilities in order to provide flexibility in the management of the Business' liquidity; details are also given in note 13.

Interest rate risk and profile of financial liabilities

All short term creditors (other than overdrafts, loans and finance leases) have been excluded from the following disclosures, due to the exemption granted to short term items or because they do not meet the definition of a financial liability. Currency and interest rate profile of the Groups' financial liabilities at 31 March 2003 were:-

Currency	Fixed Interest Rate %	Period	Fixed Rate £000	Floating Rate £000	Total £000
Sterling	8.50	irredeemable	25,000	-	25,000
Sterling	5.00	perpetual	75	-	75
Sterling	4.00	perpetual	88	-	88
Sterling	-	-	-	24,428	24,428
			25,163	24,428	49,591

Currency and interest rate profile of the Groups' financial liabilities at 31 March 2002 were:

Currency	Fixed Interest Rate %	Period	Fixed Rate £000	Floating Rate £000	Total £000
Sterling	8.50	irredeemable	25,000	-	25,000
Sterling	7.35	1 year	3,000	-	3,000
Sterling	5.00	perpetual	75	-	75
Sterling	4.00	perpetual	88	-	88
Sterling	-	-	-	18,447	18,447
			28,163	18,447	46,610

Floating rate borrowings bear interest based on the three or six months LIBOR rate prevailing at the time (see note 13 for maturity profile of financial liabilities and details of undrawn borrowing facilities).

14. Derivatives and other financial instruments – continued

Fair value

The fair value of the cumulative irredeemable preference shares was £30,500,000 (2002 £31,750,000), which was unrecognised at 31 March 2003. The fair value of the perpetual debentures is not materially different to the book value.

The fair value of cash at bank and in hand, current investments and floating rate borrowings at 31 March 2003 and 31 March 2002 was equal to the book value at that date. The fair value of the interest rate swap at the mark to market rate held for hedging purposes was a loss of £69,000 in 2002, all of which was unrecognised at 31 March 2002. The interest rate swap expired in January 2003.

Interest rate risk and profile of financial assets	2003 £000	2002 £000
Currency		
Sterling	647	1,086
At 31 March	647	1,086
Interest		
Floating rate	633	978
No interest paid	14	108
At 31 March	647	1,086

The financial assets comprise cash, short-term deposits and current investments at short-term money market rates applicable to the currency.

Current asset investment

This relates to money on short term deposit and is shown at a cost of £594,000, which equates to the market value at 31 March 2003. In 2002, this related to units in a corporate money fund at a cost of £510,000.

15. Operating leases – plant and machinery

	Appointed Business £000	2003 Non- Appointed Business £000	Total £000	Appointed Business £000	2002 Non- Appointed Business £000	Total £000
At 31 March 2003 the Group and the Company had annual commitments under operating leases which expire:						
Within one year	35	8	43	-	1	1
In the second to fifth years inclusive	20	17	37	47	28	75
	55	25	80	47	29	76

16. Provision for liabilities and charges

Provision for liabilities and charges consists solely of deferred tax, provided on a discounted basis.

Provision brought forward	5,102	100	5,202	4,650	91	4,741
Tax charged in period	1,009	(20)	989	452	9	461
	6,111	80	6,191	5,102	100	5,202

Based upon current capital investment plans the Group expects to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

17. Deferred tax

The Group has adopted FRS19 on a discounted basis.

The effect of discounting is set out below:

	Appointed Business £000	2003 Non- Appointed Business £000	Total £000	Appointed Business £000	2002 Non- Appointed Business £000	Total £000
Accelerated capital allowances	8,770	115	8,885	7,973	155	8,128
Tax losses carried forward	(6)	-	(6)	(51)	-	(51)
Undiscounted provision for deferred tax	8,764	115	8,879	7,922	155	8,077
Discount	(2,653)	(35)	(2,688)	(2,820)	(55)	(2,875)
Discounted provision for deferred tax	6,111	80	6,191	5,102	100	5,202

18. Called up share capital – Appointed Business

	Authorised		Issued and fully paid	
	2003 £000	2002 £000	2003 £000	2002 £000
The authorised and issued share capital is as follows:				
Equity interests :				
Ordinary shares of £1 each (issued – 22,483,492)	50,000	50,000	22,483	22,483
Non-equity interests :				
8.5% cumulative irredeemable preference shares of £1 each	25,000	25,000	25,000	25,000
	75,000	75,000	47,483	47,483

The 8.5% cumulative irredeemable preference shares are non-voting except in the following circumstances:

- Dividends on the preference shares are 14 business days in arrears.
- A resolution is to be proposed for the winding up of the Company or for the reduction of capital or for the capitalisation of reserves.
- The listing of the preference shares is suspended or cancelled by reason of any act or omission by the Company or the Directors.

The preference shares are not redeemable and have preferential rights on a winding up. The dividends on the preference shares are paid on 1 April and 1 October in respect of the half years ending 31 March and 30 September respectively. The amount of any dividend not paid on the due date attracts interest of 2% per annum above the Lloyds TSB Bank Plc base rate.

19. Profit and Loss Account

	Appointed Business £000	2003 Non- Appointed Business £000	Total £000	Appointed Business £000	2002 Non- Appointed Business £000	Total £000
Retained profit/(loss) brought forward	18,119	(1,020)	17,099	15,743	(515)	15,228
Retained profit/(loss) for the period	1,820	155	1,975	2,376	(505)	1,871
Retained profit carried forward	19,939	(865)	19,074	18,119	(1,020)	17,099

20. Revaluation Reserve

Brought forward	-	-	-	-	-	-
Revaluation of raw water reservoir	2,145	-	2,145	-	-	-
Balance at 31 March	2,145	-	2,145	-	-	-

21. Movements in shareholders' funds

Profit attributable to shareholders	5,330	310	5,640	5,783	(505)	5,278
Dividends	(3,510)	(155)	(3,665)	(3,407)	-	(3,407)
Revaluation of fixed assets	2,145	-	2,145	-	-	-
Net additions to shareholders' funds	3,965	155	4,120	2,376	(505)	1,871
Opening shareholders' funds	65,602	(1020)	64,582	63,226	(515)	62,711
Closing shareholders' funds	69,567	(865)	68,702	65,602	(1,020)	64,582

22. Capital commitments – appointed business

Authorised and contracted	4,821	-	4,821	7,089	-	7,089
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23. Pension commitments

The appointed and non-appointed businesses use the same pension scheme.

The Company's pension scheme is a sub-fund of the Biwater Retirement and Security Scheme (BRASS).

The Company paid contributions to the scheme during the year at a rate recommended by a professionally qualified consulting actuary. The most recent actuarial valuation was as at 1 April 2002. The significant actuarial assumptions in that valuation were as follows:-

Valuation method	Projected unit
Salary growth	3.5% per annum
Price inflation	2.5% per annum
Investment returns	6.0% per annum

The actuarial valuation at 1 April 2002 by an independent qualified actuary showed that the market value of that part of the scheme's assets relating to the Business was £48 million. The actuarial value of the assets was sufficient to cover 121% of the value of benefits that had accrued to members, allowing for assumed future pay and pensions increases. As a result of adverse market conditions the Company resumed contributions to the scheme on 1 January 2003, at a rate of 10.5% of pensionable salaries.

Company pension costs charged in the accounts were £140,000 (2002 £nil). The increase reflects the revised funding required as a result of the comments above. At 31 March 2003 creditors include £50,000 (2002 £nil) in respect of accrued pension costs. On 17 February 2003, the scheme was closed to new entrants and replaced by a defined contribution scheme.

FRS17 disclosures

The following amounts at 31 March 2003 were measured in accordance with the requirements of FRS17. Since the defined benefit scheme is now closed the current service cost as calculated under the projected unit method will increase as members approach retirement.

The main financial assumptions used in the valuation of the liabilities of the pension scheme under FRS17 are:

	2003 Per annum	2002 Per annum
Rate of increase in salaries	4.0%	4.5%
Rate of increase to pensions in payment	2.5%	3.0%
Discount rate	5.5%	6.0%
Price inflation	2.5%	3.0%

The assets in the scheme and the expected rate of return were:

	Long term rate of return	Value £000	Long term rate of return	Value £000
Equities/Properties	7.5%	14,338	7.5%	38,427
Bonds	5.0%	20,484	5.5%	7,566
Cash	3.75%	567	4.0%	1,803
		35,389		47,796
Total market value of assets		35,389		47,796
Present value of scheme liabilities		(48,050)		(42,500)
(Deficit)/surplus as calculated under FRS17		(12,661)		5,296
Related deferred tax asset/(liability) - undiscounted		3,798		(1,589)
Net pension (liability)/asset as calculated under FRS17		(8,863)		3,707

23. Pension commitments – continued

If the above amounts had been recognised in the accounts, the Company's' net assets and profit and loss reserve at 31 March 2003 would have been as follows:

	2003 £000	2002 £000
Net assets	69,058	65,003
Accrued pension provision calculated under SSAP 24	50	-
Net pension (liability)/asset as calculated under FRS17	(8,863)	3,707
Net assets as calculated under FRS17	60,245	68,710
Profit and loss reserve	19,074	17,099
Accrued pension provision calculated under SSAP 24	50	-
Net pension (liability)/asset as calculated under FRS17	(8,863)	3,707
Total reserves as calculated under FRS17	10,261	20,806

The amounts required to be disclosed by FRS17 in respect of the performance statements are as follows:

	2003 £000
Analysis of amount chargeable to operating profit	
Current service cost	400
Past service cost	-
Total charge to operating profit	400
Analysis of the amount to be credited to other finance income	
Expected return on pension scheme assets	3,294
Interest on pension scheme liabilities	(2,487)
Net financial return	807
Analysis of amount recognisable in statement of total recognised gains and losses	
Actual return less expected return on pension scheme assets	(13,548)
Experience gains and losses arising on scheme liabilities	(1,725)
Changes in assumptions underlying present value of scheme liabilities	(3,181)
Actuarial loss recognised in the Statement of Total Recognised Gains and Losses	(18,454)
Movement in surplus/(deficit) during the year	
Surplus in scheme at 1 April 2002	5,296
Current service cost	(400)
Contributions	90
Other finance income	807
Actuarial loss	(18,454)
Deficit in scheme at 31 March 2003	(12,661)

23. Pension commitments – continued

History of experience gains and losses	2003
Difference between expected and actual return on scheme assets:	
Amount (£000's)	(13,548)
Percentage of scheme assets	(38%)
Experience gains and losses on scheme liabilities	
Amount (£000's)	(1,725)
Percentage of present value of scheme liabilities	(4%)
Total amount recognised in statement of total recognised gains and losses	
Amount (£000's)	(18,454)
Percentage of present value of scheme liabilities	(38%)

24. Ultimate parent undertaking

The ultimate parent undertaking is Cascal B.V., which is registered in The Netherlands, and is the largest company for which Group accounts are prepared. Copies of these accounts for the year ended 31 March 2003 are available from the Company Secretary Cascal B.V., Strawinskylaan 3105, 1077 ZX Amsterdam, The Netherlands.

25. Minority shareholders' interest (non equity) - Appointed Business

	£000
At 1 April 2002	421
Purchase of minority interest	(65)
Profit and loss account	27
Dividends paid and payable	(27)
At 31 March 2003	356

The above relates to fixed dividend ordinary shares in Bournemouth Water Plc and West Hampshire Water Plc. These shares have voting rights and a claim on the assets of the Company in a winding up.

26. Earnings per share

The earnings per share for the year ended 31 March 2003 are based on earnings of £3,515,000 and ordinary shares of 22,483,492 (2002 – earnings of £3,153,000 and ordinary shares of 22,483,492).

27. Related parties

- (i) The Group incurred charges from Biwater Treatment Ltd for construction and design work amounting to £2,370,000 (2002 £1,748,000), of which £366,000 was outstanding at the year end.
- (ii) The Group is owed £401,000 (2002 £684,000) in respect of group relief from Biwater Plc. The Group received £10,000 (2002 £7,000) for the provision of printing services to Biwater Plc of which £2,000 was outstanding at the year end. Biwater Plc recharged VAT in respect of administering the pension fund of £12,000 (2002 £9,000).
- (iii) The Group incurred management service charges from Cascal Services Ltd of £294,000 (2002 £293,000), of which £87,000 was outstanding at the year end. The Group received £39,000 (2002 £nil) from Cascal Services Ltd for the provision of consultancy and printing services.
- (iv) The Group received £23,000 (2002 £6,000) from Biwater International Ltd for the provision of consultancy and printing services.
- (v) The Group incurred charges from Biwater Eko AKTIV EAD, a division of Biwater International Ltd, for precision pump testing of £11,000 (2002 £nil).
- (vi) The Group purchased from Biwater Spectrascan (a division of Biwater Industries Ltd) equipment to the value of £nil (2002 £4,700). The Group received £nil (2002 £3,000) for the provision of printing services to Biwater Spectrascan.

Biwater Plc owns 50% Cascal Services Ltd and 100% of all the above Biwater companies when the disclosed transactions occurred.

Transactions between Bournemouth and West Hampshire Water Plc and its subsidiary companies have been excluded, as the accounts are presented on a consolidated basis.

APPOINTED BUSINESS CURRENT COST PROFIT AND LOSS ACCOUNT

Year ended 31 March 2003

2003

2002

		Total £000	Total £000
Turnover	Note A	27,166	26,792
Current cost operating costs	B	(20,333)	(20,383)
Current cost (loss)/profit on disposal of fixed assets		(708)	27
Working capital adjustment		(109)	(33)
Current cost operating profit		6,016	6,403
Net interest payable		(893)	(883)
Financing adjustment		701	255
Current cost profit before taxation		5,824	5,775
Tax on profit - current		(1,496)	(1,269)
- deferred		(1,009)	(452)
Current cost profit on ordinary activities after taxation		3,319	4,054
Minority interests		(27)	(27)
Current cost profit for the financial year		3,292	4,027
Dividends - non-equity interests		(2,125)	(2,125)
- equity interests		(1,385)	(1,282)
Current cost (loss)/profit retained for the year		(218)	620

APPOINTED BUSINESS CURRENT COST BALANCE SHEET

At 31 March 2003		2003	2002
		Total £000	Total £000
Fixed assets	Note		
Tangible assets	C	541,150	517,714
Third party contributions since 1 April 1990		(14,624)	(13,213)
Working capital	D	2,459	3,531
Net operating assets		528,985	508,032
Non-trade creditors due within one year	E	(12,563)	(4,929)
Creditors due after one year	F	(15,041)	(19,591)
Provisions for liabilities and charges – deferred tax		(6,111)	(5,102)
Net assets employed		495,270	478,410
Capital and reserves			
Called up share capital		47,483	47,483
Profit and loss account	G	9,452	9,670
Revaluation reserve	H	2,145	-
Current cost reserve	I	435,834	420,836
Minority interests		356	421
		495,270	478,410

APPOINTED BUSINESS CURRENT COST STATEMENT OF CASHFLOWS

Year ended 31 March 2003

2003

2002

		£000	Total £000	£000	Total £000
Net cash inflow from operating activities	Note l.i		14,301		11,372
Returns on investments and the servicing of finance					
Interest received		200		216	
Interest paid – finance lease rentals		(326)		(442)	
Interest paid – other		(731)		(634)	
Dividends paid on non-equity shares		(2,125)		(2,125)	
Dividends paid to minority interests		(27)		(27)	
			(3,009)		(3,012)
Taxation			(1,789)		(1,167)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(11,888)		(9,148)	
Infrastructure renewals expenditure		(1,608)		(1,005)	
Contributions received		1,003		1,056	
Sale of tangible fixed assets		61		87	
			(12,432)		(9,010)
Acquisitions and disposals					
Purchase of shares in subsidiary undertakings			(65)		-
Equity dividends paid			(1,295)		(1,091)
Financing					
Finance lease capital repaid		(519)		(506)	
Bank loan raised - long term		3,500		4,000	
			2,981		3,494
(Decrease)/Increase in cash	l.ii		(1,308)		586

The Statement of Cashflows should be read in conjunction with the Notes to the Statement of Cashflows on page 35.

NOTES TO THE APPOINTED BUSINESS CURRENT COST STATEMENT OF CASHFLOWS

				2003 £000	2002 £000
I.i	Reconciliation of current cost operating profit to net cashflow from operating activities				
	Current cost operating profit			6,016	6,403
	Current cost depreciation			6,020	5,061
	Current cost profit/(loss) on sale of assets			708	(27)
	Increase in stocks			(10)	(31)
	Increase in debtors			(774)	(1,025)
	Increase/(decrease) in creditors			624	(144)
	Working capital adjustment			109	33
	Infrastructure renewals expenditure			1,608	1,005
	Reallocation of fixed assets to non appointed business			-	97
Net cash inflow from operating activities				14,301	11,372
I.ii	Analysis of the balances of cash at bank and in hand shown in the balance sheet				
		2001 £000	2002 £000	2003 £000	Change in year £000
	Cash at bank and in hand	1,517	2,103	795	(1,308)
				2003 £000	2002 £000
I.iii	Reconciliation of net cashflow to movement in debt				
	(Decrease)/increase in cash in the year			(1,308)	586
	Increase in debt and lease financing			(2,981)	(3,494)
	Increase in net debt from cashflows			(4,289)	(2,908)
	Net debt at 1 April			(18,007)	(15,099)
Balance at 31 March				(22,296)	(18,007)
I.iv	Analysis of net debt				
		1 April 2002 £000	Cash flow £000	Other non cash changes £000	31 March 2003 £000
	Cash	2,103	(1,308)	-	795
	Debt due within one year	-	-	(7,500)	(7,500)
	Debt due after one year	(11,663)	(3,500)	7,500	(7,663)
	Finance leases	(8,447)	519	-	(7,928)
		(18,007)	(4,289)	-	(22,296)

CURRENT COST ACCOUNTING POLICIES

Current cost accounting

These accounts have been prepared for the Appointed Business in accordance with the Regulatory Accounting Guidelines issued by the Director General of Water Services for modified real terms financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance, in the context of assets which are valued at their current cost value to the business with the exception of certain assets acquired prior to 31 March 1990, the effective commencement date of the new regulatory regime.

The accounting policies used are the same as those adopted in the statutory accounts as detailed on pages 13 and 14 except as set out below.

Tangible fixed assets

Assets in operational use are valued at the replacement cost of their accounting capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. Also, no provision is made for possible funding of future replacements of assets by contribution from third parties and, to the extent that some of the tangible fixed assets would on replacement be so funded, replacement cost again differs from the value to the business. Redundant assets are valued at their recoverable amounts.

In 1998 an Asset Management Plan (AMP) survey of existing assets as at 31 March 1998 was undertaken. The adjustment to asset values, as a result of this exercise, was included within the tangible fixed asset note in 1999/00. In the intervening years between AMP surveys, values are restated to take account of changes in the general level of inflation, as measured by changes in RPI, and any other significant changes in asset records identified during the year.

Notes on infrastructure accounting

The regulatory accounts comply with Ofwat's requirement to disapply certain sections of FRS12 and FRS15 with regard to infrastructure accounting. A reconciliation of this departure between statutory and regulatory accounts can be seen on page 22.

Grants and other third party contributions

Grants, infrastructure charges and other third party contributions received since 31 March 1990 are carried forward as an offset against the relevant asset.

Real financial capital maintenance adjustments

These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms:

Depreciation adjustment – this is the difference between depreciation based on the current cost value of assets in these accounts and depreciation charged in arriving at the historical cost profit.

Working capital adjustment – this is calculated by applying the change in the RPI over the year to the opening total of debtors, stock and working cash balances less creditors.

Disposal of fixed asset adjustment – the difference between the values of realised assets in these current cost accounts and in the historical cost accounts.

Grants and third party contributions adjustment – this is calculated by applying the change in the RPI over the year to the value of the contributions at the start of the year.

Financing adjustment – this is calculated by applying the change in the RPI over the year to the opening balance of net finance, which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital.

Non-appointed business

The non-appointed business, comprising of plumbing, insurance, moorings/fishing, and design and printing services have been excluded from the current cost accounts.

NOTES TO THE APPOINTED BUSINESS CURRENT COST ACCOUNTS

		2003	2002					
		Water Services £000	Water Services £000					
A Analysis of turnover								
Tariff basket								
Unmeasured supplies		13,053	13,406					
Measured supplies		10,091	9,398					
Non-tariff basket								
Large users revenues		3,430	3,461					
Third party services		592	527					
		27,166	26,792					
B Analysis of operating costs - Year ended 31 March 2003								
		Service analysis		Business analysis				
	Resources and Treatment £000	Distribution £000	Sub Total £000	Customer Services £000	Scientific Services £000	Cost of Regulation £000	Total £000	
Direct costs								
	Employment costs	855	1,153	2,008				
	Power	426	633	1,059				
	Hire and contracted services	569	656	1,225				
	Associated companies	-	125	125				
	Materials and consumables	191	409	600				
	Service charges	790	-	790				
	Bulkwater supplies	121	-	121				
	Other direct costs	189	127	316				
	Total direct costs	3,141	3,103	6,244	878	471	185	7,778
	General and support expenditure	941	1,299	2,240	629	170	104	3,143
	Functional expenditure	4,082	4,402	8,484	1,507	641	289	10,921
Capital costs								
	Infrastructure renewals expenditure			1,608				
	Movements in infrastructure renewals			(257)				
	Current cost depreciation			5,574				
	Current cost depreciation - business activities			446				
	Functional cost			15,855				
	Total (from above)			15,855				
	Rates			1,597				
	Doubtful debts			250				
	Service cost			17,702				
	Service for third parties			194				
	Total operating costs			17,896	1,507	641	289	20,333
CCA (MEA values)								
	Service activities							533,635
	Business activities							6,570
	Water supply total							540,205

C Tangible fixed assets					
	Specialised operational assets £000	Non- specialised operational properties £000	Infra- structure assets £000	Other tangible assets £000	Total £000
Gross replacement cost					
1 April 2002	165,314	11,583	414,198	6,653	597,748
Reclassification	(335)	-	335	-	-
RPI adjustment	5,109	358	12,799	206	18,472
Additions	8,356	45	4,573	1,253	14,227
Disposals	(5,629)	(260)	-	(2,784)	(8,673)
31 March 2003	172,815	11,726	431,905	5,328	621,774
Depreciation					
1 April 2002	69,083	6,169	-	4,782	80,034
RPI adjustment	2,135	191	-	148	2,474
Charge for the year	5,427	139	-	454	6,020
Disposals	(5,266)	(104)	-	(2,534)	(7,904)
31 March 2003	71,379	6,395	-	2,850	80,624
Net book amount					
31 March 2003	101,436	5,331	431,905	2,478	541,150
1 April 2002	96,231	5,414	414,198	1,871	517,714
D Working capital					
				2003 £000	2002 £000
Stocks				159	149
Trade debtors				3,800	3,389
Working cash balances				795	2,103
Trade creditors				(2,757)	(2,324)
Infrastructure renewals prepayment				757	500
Payments on account				(1,421)	(1,637)
Net group trade (creditors)/debtors				(52)	508
Other debtors				785	586
Other creditors				(229)	(171)
Prepayments				622	428
				2,459	3,531

E	Non-trade creditors due within one year	2003	2002
		£000	£000
	Bank loans and overdrafts	7,500	-
	Dividends payable - equity and non-equity interests	1,884	1,794
	Dividends payable - minority interests	20	20
	Net obligations under finance leases	550	519
	Corporation tax	1,175	1,468
	Accruals	1,434	1,128
		12,563	4,929
F	Creditors due after one year		
	Bank loan	7,500	11,500
	Net obligations under finance leases	7,378	7,928
	Perpetual debentures	163	163
		15,041	19,591
G	Movement on profit and loss account		
	Retained profit brought forward	9,670	9,050
	Retained profit for the period	(218)	620
	Retained profit carried forward	9,452	9,670
H	Revaluation reserve		
	Brought Forward	-	-
	Revaluation of raw water reservoir	2,145	-
	Balance at 31 March	2,145	-
I	Movement on current cost reserve		
	Opening balance	420,836	414,443
	Fixed asset adjustment	15,998	6,775
	Working capital adjustment	109	33
	Financing adjustment	(701)	(255)
	Grants and third party contributions adjustment	(408)	(160)
	Closing balance	435,834	420,836
J	Movement on regulatory capital value		
	Opening RCV	98,991	94,968
	Capital expenditure	10,739	10,109
	Infrastructure renewal expenditure	1,146	1,168
	Grants and contributions	(921)	(866)
	Depreciation	(5,170)	(4,937)
	Infrastructure renewals charge	(1,256)	(1,262)
	Out performance of regulatory assumptions (5 years in arrears)	(7,541)	(189)
	Closing RCV	95,988	98,991
	Average year RCV	96,980	96,472

The above numbers are as determined at the last price review by Ofwat, in 2002/03 prices and have not been adjusted for any subsequent differences against Ofwat's forecasts.

TRANSACTIONS WITH ASSOCIATED COMPANIES

The table below sets out the transactions with associate companies and divisions.

Associate Company/Division	Description	Terms of Supply	Associate's Annual Turnover £000	Trade Value £000
Aquacare	Plumbing	Other market testing	1,454	22.9
Aquacare	Plumbing	No market	1,454	102.4
Aquacare	Capital Work	Competitive letting	1,454	94.5
Aquacare	Capital Work	No market	1,454	1.3
Getset	Printing	Other market testing	280	173.7
Cascal Services Ltd	Management Charge/printing	No market	2,241	294.1
Biwater Treatment Ltd	Consultancy	Other market testing	73,500	10.8
Biwater EKO-AKTIV	Precision testing	Other market testing	12	11.3
Biwater Treatment Ltd	Construction & Design	Competitive letting	73,500	2,359.6
Mill Stream Insurance Ltd	Insurance	Other market testing	583	482.8

Aquacare and Getset are divisions of Bournemouth and West Hampshire Water Plc.

In addition to the above the appointed business recharged the non-appointed businesses in the Company £153,000, representing office space and support services.

To the best of the directors' knowledge, all appropriate transactions with associated companies have been disclosed.

Dividends

The appointed business accounts include an interim ordinary dividend of £564,000 which was paid to Cascal Services Ltd in December 2002 and a proposed dividend of £821,000 which is payable to Cascal Services Ltd in August 2003.

The Board have adopted a dividend policy that recognises the need for real growth in total dividends in accordance with guidelines issued by the Director General of Water Services.

Cross-Directorships

A J D Ferrar has been a Director of Mill Stream Insurance Ltd throughout the year. S M J Richer has been a Director of Cascal Services Ltd and Cascal B.V. since 28 May 2002. D O Lloyd was a Director of Cascal Services Limited and Cascal BV from 1 April 2002 to 4 September 2002. As at 31 March 2003 no other Directors held directorships in associated companies that trade.

APPOINTED BUSINESS CURRENT COST PROFIT AND LOSS ACCOUNT FOR THE PAST FIVE YEARS

Years to 31 March	1999	2000	2001 (restated)	2002	2003
	£000	£000	£000	£000	£000
(All figures are in 2003 prices)					
Turnover	27,976	28,667	27,418	27,347	27,166
Current cost operating costs	(20,147)	(21,365)	(21,034)	(20,777)	(21,041)
Working capital adjustment	10	(49)	(44)	(34)	(109)
Current cost operating profit	7,839	7,253	6,340	6,536	6,016
Net interest	(1,010)	(960)	(1,024)	(901)	(893)
Financing adjustment	349	546	414	260	701
Current cost profit before taxation	7,178	6,839	5,730	5,895	5,824
Taxation : current	(2,421)	(1,877)	(1,973)	(1,295)	(1,496)
: deferred	-	-	(416)	(461)	(1,009)
Current cost profit on ordinary activities	4,757	4,962	3,341	4,139	3,319
Dividends (including minority interests)	(3,385)	(3,436)	(3,337)	(3,506)	(3,537)
Current cost (loss)/profit retained	1,372	1,526	4	633	(218)

The 2001 figures have been restated to reflect the implementation of FRS 19 (Deferred Tax).

APPOINTED BUSINESS CURRENT COST BALANCE SHEET FOR THE PAST FIVE YEARS

At 31 March	1999	2000	2001 (restated)	2002	2003
	£000	£000	£000	£000	£000
(All figures are in 2003 prices)					
Fixed assets					
Tangible assets	445,694	526,950	528,857	533,735	541,150
Third party contributions since April 1990	(10,691)	(11,546)	(12,533)	(13,622)	(14,624)
Working capital	1,933	1,982	2,589	3,640	2,459
Net operating assets	436,936	517,386	518,913	523,753	528,985
Debtors due after one year	300	-	-	-	-
Non-trade creditors	(6,496)	(4,507)	(4,750)	(5,082)	(12,563)
Creditors due after one year	(17,052)	(16,148)	(16,831)	(20,197)	(15,041)
Provisions for liabilities and charges	-	-	(4,858)	(5,260)	(6,111)
Net assets employed	413,688	496,731	492,474	493,214	495,270
Capital and reserves					
Called up share capital	52,055	50,726	49,606	48,952	47,483
Profit and loss account	12,960	14,074	9,455	9,969	9,452
Revaluation reserve	-	-	-	-	2,145
Current cost reserve	348,158	431,477	432,973	433,859	435,834
Minority interests	515	454	440	434	356
	413,688	496,731	492,474	493,214	495,270

The 2001 figures have been restated to reflect the implementation of FRS 19 (Deferred Tax).