

# PORTSMOUTH WATER LIMITED

## REPORT & ACCOUNTS 2004



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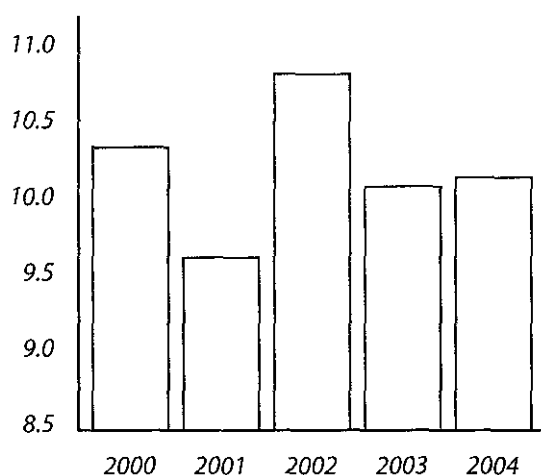
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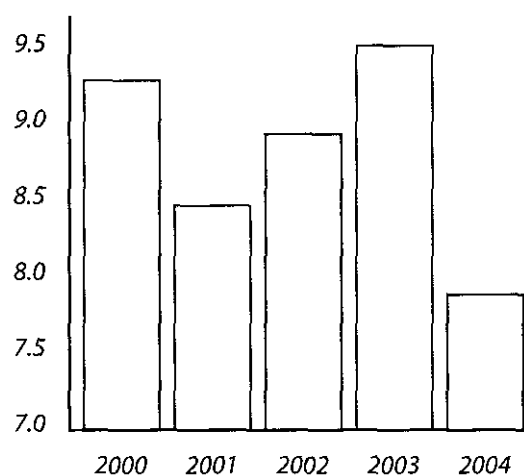
## FINANCIAL HIGHLIGHTS

|                               | 2004<br>£000 | 2003<br>£000 |
|-------------------------------|--------------|--------------|
| <b>TURNOVER</b>               | 30,698       | 29,547       |
| <b>OPERATING PROFIT</b>       | 10,139       | 10,081       |
| <b>PROFIT BEFORE TAXATION</b> | 7,844        | 9,525        |
| <b>PROFIT AFTER TAXATION</b>  | 5,556        | 6,912        |
| <b>CAPITAL EXPENDITURE</b>    | 10,078       | 11,225       |

**OPERATING PROFIT (£m)**



**PROFIT BEFORE TAXATION (£m)**



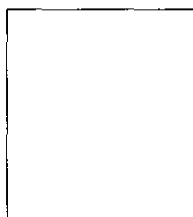
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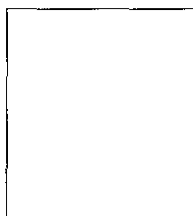
## BOARD OF DIRECTORS

### EXECUTIVE

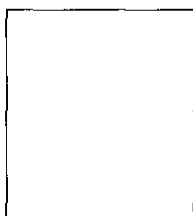
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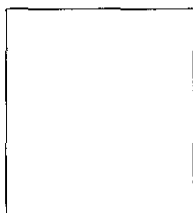
**NICHOLAS JOHN ROADNIGHT**  
F.C.A.  
Managing Director



**JOHN EDWARD COGLEY**  
B.Sc., C.Eng., M.I.C.E., M.C.I.W.E.M.  
Customer Services Director



**ANDREW RICHARD NEVE**  
B.Sc., C.Eng., M.I.C.E., M.C.I.W.E.M., M.I.Mgt.  
Technical Director



**NEVILLE SMITH**  
B.A., A.C.M.A.  
Finance Director

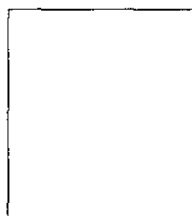
### NON-EXECUTIVE

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**TERENCE MICHAEL LAZENBY**  
FR.Eng.  
Chairman

Chairman of UMITEK Ltd. Non-executive director of MTL Instruments Group plc and Expro International plc. Previously held a number of senior executive positions with British Petroleum.



**ROBERT LEONARD SULLIVAN**  
B.Sc., C.DIR.

Previously held senior executive positions with Scapa Group plc, Sellotape Group and SmithKline Beecham Consumer Brands.



**RAYMOND JOHN TENNANT**  
B.A., F.C.C.A., C.P.F.A.

Former Managing Director of South East Water plc and SAUR Water Services plc. Former Chairman of the Water Companies Association and WTI Training Group Ltd.

## CHAIRMAN'S STATEMENT

It is pleasing to report on another successful year, with customers continuing to benefit from high levels of investment, service levels comparable with the best in the Industry, water quality of the highest standard and the lowest charges in the country. The Company's commitment to the delivery of a high quality, good value service to customers continues to be accorded top priority and this is recognised by the continued high ranking position in performance measures undertaken by Ofwat.

The Company has been heavily involved during the year with the Periodic Review process, through which Ofwat will set price limits for the five year period beyond 2005. This is a long and complex process, but the Company has welcomed the transparency of the approach adopted and found the dialogue with Ofwat on a range of issues most helpful. The outcome of the process will have a very significant bearing on the Company's financial prospects and the Board believes that the final determination of prices due in December 2004 must serve the interests of all stakeholders, while enabling the further enhancement of the quality of operations.

The financial results for the year show operating profit unchanged at £10.1m. A 3.9% rise in turnover, principally as a result of increased consumption from commercial customers, has been offset by a similar increase in operating costs, in particular electricity and insurance, which were largely beyond management control. Net interest payable was £1.5m. higher than the previous year and reflected the year on year difference in the loan indexation, leaving pre-tax profits lower at £7.8m.

The business generated £4.7m. (2003 - £3.2m.) in cash after interest, tax and capital expenditure and, in the light of these results, the Board has approved dividends totalling £4.2m. during the year. Ordinary dividends are covered 1.3 times.

Capital investment continued at a high level. The programme, once again delivered effectively, included the completion of a £2.2m. project to install a membrane filtration plant at the Lovedean Treatment Works and significant progress on a £2.7m. scheme to provide a

bulk supply of water to Southern Water Services, which should be available for the summer of 2004.

It is most satisfying that the Company has been able to play its part in helping its neighbours to achieve secure water supplies for its customers.

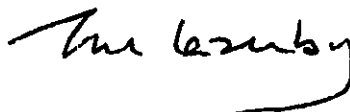
The Company will continue to participate in

the ongoing review of water resources in the South East of England.

During the year, the Company has successfully maintained its impressive record for customer service and it continues to be measured in the top assessment categories determined by Ofwat. In addition, the leakage target was once again achieved, while supplies have been maintained throughout the year without restrictions, despite the particularly dry summer of 2003. The Company is conscious that some customers experience severe difficulty in paying their bills and, as a result, has established a charitable trust fund during the year to provide assistance.

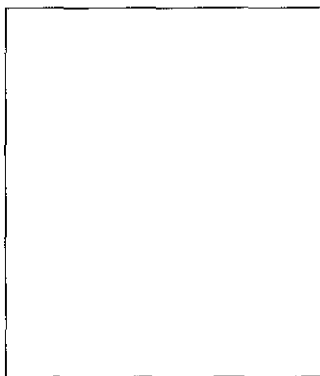
The Company is committed to achieving high standards of health and safety across the organisation. A specific programme has been undertaken to heighten awareness at all levels and already reportable accidents have fallen from 13 last financial year to 6 this year. Health and safety is fundamental to the success of the business and the Board will continue to provide leadership in securing further improvements.

The pricing review will present challenges to the business and I feel confident that we will respond strongly. The success of the Company is based on the hard work and commitment of its staff, and I extend my own and the Board's appreciation to them for their efforts and achievements over the last twelve months. I look forward to working with them to meet the future challenges.



**T. M. LAZENBY**  
**CHAIRMAN**

## MANAGING DIRECTOR'S REVIEW



This has been another good year for the Company, having consolidated its position at the Industry frontier for efficiency and continued to provide excellent services to customers at a price which is the lowest in the country. Given a reasonable outcome from the current Periodic

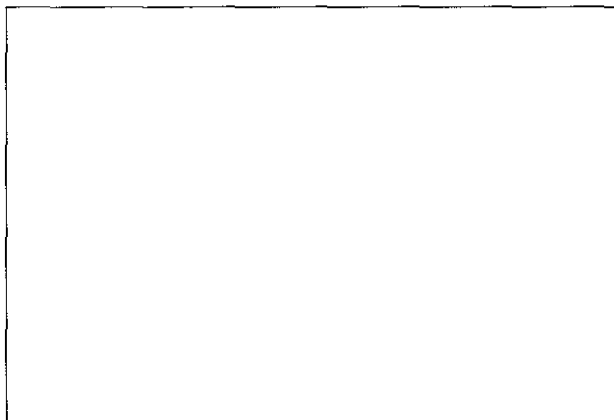
Review, the Company is well positioned to meet customer, regulatory and investor expectations.

### Regulation

The 2004 Periodic Review process is now at an advanced stage. In April, the Company submitted its Final Business Plan to Ofwat, the Industry's economic regulator. The Plan proposes an investment of £55m. over the 5 years to 2010 providing for:

- Water quality improvements to minimise cryptosporidium and nitrates in drinking water
- Continued investment in replacing old mains to reduce supply interruptions and leakage
- The initial environmental and planning investigations to enable development of a winter storage reservoir at Havant Thicket to meet future demands by the year 2020
- Customer service improvements which will further help those who have difficulty paying their bills

The Plan proposes that bills should rise to cover the above improvements and expected increases in operating costs. Ofwat will now consider the Company's Plan and will publish a draft decision on the future level of water charges in August. Following further consultation the Regulator's final decision will be published in December.



Forton Lake, under which the Company drilled a new main

In April, the Company also submitted its Water Resources Plan to the Environment Agency, which projects the Company's water resource position up to 2030. The Plan demonstrates that the Company should have sufficient

resources to meet demand for water from its customers until 2019/20. A package of demand management measures coupled with the completion of the winter storage reservoir at Havant Thicket will ensure sufficient resources through to 2030.

The Water Act 2003 came into force in December 2003. Provisions in the Act include:

- The extension of competition to those business customers who consume more than 50MI of water per year. The previous threshold was 100MI.
- The decision on whether to add fluoride to water supplies to rest with the Strategic Health Authority and not the water undertaking. The Act also allows for water companies to receive an indemnity from the Strategic Health Authorities for costs involved in fluoridation of water supplies. The Strategic Health Authorities must consult before making a decision. Regulations dealing with public consultations and indemnities have yet to be laid before Parliament.

### Operating Efficiency

In the performance tables published by Ofwat for 2002/03, Portsmouth Water was again ranked as the most efficient company overall for operating and capital maintenance efficiency. In 2003/04, however, an increase in prices, notably for electricity, insurance and abstraction charges, has reduced the margin by which the Company has outperformed the efficiency target set by Ofwat at the last review. These cost increases were outside the control of the Company and should be reflected by Ofwat in the final determination of prices.

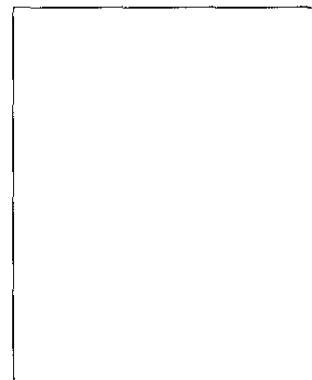
### Water Charges

The average household bill for 2003/04 was £76 (2002/03 - £74). In July 2004, this will increase by 1.5% to £77. These charges will still be the lowest in England and Wales.

### Services to Customers

The Company has continued to provide excellent value to its customers, both in terms of price and levels of service. Throughout the year, the Company has ensured that its level and quality of service continue to be measured in the top of the categories determined by Ofwat.

During the year, many domestic customers have benefited from free leak detection and supply pipe repair. Customers who have replaced lead pipework have also benefited from free communication pipe replacement. For its larger customers who operate



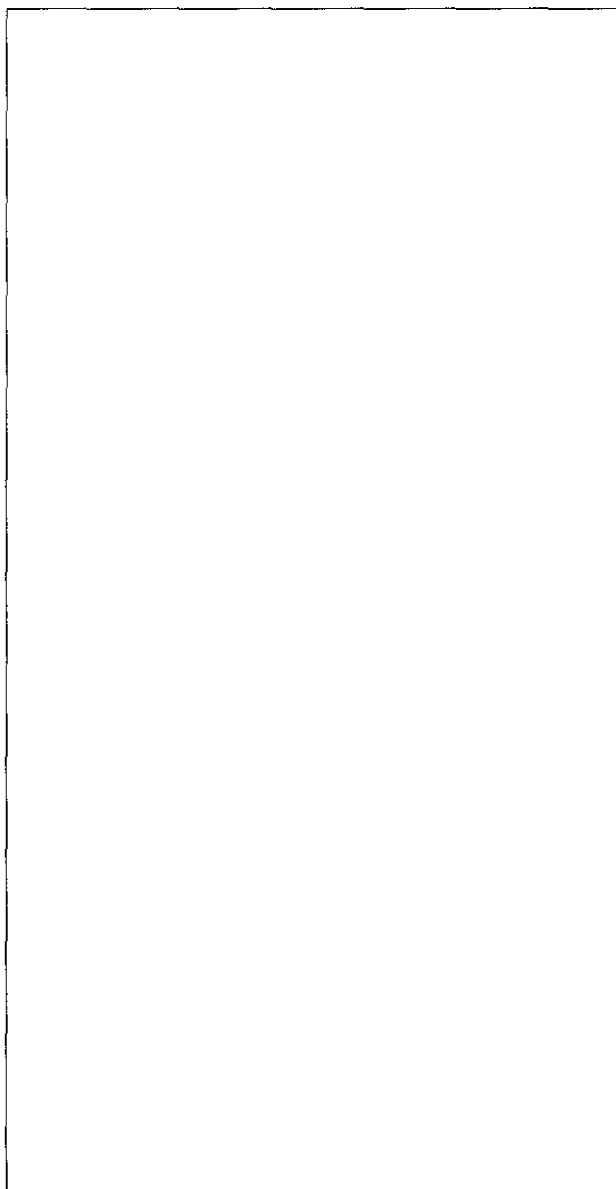
A member of the Customer Services team

and maintain larger pipe networks, the Company has offered a free registration service to provide assistance with emergency repairs to maintain a water supply for their business needs. Help has also been provided by advising on leakage and water consumption.

During the year, the Company has established a Charitable Trust Fund using a specialist trust fund management company to provide assistance for customers who have difficulty paying their bills.

### Water Resources

85% of the Company's supply is derived from groundwater sources, with the remaining 15% coming from the River Itchen near its tidal limit at Gaters Mill, just outside Southampton. Groundwater levels are therefore critical to maintaining supplies and despite the dry summer of 2003, heavy rainfall in the winter months has resulted in those levels being close to the long term average during spring time. As a consequence, resources for the summer of 2004 are in a healthy condition.



*Bulk supply project in progress at Madehurst*

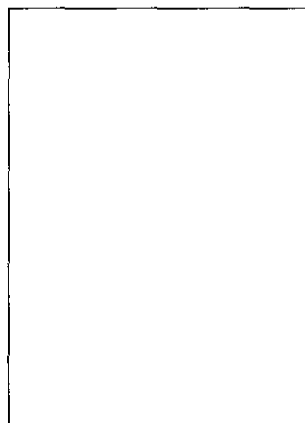
The construction of the infrastructure for a bulk supply of up to 15Ml/d to Southern Water Services is almost complete and the supply should be available from the summer of 2004.

Construction work will shortly begin on two new sources to replace the Company's Hoe source, the licence for which was surrendered in 2003 as part of the Company's Programme to protect the environment.

### Leakage and Water Efficiency

The Company recognises the importance of balancing the needs of customers with those of the environment. In the year, leakage has been contained within the Company's target at 29.5Ml/d.

The level of leakage has fallen by more than 40% since 1990. This demonstrates the continuing long-term commitment to contain leakage levels.

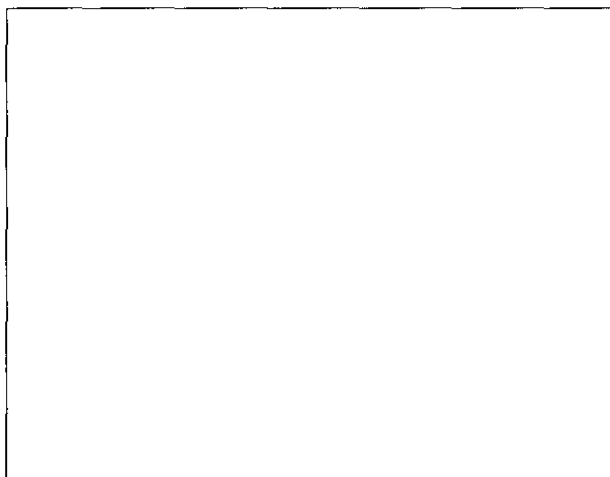


*Leakage monitoring software in use*

The Company has continued, through various channels of communication, such as its newsletter and website, to promote the need for the efficient use of water, both by domestic and commercial customers.

### Water Quality

The Company has again carried out an exhaustive programme of testing to ensure that water of the highest quality is supplied to customers. During the year, 23,369 compliance samples, taken from the distribution network, sources and reservoirs, were tested, with 99.90% passing the strict standards set by the Drinking Water Inspectorate. The Company continues to achieve one of the highest levels of compliance in England and Wales.



*Chemical analysis in the Laboratory*

## MANAGING DIRECTOR'S REVIEW

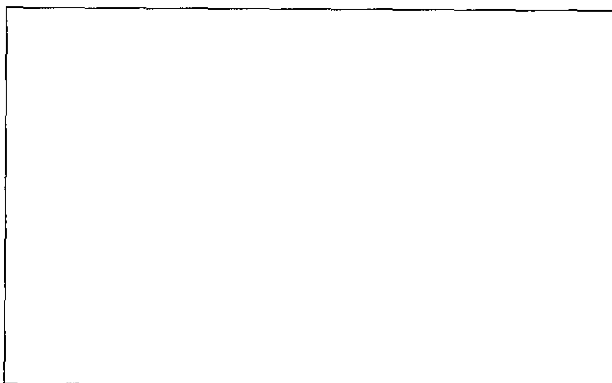
At Lovedean Water Treatment Works, a state-of-the-art membrane filtration plant, costing £2.2m., was completed and commissioned during the year. This plant will minimise the risk of cryptosporidium being present in treated water at Lovedean.

### Environment

The Company has a long history of good practice in managing its operational sites for the benefit of the environment.

As part of its Environmental Programme, the Company has continued to contribute to the River Itchen Sustainability Study, which has considered the impacts of abstraction and discharges throughout the entire catchment of the river. The river is a candidate Special Area of Conservation and supports a number of valuable wildlife species. The initial study, completed during the year, identified a number of options for future action and the Company will be participating in a study to evaluate these options.

In addition, the Company has been managing an investigation into the impacts of water abstraction at its Fishbourne source on a part of Chichester Harbour. The final report has been published and concluded that an adverse impact on the environment could not be ruled out. The Company is discussing with the Environment Agency the various options for modifying its licence as a precautionary measure.

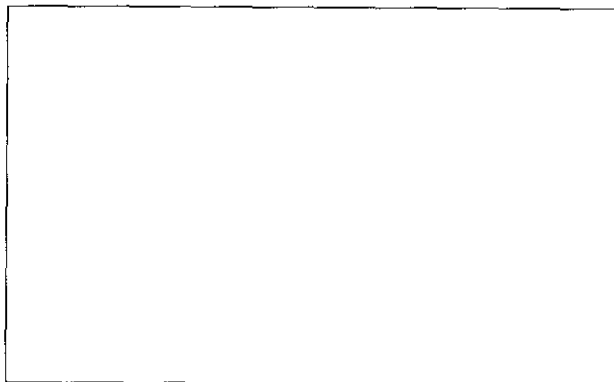


*New lagoon at the River Itchen Treatment Works*

To enable routine maintenance of a storage reservoir at the River Itchen Treatment Works, a new lagoon has been created, which, once vegetation has developed, should be inhabited by important species of birds, plants and insects.

### Capital Investment

Capital investment for the year amounted to £10.1m., a substantial programme by Portsmouth Water standards. This included expenditure of £1.5m. to complete the new membrane filtration plant at Lovedean Treatment Works, the total cost of the project being £2.2m. Expenditure in the year on the construction of the bulk supply to Southern Water Services was £2.2m., with an anticipated total cost of £2.7m.



*Service reservoir at Farlington*

The continuing programme of renewing mains, where structural deterioration and increased burst frequency have resulted from corrosion or ground movement, resulted in expenditure of £3.5m. for the year. As part of its work on the Periodic Review, the Company has modelled its infrastructure using the UKWIR framework for maintenance planning. The objective was to establish the appropriate level of long term investment required to maintain the mains network in a stable state.

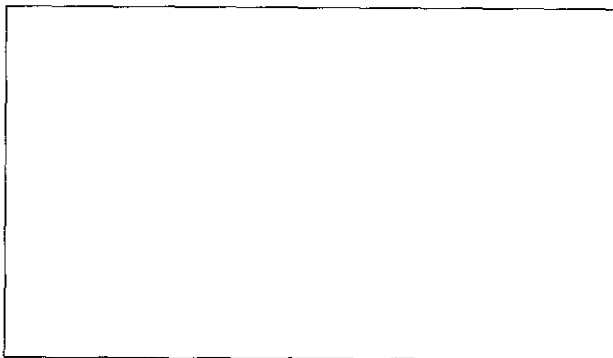
A number of other projects undertaken and completed during the year targeted improvements to the Company's assets, both above and below ground.

### Working in the Community

The Company again provided site visits, talks and slide shows to educational groups and other societies during the year. As in the previous year, its exhibition was a key feature of the Science Fair held by Portsmouth and South East Hampshire Business and Education Partnership.

The Company continued with its initiative to supply drinking water bottles to infant and junior school children, thereby helping them to maintain hydration during the school day and assisting them to remain alert and attentive during class lessons. 142 of the 185 schools approached have taken up the offer, with over 45,000 bottles distributed.

The Company has also agreed to participate in the establishment of an Education Centre at George Staunton Country Park, which is situated close to its offices in Havant. The centre will enable the water cycle which is part of the National Curriculum to be explained to local school children.

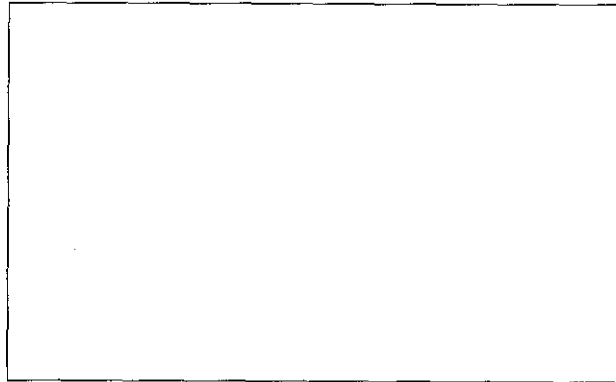


*Company stand at the Science Fair at Portsmouth Dockyard*

## MANAGING DIRECTOR'S REVIEW

### Health and Safety

The Company is committed to maintaining high standards of health and safety. It has a health and safety plan which includes a number of initiatives to reinforce the safety message. During the year every employee has completed health and safety training. The involvement of employees is critical to the success of any health and safety programme. A committee, with representatives from several areas of the Company and chaired by John Cogley, the Board member with responsibility for health and safety, is a key element of the programme. The number of reportable accidents in the financial year 2003/04 reduced to 6 from 13 in 2002/03.



*Chairman Terry Lazenby with prize winners for the Drinking Water Competition*

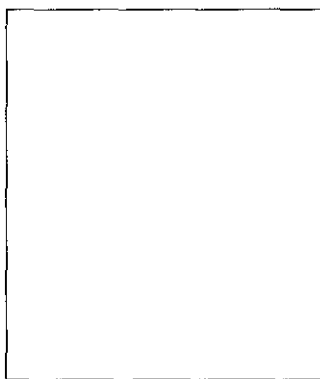
### Employees

The levels of performance achieved by the Company are a testament to the hard work and dedication of its employees. They have once again risen to the challenges presented during the year and I thank them all for their efforts and achievements.

**N. J. ROADNIGHT  
MANAGING DIRECTOR**



## FINANCIAL REVIEW



### Financial Results

Turnover for the year was 3.9% higher at £30.7m. (2003 - £29.5m.), reflecting both the 2.2% tariff increase in July 2003 and a 3.1% increase in measured consumption. The increase in measured consumption arose partly as a result of the hot and dry summer weather of

2003 and is not expected to represent a trend.

Despite the increase in turnover, operating profit at £10.1m. (2003 - £10.1m.) was unchanged as a result of cost increases largely beyond management control. These included a 15% rise in electricity unit costs effective from November 2003, a 32% increase in insurance costs reflecting market conditions and an above inflation increase in abstraction charges imposed by the Environment Agency. In addition, the dry summer conditions of 2003 caused considerable ground movement, which gave rise to a greater volume of network maintenance and increased pumping costs resulting from the higher demand for water.

As reported last year, the Company was refinanced in June 2002 by a 30 year £66.5m. index-linked loan facility. At the same time, it made a £58.9m. loan to another Group company, South Downs Limited. The arrangement provided access to long term funding at beneficial rates for the Company. This is the first full year under the arrangement and net interest payable has increased from £0.6m. last year to £2.1m. and reflects the year on year difference in the loan indexation.

The tax charge for the year of £2.3m. (2003 - £2.6m.), included a provision for deferred taxation of £0.1m., giving rise to an overall deferred liability of £8.9m. after discounting.

Dividends declared in the year amounted to £4.2m. (2003 - £7.0m.). The dividend reflects cash generated before dividends paid and after capital investment, and including the inter-company loan interest received.

### Capital Investment

Gross capital expenditure during the year amounted to £10.1m. compared with £11.2m in the previous year. This included £3.5m. (2003 - £4.1m.) of infrastructure renewals expenditure. Expenditure relating to non-infrastructure projects in the year included £1.5m. on the completion of a membrane filtration plant at Lovedean Treatment Works, £2.2m. on the construction of the bulk supply for Southern Water Services and £0.9m. on the replacement of two service reservoirs at Farlington Treatment Works. Capital contributions amounted to £1.0m. (2003 - £1.5m.).

### Cashflow

Net cash flow from operating activities was unchanged at £15.8m. Net interest received of £0.032m. compared with net interest paid of £0.6m. in 2003, reflected a full year of the financing arrangements entered into in June 2002. The cashflow generated before dividends and financing improved to £4.7m from £3.2m. as a result of the benefit from net interest, a lower taxation payment and reduced capital expenditure.

### Financial Instruments

The major financial risks faced by the Company are interest rate and liquidity risks. The Company assesses these risks on an ongoing basis and its policies for managing them remain unchanged from previous periods.

The Company's exposure to interest rate fluctuations is now limited by the fixed interest rate applicable to the index-linked loan, with inflation risks on the cost of the loan being effectively hedged against regulated revenues which are also linked to the Retail Prices Index.

The Company seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs through an appropriate borrowing structure and to invest cash assets safely and profitably on the short term market.

Short term liquidity is achieved through a £15m. working capital facility and an overdraft arrangement. At the end of the year, £4.5m. (2003 - £5.0m.) of the £15m. facility had been drawn, and the overdraft arrangement remained unutilised. Details of borrowings are included in notes 15, 16 and 18 to the accounts on pages 25 to 27.

### Net Debt

Net debt for the Company at 31 March 2004 was £71.7m. (2003 - £70.8m.). A conventional measure of debt within the water industry is as a percentage of the Regulatory Capital Value (RCV). The net debt to RCV at 31 March 2004 was 77.7% (2003 - 80.1%).

**N. SMITH**  
**FINANCE DIRECTOR**

## COMPANY INFORMATION

### REGISTERED OFFICE

P.O. Box 8  
West Street  
Havant  
Hampshire  
PO9 1LG

Telephone: 023 9249 9888  
Facsimile: 023 9245 3632  
Website: [www.portsmouthwater.co.uk](http://www.portsmouthwater.co.uk)

Company Number: 2536455

### AUDITORS

GRANT THORNTON  
Manor Court  
Barnes Wallis Road  
Segensworth Fareham  
Hampshire PO15 5GT

### BANKERS

NATIONAL WESTMINSTER  
BANK plc  
P.O. Box 34  
15 Bishopsgate  
London EC2P 2AP

### FACTS AND FIGURES

2004

|                             |                     |
|-----------------------------|---------------------|
| Area of Supply              | 868 km <sup>2</sup> |
| Population                  | 692,000             |
| Number of Properties Served | 292,000             |
| Length of Mains             | 3,236 km            |
| Average Daily Output        | 186 MI              |

### CORPORATE SOLICITORS

BLAKE LAPHORN LINNELL  
New Court  
1 Barnes Wallis Road  
Segensworth  
Fareham Hampshire PO15 5UA

### INSURANCE BROKERS

AON LIMITED  
Richmond House  
College Street  
Southampton  
Hampshire SO14 3PS

## AREA OF SUPPLY



## DIRECTORS' REPORT

The Directors have pleasure in presenting their Report and Accounts for the year ended 31 March 2004.

### PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The Company is a water supplier operating under an Instrument of Appointment granted by the Secretary of State for the Environment under the Water Industry Act 1991. Water is supplied to 292,000 domestic and commercial customers in an area of 868 square kilometres in Hampshire and West Sussex through a mains network of 3,236 kilometres. The Company's area of supply is shown on page 9 of this report.

A detailed review of operations for the year is provided in the Chairman's Statement, the Managing Director's Review and the Financial Review on pages 3 to 8.

### FINANCIAL RESULTS AND DIVIDENDS

The Company's profit before taxation amounts to £7.844m. After deducting £2.288m. for taxation and £4.194m. for dividends, a profit of £1.362m. has been transferred to reserves.

The Directors are recommending the payment of a final dividend on the ordinary share capital of £2.357m.

### FIXED ASSETS

Capital expenditure on tangible fixed assets was £10.078m. (2003 - £11.225m.), including £3.529m. on infrastructure renewals (2003 - £4.141m.). Information relating to these and other changes in fixed assets is shown in note 10 to the accounts on page 24.

The Directors are of the opinion that the current market value of the land and buildings included in tangible fixed assets is in excess of the value shown in the balance sheet. As they are held for operational purposes, no professional valuation has been obtained and the excess has not, therefore, been quantified.

### BOARD OF DIRECTORS

The Directors who held office at 31 March 2004, all of whom served throughout the year, are shown on page 2.

Mr. A. R. Neve and Mr. T. M. Lazenby, who retire by rotation, offer themselves for re-election. Mr. A. R. Neve has a one year service contract with the Company.

The interests of the Directors in Group shares are detailed in the Report on Remuneration on page 14.

### CORPORATE GOVERNANCE

The Committee on Corporate Governance issued the Combined Code in June 1998. The Combined Code requires that disclosures are made on how the principles of good governance have been applied and whether the Company has complied with those principles. The disclosures set out below fulfil these requirements.

The Board has noted and discussed the New Combined Code, which was issued in July 2003 and replaces the original Combined Code issued in June 1998. It confirms that it will comply with the requirements, which will first apply to the Company for its financial year commencing 1 April 2004.

### COMPLIANCE

The Company has complied throughout the year with the Code provisions set out in Section 1 of the Combined Code, other than as indicated below.

As the ultimate shareholders of the Company have representation at Board meetings, it is not therefore considered necessary to have a senior independent non-executive Director (code provision A.2.1.).

The remuneration package of executive Directors does not include a performance related element. The Board does not believe that this diminishes the incentive to perform at the highest level to meet the needs of the Company and its customers (code provision B.1.4.).

### DIRECTORS

The Board comprises a non-executive Chairman, four executive Directors and two other non-executive Directors.

The roles of Chairman and Managing Director are separate with a clear division of responsibilities between them. The non-executive Directors bring a wide range of experience and knowledge to the Board and are all considered to be independent of management.

Decisions regarding the appointment of Directors are taken by the Board as a whole. In accordance with the Company's Articles of Association, all Directors, with the exception of the Managing Director, are required to retire by rotation and one third of the Board must seek re-election each year. All Directors are subject to election at the first Annual General Meeting after their appointment.

The Board, which is responsible for approving policy and strategy, meets monthly and has a schedule of matters specifically reserved to it for decision. Information is circulated to the Board in a timely fashion to ensure that all Directors are fully briefed on all issues arising at Board meetings. They are free to seek any further information considered necessary.

All Directors have access to the services of the Company Secretary and may take independent professional advice at the Company's expense in the furtherance of their duties.

#### **Nomination Committee**

The Nomination Committee comprises Mr. T. M. Lazenby, Mr. N. J. Roadnight, Mr. R. L. Sullivan and Mr. R. J. Tennant. It is responsible for recommending new appointments to the Board.

### ACCOUNTABILITY AND AUDIT

The Board believes that the Annual Report and Accounts play an important part in presenting a clear, balanced and understandable assessment of the Company's position and prospects. This is supported by the Chairman's Statement, together with a more detailed analysis of operations and financial matters in the Managing Director's Review and the Financial Review.

#### **Statement of Directors' Responsibilities**

Company law in the United Kingdom requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are also responsible for keeping proper accounting records, for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Going Concern**

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

#### **Audit Committee**

The Audit Committee comprises the three non-executive Directors, Mr. T. M. Lazenby (Chairman), Mr. R. L. Sullivan and Mr. R. J. Tennant.

It meets at least three times during the year. The purpose of the Committee is to ensure the preservation of good financial practices throughout the Company, to monitor that controls are in force to ensure the integrity of those practices, to review the interim and annual financial statements and to provide, by way of timely meetings, a line of communication between the Board and the external auditors.

The Committee has formal Terms of Reference, which deal with its authorities and duties.

The Committee reviews the independence and objectivity of the external auditors. This includes reviewing the nature and extent of non-audit services supplied by the external auditors to the Company, seeking to balance objectivity and value for money.

#### **Internal Control**

The Directors are responsible for the Company's system of internal control and for reviewing its effectiveness.

Such a system is designed to minimise rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board is of the view that there is an ongoing process for identifying, evaluating and managing the Company's significant risks, that it has been in place for the year ended 31 March 2004 and up to the date of approval of the Annual Report and Accounts, that it is regularly reviewed by the Directors and that it accords with the internal control guidance for Directors in the Combined Code.

The key procedures, which have been established with a view to providing effective internal control, are as follows:

#### **Organisation**

The Company's activities are operated through a Board of Directors with clearly defined reporting lines and delegation of authority. The Directors meet at least monthly to consider a schedule of matters required to be brought to them for decision. A standing sub-committee of the Board meets fortnightly for the purpose of ensuring that full and effective control is maintained over appropriate financial, regulatory and operational issues.

#### **Financial reporting**

Each year the Directors approve an annual plan produced from a comprehensive budgeting system. Actual results are reported against the approved plan on a monthly basis to provide a timely and regular monitoring of performance.

#### **Investment appraisal**

The Company has a clearly defined framework for assessing capital expenditure needs and options. Board approval is required for any project exceeding a quantified expenditure level.

#### **Business, operational and compliance risks**

The Company assesses the risks facing its business on an ongoing basis and has identified a number of key areas which are subject to regular reporting to the Directors such as regulatory, quality, environmental, legal and insurance matters. The Directors also receive reports from independent regulatory bodies, which comment on the performance of the core water business.

At the April 2004 Board meeting, the Directors carried out their annual assessment for the year to 31 March 2004, including consideration of events since the year end.

### CREDITOR PAYMENT POLICY

The Company does not intend to follow any specific code or standard in relation to payment practice. In the absence of dispute, bills will be settled in accordance with the suppliers' terms. Where such terms are considered unreasonable, the Company will seek to agree alternative payment arrangements to suit both

## DIRECTORS' REPORT

parties. At 31 March 2004, the Company's creditor days were 9.

### SUBSTANTIAL SHAREHOLDER

At 31 March 2004, Portsmouth Water Holdings Limited owned the entire voting capital of the Company.

### REGULATORY ACCOUNTS

A set of accounts for regulatory purposes is required by the Director General of Water Services. These accounts relate solely to the regulated water supply business and copies may be obtained on request from the Registered Office.

### EMPLOYEES

Direct communication with employees is maintained through the Company in-house newsletter. In addition, Joint Consultative Committees meet regularly and ensure effective communication with employee representatives.

The Directors consider health and safety to be an important issue within the Company, with the active participation of employee safety representatives taking place through the safety committee. A specific programme has been undertaken to heighten awareness across the organisation.

The Company has adopted a policy which complies with the Disability Discrimination Act 1995. Every consideration is given to applications for employment from disabled persons, where the job requirements may be adequately covered by a handicapped or disabled person. Employees who become disabled during employment are given continued employment where possible and opportunities for training and career development are provided for all disabled employees.

The pension scheme to which the Company's employees belong makes provision for retirement due to ill-health or disablement.

### ENVIRONMENT

The Company has become increasingly aware of its obligations to both customers and the environment. In recent years, it has adopted a more active approach to environmental issues and further information is set out in the Managing Director's Review on pages 5 and 6.

### DONATIONS

The Company actively supports the Water Industry charity WaterAid and, during the year, customers were invited to make donations to WaterAid at the time of paying their water bills.

### LICENCE REQUIREMENT

In accordance with its Instrument of Appointment under the Water Industry Act 1991, the Directors are of the opinion that the Company is in compliance with paragraph 3.1 of Condition 'K' of that Instrument.

### AUDITORS

The Auditors, Grant Thornton, have expressed their willingness to continue in office and a resolution providing for their re-appointment will be proposed at the Annual General Meeting.



**BY ORDER OF THE BOARD**  
**N. SMITH**  
**SECRETARY**  
**HAVANT**  
**26 MAY 2004**

## REPORT ON REMUNERATION

### INFORMATION NOT SUBJECT TO AUDIT

#### **Remuneration Committee**

The role of the Remuneration Committee is to consider and approve, on behalf of the Board, the conditions of service of the executive Directors of the Company. It comprises the three non-executive Directors, Mr. T. M. Lazenby (Chairman), Mr. R. L. Sullivan and Mr. R. J. Tennant.

Fees payable to the non-executive Directors are determined by the Board.

#### **Remuneration policy**

The objective is to attract, retain and motivate high calibre senior executives through pay arrangements which are competitive and fair and reasonable for the responsibilities involved. In addition to individual performance, reference is made to pay levels in companies of similar size and within the same industry.

#### **Service contracts**

All four executive Directors have one year service contracts with the Company, which are in accordance with the Combined Code on Corporate Governance.

The non-executive Directors do not have service contracts.

### INFORMATION SUBJECT TO AUDIT

| <b>Directors' remuneration:</b> | <b>2004</b> | <b>2003</b> |
|---------------------------------|-------------|-------------|
|                                 | <b>£000</b> | <b>£000</b> |
| Total remuneration              | 489         | 489         |
| Highest paid Director           | 136         | 137         |

#### **Remuneration is analysed by Director below:**

|                               | <b>Salary/<br/>Fees</b> | <b>Benefits</b> | <b>Total</b>         | <b>Total</b>         |
|-------------------------------|-------------------------|-----------------|----------------------|----------------------|
|                               | <b>£000</b>             | <b>£000</b>     | <b>2004<br/>£000</b> | <b>2003<br/>£000</b> |
| <b>Executive:</b>             |                         |                 |                      |                      |
| J. E. COGLEY                  | 87                      | 14              | 101                  | 98                   |
| A. R. NEVE                    | 87                      | 6               | 93                   | 92                   |
| N. J. ROADNIGHT               | 122                     | 14              | 136                  | 137                  |
| N. SMITH                      | 92                      | 11              | 103                  | 102                  |
| <b>Non-executive:</b>         |                         |                 |                      |                      |
| T. M. LAZENBY (Chairman)      | 22                      | -               | 22                   | 16                   |
| J. F. BATTY (former Chairman) | -                       | -               | -                    | 16                   |
| R. L. SULLIVAN                | 17                      | -               | 17                   | 14                   |
| R. J. TENNANT                 | 17                      | -               | 17                   | 14                   |
|                               | <b>444</b>              | <b>45</b>       | <b>489</b>           | <b>489</b>           |

Fees paid in respect of Mr. T. M. Lazenby are paid to Seamab Consultancy Ltd.

Benefits comprise company cars and medical insurance.

## REPORT ON REMUNERATION

### **Long-term incentive schemes**

The Company does not operate any long-term performance linked bonus scheme. The executive Directors participated in an employee share incentive scheme, which has now ceased, on the same basis as all other employees. They received no benefits during the year under this scheme:

|                 | 2004<br>£000 | 2003<br>£000 |
|-----------------|--------------|--------------|
| J. E. COGLEY    | -            | 2            |
| A. R. NEVE      | -            | 2            |
| N. J. ROADNIGHT | -            | 2            |
| N. SMITH        | -            | 2            |

### **Share options**

The Company does not operate an Executive Share Option Scheme.

The Directors' holdings of shares in South Downs Capital Limited, the ultimate parent undertaking, are detailed below and, in total, represent 15% of the issued share capital of that Company. They have no interests in the shares of Portsmouth Water Limited.

|                 | <b>'C' ORDINARY SHARES</b> |
|-----------------|----------------------------|
| J. E. COGLEY    | 30                         |
| A. R. NEVE      | 30                         |
| N. J. ROADNIGHT | 48                         |
| N. SMITH        | 42                         |

### **Pensions**

The Company participates in the Brockhampton Pension Scheme to provide defined benefits based primarily on final pensionable pay for its employees, including the executive Directors. The maximum pension payable under this Scheme is 2/3rds of final pensionable pay.

Benefits in kind relating to company cars are considered to be part of pensionable pay for all employees under the Scheme.

## REPORT ON REMUNERATION

The executive Directors have accrued pension benefits under the Brockhampton Pension Scheme during the year as detailed below:

|                 | <i><b>Increase in<br/>Accrued Pension<br/>During Year to<br/>31 March 2004</b></i> | <i><b>Transfer Value<br/>of Increase</b></i> | <i><b>Accumulated<br/>Accrued Pension<br/>At 31 March 2004</b></i> | <i><b>Accumulated<br/>Accrued Pension<br/>At 31 March 2003</b></i> |
|-----------------|--|--|--|--|
|                 | <i>£000</i>  | <i>£000</i>                                  | <i>£000</i>  | <i>£000</i>  |
| J. E. COGLEY    | 2  | 29   | 51   | 48   |
| A. R. NEVE      | 2  | 20   | 51   | 48   |
| N. J. ROADNIGHT | 7  | 79   | 64   | 56   |
| N. SMITH        | 2  | 20   | 37   | 34   |

The accumulated accrued pension is that which would be paid annually on retirement based on service to the end of the year.

The increase in accrued pension excludes any increase for inflation.

The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. No member of the Scheme has paid contributions during the year.



**BY ORDER OF THE BOARD  
T. M. LAZENBY  
CHAIRMAN  
HAVANT  
26 MAY 2004**



## AUDITORS' REPORT

### REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF PORTSMOUTH WATER LIMITED

We have audited the financial statements of Portsmouth Water Limited for the year ended 31 March 2004 which comprise the profit and loss account, the balance sheet, the cash flow statement and notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Report on Remuneration that is described as having been audited.

As stated in note 1 on page 20, in view of the licence conditions under which the Company operates as a water supplier, the financial statements and other information contained in the Annual Report are presented as if the Company were subject to the Listing Rules of the Financial Services Authority.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective Responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

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 part of the Report on Remuneration to be audited are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for auditors' 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 Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the unaudited part of the Report on Remuneration, the Chairman's Statement, the Managing Director's Review and the Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### **Basis of Opinion**

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Report on Remuneration to be audited 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 and the part of the Report on Remuneration to be audited.

#### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2004 and of its profit for the year then ended and the financial statements and the part of the Report on Remuneration to be audited have been properly prepared in accordance with the Companies Act 1985.

**GRANT THORNTON  
REGISTERED AUDITORS  
CHARTERED ACCOUNTANTS  
PORTSMOUTH  
26 MAY 2004**

## PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2004

|  | <i>Notes</i> | <i>2004</i><br><i>£000</i> | <i>2003</i><br><i>£000</i> |
|--|--------------|----------------------------|----------------------------|
| <b>TURNOVER</b>                                      | 2            | 30,698                     | 29,547                     |
| <b>COST OF SALES</b>                                 |              | <u>(14,071)</u>            | <u>(13,267)</u>            |
| <b>GROSS PROFIT</b>                                  |              | 16,627                     | 16,280                     |
| Net operating expenses                               | 3            | <u>(6,488)</u>             | <u>(6,199)</u>             |
| <b>OPERATING PROFIT</b>                              |              | 10,139                     | 10,081                     |
| (Loss)/profit on sale of fixed assets                |              | <u>(207)</u>               | <u>16</u>                  |
| <b>PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST</b> |              | 9,932                      | 10,097                     |
| Interest receivable                                  | 5            | <u>2,863</u>               | <u>2,359</u>               |
|  |              | 12,795                     | 12,456                     |
| Interest payable                                     | 6            | <u>(4,951)</u>             | <u>(2,931)</u>             |
| <b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b> | 7            | 7,844                      | 9,525                      |
| Taxation on profit on ordinary activities            | 8            | <u>(2,288)</u>             | <u>(2,613)</u>             |
| <b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>  |              | 5,556                      | 6,912                      |
| Dividends  | 9            | <u>(4,194)</u>             | <u>(6,965)</u>             |
| <b>RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR</b> | 20           | <u><u>1,362</u></u>        | <u><u>(53)</u></u>         |

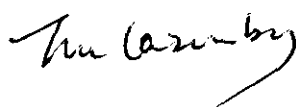
There are no recognised gains or losses other than the profit for the year.

*The accompanying accounting policies and notes form an integral part of these financial statements.*

# BALANCE SHEET

| As at 31 March 2004                                   |       |               |                 |               |                 |
|---|-------|---------------|-----------------|---------------|-----------------|
|   | Notes | 2004          |                 | 2003          |                 |
|   |       | £000          | £000            | £000          | £000            |
| <b>FIXED ASSETS</b>                                   |       |               |                 |               |                 |
| Tangible assets                                       | 10    | 73,219        |                 | 69,488        |                 |
| Investment  | 11    | <u>59,500</u> | 132,719         | <u>58,850</u> | 128,338         |
| <b>CURRENT ASSETS</b>                                 |       |               |                 |               |                 |
| Stocks  |       | 616           |                 | 643           |                 |
| Debtors   | 12    | 1,421         |                 | 2,554         |                 |
| Investments   | 13    | 4             |                 | 4             |                 |
| Cash at bank and in hand                              | 14    | <u>2,299</u>  |                 | <u>1,575</u>  |                 |
|   |       | 4,340         |                 | 4,776         |                 |
| <b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b> | 15    | (21,085)      |                 | (20,748)      |                 |
| <b>NET CURRENT LIABILITIES</b>                        |       |               | <u>(16,745)</u> |               | <u>(15,972)</u> |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>          |       |               | 115,974         |               | 112,366         |
| <b>CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR</b>  | 16    |               | (67,551)        |               | (65,431)        |
| <b>PROVISIONS FOR LIABILITIES AND CHARGES</b>         | 17    |               | <u>(8,911)</u>  |               | <u>(8,785)</u>  |
|   |       |               | <u>39,512</u>   |               | <u>38,150</u>   |
| <b>CAPITAL AND RESERVES</b>                           |       |               |                 |               |                 |
| Called up share capital                               | 19    |               | 1,078           |               | 1,078           |
| Share premium account                                 | 20    |               | 1,539           |               | 1,539           |
| Capital redemption reserve                            | 20    |               | 3,250           |               | 3,250           |
| Profit and loss account                               | 20    |               | <u>33,645</u>   |               | <u>32,283</u>   |
| <b>EQUITY SHAREHOLDERS' FUNDS</b>                     | 21    |               | <u>39,512</u>   |               | <u>38,150</u>   |

The accounts were approved by the Board on 26 May 2004.



**T.M. LAZENBY CHAIRMAN**

The accompanying accounting policies and notes form an integral part of these financial statements.

# CASH FLOW STATEMENT

For the year ended 31 March 2004

|  | Notes | 2004           |                | 2003           |                |
|--|-------|----------------|----------------|----------------|----------------|
|  |       | £000           | £000           | £000           | £000           |
| <b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>                                 | 22    |                | 15,776         |                | 15,805         |
| <b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>                           |       |                |                |                |                |
| Interest received  |       | 2,862          |                | 1,674          |                |
| Interest paid  |       | <u>(2,830)</u> | 32             | <u>(2,252)</u> | (578)          |
| <b>TAXATION</b>  |       |                |                |                |                |
| UK corporation tax paid  |       | (1,071)        |                | (2,048)        |                |
| Payments for group relief  |       | <u>(1,235)</u> | (2,306)        | <u>(803)</u>   | (2,851)        |
| <b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>                              |       |                |                |                |                |
| Loan to Group company  |       | -              |                | (58,850)       |                |
| Purchase of tangible fixed assets  |       | (9,731)        |                | (10,665)       |                |
| Sale of tangible fixed assets  |       | 26             |                | 39             |                |
| Capital contributions received   |       | <u>952</u>     | (8,753)        | <u>1,464</u>   | (68,012)       |
| <b>EQUITY DIVIDENDS PAID</b>   |       |                | <u>(3,525)</u> |                | <u>(6,644)</u> |
| <b>CASH INFLOW/(OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING</b> |       |                | 1,224          |                | (62,280)       |
| <b>MANAGEMENT OF LIQUID RESOURCES</b>  |       |                |                |                |                |
| (Purchase)/sale of short-term deposits   |       |                | (63)           |                | 2,650          |
| <b>FINANCING</b>   |       |                |                |                |                |
| Cancellation of debenture stock  |       | -              |                | (16)           |                |
| New loan   |       | -              |                | 66,500         |                |
| Loan issue expenses  |       | -              |                | (1,722)        |                |
| Repayment of loans   |       | <u>(500)</u>   | <u>(500)</u>   | <u>(4,400)</u> | <u>60,362</u>  |
| <b>INCREASE IN CASH IN THE YEAR</b>  | 23    |                | <u>661</u>     |                | <u>732</u>     |

The accompanying accounting policies and notes form an integral part of these financial statements.

## NOTES TO THE ACCOUNTS

### 1. ACCOUNTING POLICIES

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards and company law, except for the treatment of capital contributions as detailed in note 1.(c).

In view of the licence conditions under which the Company operates as a water supplier, it has to publish information about its annual results as if it were a company covered by the Listing Rules of the Financial Services Authority.

The principal accounting policies remain unchanged from the previous year, and are as follows:

#### (a) Turnover

Turnover, which excludes value added tax, represents the income receivable for goods and services provided to external customers in the ordinary course of business.

#### (b) Fixed assets

##### (i) Infrastructure assets - mains

Infrastructure assets comprise a network of systems. Expenditure on infrastructure assets relating to increases in capacity or enhancement of the network and on maintaining the operating capability of the network in accordance with defined standards of service is treated as an addition and included in tangible fixed assets at cost.

The depreciation charge on infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network, based on an independently certified asset management plan.

##### (ii) Other assets

Depreciation is provided on all other fixed assets with the exception of freehold land. It is calculated to write off the cost of assets less estimated residual values over their estimated useful economic lives using the straight line method. Those lives are estimated as follows:

|                           |           |
|---------------------------|-----------|
| Buildings and Reservoirs  | 100 years |
| Pumping Plant             | 25 years  |
| Vehicles and Mobile Plant | 5-7 years |
| Office Equipment          | 7 years   |

#### (c) Capital contributions

##### (i) Mains contributions

In certain circumstances third parties make non-returnable contributions towards the cost of

specific infrastructure assets. They are treated as capital contributions and the Directors consider it appropriate that, in order to present a true and fair view, they should be deducted from fixed assets, as shown in note 10 to the accounts on page 24. In accordance with the Companies Act 1985 requirement to include fixed assets at cost, such contributions would normally be treated as deferred income and released to the profit and loss account over the useful life of the corresponding assets. However, the assets to which they relate do not have determinable finite lives and, accordingly, no basis exists on which to recognise those contributions as deferred income.

##### (ii) Infrastructure charges

Infrastructure charges are made in respect of new connections in accordance with Condition 'C' of the Instrument of Appointment. These charges are treated as capital contributions and deducted from fixed assets, as more fully explained in note 1.(c)(i) above.

#### (d) Investments

Investments are stated at the lower of cost or net realisable value.

#### (e) Stores

Stores are valued at the lower of cost or net realisable value. In accordance with established practice in the water industry, no value is placed upon the water in reservoirs, mains or in the course of treatment.

#### (f) Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or the right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

The deferred tax balances have been discounted using a post-tax yield to maturity that could be obtained at the balance sheet date on government bonds with maturity dates similar to those of the deferred tax liabilities.

#### (g) Leases

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

## NOTES TO THE ACCOUNTS

### (h) Pensions

The Brockhampton Pension Scheme surplus is such that no contributions are likely to be needed from the Company in the foreseeable future and no charge is, therefore, made to the profit and loss account. No other economic benefits are currently expected to flow to the Company from recognising any element of the surplus.

In addition, the rules of the scheme preclude any repayment of the overfunding. Therefore, no part of the surplus has been recognised in the balance sheet as an asset. Detailed information regarding

the surplus and actuarial position of the scheme is given in note 28 to the accounts on pages 31 to 33.

### (i) Financial instruments

Income and expenditure arising on financial instruments is recognised on the accruals basis, and credited or charged to the profit and loss account in the financial period to which it relates.

Financial assets and liabilities are recorded at cost, with the exception of the index-linked loan.

| 2. TURNOVER         | 2004<br>£000  | 2003<br>£000  |
|---------------------|---------------|---------------|
| Unmeasured supplies | 20,198        | 19,921        |
| Measured supplies   | 8,933         | 8,295         |
| Chargeable work     | 1,567         | 1,331         |
|                     | <u>30,698</u> | <u>29,547</u> |

Turnover is wholly attributable to water supply and related activities in the United Kingdom.

| 3. NET OPERATING EXPENSES | 2004<br>£000 | 2003<br>£000 |
|---------------------------|--------------|--------------|
| Administrative expenses   | 6,666        | 6,368        |
| Other operating income    | (178)        | (169)        |
|                           | <u>6,488</u> | <u>6,199</u> |

## NOTES TO THE ACCOUNTS

|  |               |               |
|--|---------------|---------------|
| <b>4. DIRECTORS AND EMPLOYEES</b>            | <b>2004</b>   | <b>2003</b>   |
|  | <b>£000</b>   | <b>£000</b>   |
| <b>Employment costs:</b>                     |               |               |
| Remuneration                                 | 5,015         | 5,123         |
| Social security costs                        | 409           | 376           |
| Pensions management charge                   | 193           | 193           |
|  | <u>5,617</u>  | <u>5,692</u>  |
| <b>Average numbers employed during year:</b> | <b>Number</b> | <b>Number</b> |
| Operations                                   | 151           | 154           |
| Administration                               | 67            | 69            |
|  | <u>218</u>    | <u>223</u>    |
| <b>Directors' remuneration:</b>              | <b>£000</b>   | <b>£000</b>   |
| Total remuneration                           | <u>489</u>    | <u>489</u>    |
| Highest paid Director                        | <u>136</u>    | <u>137</u>    |

Further details relating to Directors' remuneration are set out in the Report on Remuneration on pages 13 to 15. The information set out in that Report, which is subject to audit, forms part of these financial statements.

|                                 |              |              |
|---------------------------------|--------------|--------------|
| <b>5. INTEREST RECEIVABLE</b>   | <b>2004</b>  | <b>2003</b>  |
|                                 | <b>£000</b>  | <b>£000</b>  |
| Loan to Group company           | 2,798        | 2,279        |
| Interest on short term deposits | 41           | 37           |
| Other interest receivable       | 24           | 43           |
|                                 | <u>2,863</u> | <u>2,359</u> |
| <b>6. INTEREST PAYABLE</b>      |              |              |
| Debenture stocks                | 10           | 10           |
| Bank loans and overdraft        | 4,929        | 2,761        |
| Loans from Group companies      | -            | 147          |
| Other interest payable          | 12           | 13           |
|                                 | <u>4,951</u> | <u>2,931</u> |

Interest payable on the £66.5m. index-linked loan includes interest charged, the annual indexation of the loan, the amortisation of the issue fees and loan administration expenses.

## NOTES TO THE ACCOUNTS

|   |                      |                      |
|---|----------------------|----------------------|
| <b>7. PROFIT ON ORDINARY ACTIVITIES<br/>BEFORE TAXATION</b>   | <b>2004<br/>£000</b> | <b>2003<br/>£000</b> |
| Depreciation - infrastructure assets  | 3,232                | 3,153                |
| - non infrastructure assets   | 1,930                | 1,791                |
| Rates   | 2,053                | 2,017                |
| Water abstraction charges   | 1,491                | 1,472                |
| Auditors' remuneration:   |                      |                      |
| Audit services - statutory audit  | 32                   | 32                   |
| Non-audit services - Periodic Review reporting  | 24                   | -                    |
| - other regulatory reporting  | 12                   | 30                   |
| - other services  | 1                    | 4                    |
| Hire of plant and machinery   | 31                   | 23                   |
| Other operating leases  | 300                  | 305                  |
| <b>8. TAXATION</b>  |                      |                      |
| <b>Current tax</b>  |                      |                      |
| United Kingdom corporation tax at 30% (2003 - 30%)  | 2,170                | 2,337                |
| Adjustment in respect of prior periods  | (8)                  | (240)                |
|   | <u>2,162</u>         | <u>2,097</u>         |
| <b>Deferred tax</b>   |                      |                      |
| Origination and reversal of timing differences  | 336                  | 764                  |
| Increase in discount  | (210)                | (248)                |
|   | <u>126</u>           | <u>516</u>           |
| <b>Tax on profit on ordinary activities</b>   | <u>2,288</u>         | <u>2,613</u>         |
| Profit on ordinary activities before tax  | 7,844                | 9,525                |
| Profit on ordinary activities multiplied by standard<br>rate of corporation tax in the UK of 30% (2003 - 30%) | 2,353                | 2,858                |
| Effect of:  |                      |                      |
| Expenses not deductible for tax purposes  | 132                  | 85                   |
| Depreciation for the period in excess of capital allowances   | 435                  | 411                  |
| Revenue items charged to capital  | (750)                | (1,017)              |
| Adjustments to tax charge in respect of prior periods   | (8)                  | (240)                |
| <b>Current tax charge for year</b>  | <u>2,162</u>         | <u>2,097</u>         |



## NOTES TO THE ACCOUNTS

### 9. DIVIDENDS

|                              |                  | 2004<br>£000 | 2003<br>£000 |
|------------------------------|------------------|--------------|--------------|
| <b>Equity:</b>               |                  |              |              |
| Ordinary/'A' Ordinary Shares | - interim paid   | 1,837        | 1,677        |
|                              | - final proposed | 2,357        | 1,688        |
| Special refinancing dividend |                  | -            | 3,600        |
|                              |                  | <u>4,194</u> | <u>6,965</u> |

### 10. TANGIBLE FIXED ASSETS

|                  | <i>Freehold land,<br/>buildings<br/>&amp; reservoirs</i> | <i>Mains</i>  | <i>Pumping<br/>plant</i> | <i>Vehicles,<br/>mobile plant<br/>&amp; office<br/>equipment</i> | <i>TOTAL</i>   |
|------------------|--|---------------|--------------------------|--|----------------|
| <b>COST</b>      | <i>£000</i>  | <i>£000</i>   | <i>£000</i>              | <i>£000</i>  | <i>£000</i>    |
| At 1 April 2003  | 35,224   | 77,471        | 18,463                   | 6,607  | 137,765        |
| Additions        | 1,864  | 5,233         | 2,293                    | 688  | 10,078         |
| Disposals        | (207)  | (208)         | (31)                     | (225)  | (671)          |
| At 31 March 2004 | <u>36,881</u>  | <u>82,496</u> | <u>20,725</u>            | <u>7,070</u>   | <u>147,172</u> |

### DEPRECIATION

|                       |              |               |              |              |               |
|-----------------------|--------------|---------------|--------------|--------------|---------------|
| At 1 April 2003       | 5,100        | 42,373        | 3,709        | 4,214        | 55,396        |
| Charge for year       | 341          | 3,232         | 966          | 623          | 5,162         |
| Disposals during year | (27)         | (208)         | (21)         | (182)        | (438)         |
| At 31 March 2004      | <u>5,414</u> | <u>45,397</u> | <u>4,654</u> | <u>4,655</u> | <u>60,120</u> |

### NET BOOK VALUE

|                  |               |               |               |              |               |
|------------------|---------------|---------------|---------------|--------------|---------------|
| At 31 March 2004 | <u>31,467</u> | <u>37,099</u> | <u>16,071</u> | <u>2,415</u> | <u>87,052</u> |
| At 31 March 2003 | <u>30,124</u> | <u>35,098</u> | <u>14,754</u> | <u>2,393</u> | <u>82,369</u> |

### CAPITAL CONTRIBUTIONS

|                      |          |               |          |          |               |
|----------------------|----------|---------------|----------|----------|---------------|
| At 1 April 2003      | -        | 12,881        | -        | -        | 12,881        |
| Received during year | -        | 952           | -        | -        | 952           |
| At 31 March 2004     | <u>-</u> | <u>13,833</u> | <u>-</u> | <u>-</u> | <u>13,833</u> |

### NET BOOK VALUE AFTER DEDUCTING CAPITAL CONTRIBUTIONS

|                  |               |               |               |              |               |
|------------------|---------------|---------------|---------------|--------------|---------------|
| At 31 March 2004 | <u>31,467</u> | <u>23,266</u> | <u>16,071</u> | <u>2,415</u> | <u>73,219</u> |
| At 31 March 2003 | <u>30,124</u> | <u>22,217</u> | <u>14,754</u> | <u>2,393</u> | <u>69,488</u> |

## NOTES TO THE ACCOUNTS

### 11. FIXED ASSET INVESTMENT

*Loans to Group  
undertakings  
£000*

|                  |               |
|------------------|---------------|
| At 1 April 2003  | 58,850        |
| Additions        | 650           |
| At 31 March 2004 | <u>59,500</u> |

### 12. DEBTORS

|                                 | 2004<br>£000 | 2003<br>£000 |
|---------------------------------|--------------|--------------|
| Trade debtors                   | 1,001        | 1,170        |
| Amounts owed by Group companies | 55           | 755          |
| Prepayments and accrued income  | 171          | 142          |
| Other debtors                   | 194          | 487          |
|                                 | <u>1,421</u> | <u>2,554</u> |

All of the above amounts fall due within one year.

### 13. INVESTMENTS

Unlisted investments: £4,000 (2003 - £4,000).

### 14. CASH AT BANK AND IN HAND

Of the total amount shown of £2.299m., £1.414m. (2003 - £1.361m.) is held specifically for the payment of the next half yearly loan interest charges.

### 15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

|                                    | 2004<br>£000  | 2003<br>£000  |
|------------------------------------|---------------|---------------|
| 3% Perpetual debenture stock       | 60            | 60            |
| 3½% Perpetual debenture stock      | 185           | 185           |
| 4% Perpetual debenture stock       | 39            | 39            |
| Bank loan                          | 4,500         | 5,000         |
| Payments received on account       | 984           | 1,062         |
| Trade creditors                    | 501           | 621           |
| Amounts owed to Group companies    | 951           | 1,083         |
| Corporation tax                    | 258           | 304           |
| Social security and other taxation | 186           | 180           |
| Other creditors                    | 2,546         | 2,146         |
| Accruals                           | 317           | 324           |
| Water rates in advance             | 4,601         | 4,456         |
| Proposed dividends                 | 5,957         | 5,288         |
|                                    | <u>21,085</u> | <u>20,748</u> |

The £4.5m. bank loan is part of a 5 year £15m. working capital facility, which is secured upon the assets of the Company and bears interest at London Interbank rates.

## NOTES TO THE ACCOUNTS

| 16. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR | 2004<br>£000  | 2003<br>£000  |
|---|---------------|---------------|
| <b>In five years or more:</b>                     |               |               |
| Bank loan   | 69,173        | 67,110        |
| Less: deferred arrangement costs                  | 1,622         | 1,679         |
|   | <u>67,551</u> | <u>65,431</u> |

The thirty year £66.5m. index-linked loan was issued on 26 June 2002 and is secured upon the assets of the Company. The capital value of the loan is adjusted by the change in the Retail Prices Index from year to year. The fees associated with the loan issue of £1.722m. are amortised over the life of the loan. The amount owing on the loan is stated net of the unamortised issue fees.

The loan interest is calculated by adjusting the value of the loan by the Retail Prices Index and then charging interest on this inflated amount at 3.635% per annum.

| 17. PROVISIONS FOR LIABILITIES AND CHARGES          | 2004<br>£000 | 2003<br>£000 |
|---|--------------|--------------|
| <b>Deferred taxation:</b>                           |              |              |
| At 1 April 2003                                     | 8,785        | 8,269        |
| Provided during the year in profit and loss account | 126          | 516          |
| At 31 March 2004                                    | <u>8,911</u> | <u>8,785</u> |

The total deferred tax balance before the effect of discounting is £14.171m. (2003 - £13.835m.). The amount provided for deferred taxation represents timing differences caused by the excess of tax allowances over depreciation.

No provision has been made for deferred tax on gains recognised on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided for is £0.431m. (2003 - £0.431m.). At present it is not envisaged that any tax will become payable in the foreseeable future.

## 18. FINANCIAL INSTRUMENTS

The Financial Review on page 8 provides an explanation of the objectives and policies for holding financial instruments. The numerical disclosures in this note deal with financial assets and liabilities as defined in FRS13: Derivatives and Other Financial Instruments: Disclosures. Short term debtors and creditors have been excluded from all disclosures. The fair value of all financial instruments is the same as the book value.

### **Financial assets**

The financial assets of the Company are detailed on page 27. Cash at bank and in hand includes a sterling cash deposit of £1.413m., which is placed on the money market at a six monthly rate and is held specifically for the payment of the next half yearly loan interest charges. The remaining cash balances on bank accounts receive interest at commercial rates.

### **Financial liabilities**

The Company has no foreign currency contracts. The interest rate profile of its financial liabilities at 31 March 2004 is detailed on page 27.

## NOTES TO THE ACCOUNTS

|                           | 2004<br>£000  | 2003<br>£000  |
|---------------------------|---------------|---------------|
| <b>Sterling</b>           |               |               |
| <b>Assets</b>             |               |               |
| Fixed asset investment    | 59,500        | 58,850        |
| Current asset investments | 4             | 4             |
| Cash at bank and in hand  | 2,299         | 1,575         |
|                           | <u>61,803</u> | <u>60,429</u> |

|                          | <b>Fixed Rate</b> |               | <b>Floating Rate</b> |              | <b>TOTAL</b>  |               |
|--------------------------|-------------------|---------------|----------------------|--------------|---------------|---------------|
|                          | 2004<br>£000      | 2003<br>£000  | 2004<br>£000         | 2003<br>£000 | 2004<br>£000  | 2003<br>£000  |
| <b>Sterling</b>          |                   |               |                      |              |               |               |
| <b>Liabilities</b>       |                   |               |                      |              |               |               |
| Bank loans and overdraft | 67,551            | 65,431        | 4,500                | 5,000        | 72,051        | 70,431        |
| Debenture stock          | 284               | 284           | -                    | -            | 284           | 284           |
|                          | <u>67,835</u>     | <u>65,715</u> | <u>4,500</u>         | <u>5,000</u> | <u>72,335</u> | <u>70,715</u> |

|                 | <b>Fixed Rate</b>                               |            |  |           |
|-----------------|---|------------|--|-----------|
|                 | <b>Weighted Average<br/>Interest Rate<br/>%</b> |            | <b>Weighted Average Period<br/>For Which Rate Is Fixed<br/>Years</b> |           |
|                 | 2004  | 2003       | 2004   | 2003      |
| <b>Sterling</b> | <u>3.6</u>                                      | <u>3.6</u> | <u>28</u>  | <u>29</u> |

Interest on the floating rate financial liability is based on London Interbank rates.

The maturity profile of the Company's financial liabilities at 31 March 2004 is detailed below:

|                         | 2004<br>£000  | 2003<br>£000  |
|-------------------------|---------------|---------------|
| In one year or less     | 4,784         | 5,284         |
| In more than five years | 67,551        | 65,431        |
|                         | <u>72,335</u> | <u>70,715</u> |

The Company had undrawn committed borrowing facilities at 31 March 2004, in respect of which all conditions precedent had been met, as follows:

|                                 | 2004<br>£000  | 2003<br>£000  |
|---------------------------------|---------------|---------------|
| Expiring in one year or less    | 2,000         | 2,000         |
| Expiring in more than two years | 10,500        | 10,000        |
|                                 | <u>12,500</u> | <u>12,000</u> |

## NOTES TO THE ACCOUNTS

| 19. CALLED UP SHARE CAPITAL                       | 2004<br>£000 | 2003<br>£000 |
|---|--------------|--------------|
| <b>Authorised:</b>                                |              |              |
| <b>Equity:</b>                                    |              |              |
| 6,000,000 Ordinary Shares of 10p each             | 600          | 600          |
| 10,500,000 'A' Ordinary Shares of 10p each        | 1,050        | 1,050        |
|   | <u>1,650</u> | <u>1,650</u> |
| <b>Non-equity:</b>                                |              |              |
| 3,250,000 Redeemable Preference Shares of £1 each | 3,250        | 3,250        |
|   | <u>4,900</u> | <u>4,900</u> |
| <b>Allotted, called up and fully paid:</b>        |              |              |
| <b>Equity:</b>                                    |              |              |
| 4,265,177 Ordinary Shares of 10p each             | 427          | 427          |
| 6,509,162 'A' Ordinary Shares of 10p each         | 651          | 651          |
|   | <u>1,078</u> | <u>1,078</u> |

The Ordinary and 'A' Ordinary Shareholders are entitled to receive dividends *pari passu* according to the amount paid up or credited as paid up on their shares. The Ordinary Shares are the only class of share to carry voting rights.

In a distribution on the winding up of the Company, the Ordinary and 'A' Ordinary Shareholders are entitled to share the balance of any surplus assets *pari passu* according to the amount paid up or credited as paid up on their shares.

| 20. RESERVES                 | Share<br>Premium<br>£000 | Capital<br>Redemption<br>£000 | Profit<br>and Loss<br>£000 |
|------------------------------|--------------------------|-------------------------------|----------------------------|
| At 1 April 2003              | 1,539                    | 3,250                         | 32,283                     |
| Retained profit for the year | -                        | -                             | 1,362                      |
| At 31 March 2004             | <u>1,539</u>             | <u>3,250</u>                  | <u>33,645</u>              |

## NOTES TO THE ACCOUNTS

### 21. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

|  | 2004<br>£000  | 2003<br>£000  |
|--|---------------|---------------|
| Profit for the financial year                  | 5,556         | 6,912         |
| Dividends                                      | 4,194         | 6,965         |
| Net increase/(decrease) in shareholders' funds | 1,362         | (53)          |
| Shareholders' funds at 1 April 2003            | 38,150        | 38,203        |
| Shareholders' funds at 31 March 2004           | <u>39,512</u> | <u>38,150</u> |

### 22. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

|   |               |               |
|---|---------------|---------------|
| Operating profit                          | 10,139        | 10,081        |
| Depreciation charge                       | 5,162         | 4,944         |
| Profit on cancellation of debenture stock | -             | (14)          |
| Decrease in stocks                        | 27            | 63            |
| Decrease/(increase) in debtors            | 484           | (239)         |
| (Decrease)/increase in creditors          | (36)          | 970           |
| Net cash inflow from operating activities | <u>15,776</u> | <u>15,805</u> |

### 23. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

|  |                 |                 |
|--|-----------------|-----------------|
| Increase in cash in the year                                       | 661             | 732             |
| Cash outflow/(inflow) from increase/(decrease) in liquid resources | 63              | (2,650)         |
| Cash outflow/(inflow) from decrease/(increase) in debt             | 500             | (60,348)        |
| Change in net debt resulting from cash flows                       | 1,224           | (62,266)        |
| Non cash movement  | (2,120)         | (653)           |
| Movement in net debt in the year                                   | (896)           | (62,919)        |
| Net debt at 1 April 2003   | (69,136)        | (6,217)         |
| Net debt at 31 March 2004  | <u>(70,032)</u> | <u>(69,136)</u> |

The Company includes as liquid resources term deposits of less than one year and current asset equity investments.

## NOTES TO THE ACCOUNTS

| 24. ANALYSIS OF CHANGES IN NET DEBT | At 1<br>April 2003<br>£000 | Cash<br>Flow<br>£000 | Non cash<br>Movements<br>£000 | At 31<br>March 2004<br>£000 |
|-------------------------------------|----------------------------|----------------------|-------------------------------|-----------------------------|
| Cash at bank and in hand            | <u>225</u>                 | <u>661</u>           | <u>-</u>                      | <u>886</u>                  |
| Debt falling due within one year    | (5,284)                    | 500                  | -                             | (4,784)                     |
| Debt falling due after one year     | <u>(65,431)</u>            | <u>-</u>             | <u>(2,120)</u>                | <u>(67,551)</u>             |
|                                     | <u>(70,715)</u>            | <u>500</u>           | <u>(2,120)</u>                | <u>(72,335)</u>             |
| Short term deposits                 | 1,350                      | 63                   | -                             | 1,413                       |
| Current asset equity investments    | <u>4</u>                   | <u>-</u>             | <u>-</u>                      | <u>4</u>                    |
|                                     | <u>1,354</u>               | <u>63</u>            | <u>-</u>                      | <u>1,417</u>                |
| TOTAL                               | <u>(69,136)</u>            | <u>1,224</u>         | <u>(2,120)</u>                | <u>(70,032)</u>             |

The non cash movement relates to the annual indexation of the loan and the amortisation of the issue fees.

## 25. CAPITAL COMMITMENTS

|   | 2004<br>£000 | 2003<br>£000 |
|---|--------------|--------------|
| Contracted for but not provided in these financial statements | <u>2,835</u> | <u>2,129</u> |

The Company has a further commitment under operating leases relating to computer hardware and associated software of £0.345m. per annum (2003 - £0.305m.) which expire as set out below:

|                          | 2004<br>£000 | 2003<br>£000 |
|--------------------------|--------------|--------------|
| Within two to five years | <u>345</u>   | <u>305</u>   |

## 26. CONTINGENT LIABILITIES

There were no contingent liabilities at 31 March 2004 or at 31 March 2003.

## 27. ULTIMATE PARENT UNDERTAKING

Portsmouth Water Limited is a wholly-owned subsidiary of Portsmouth Water Holdings Limited and has, therefore, taken advantage of the exemption under FRS8 :Related Party Disclosures not to provide information on related party transactions with other undertakings within the Group. The ultimate parent undertaking is South Downs Capital Limited and is the largest and smallest company for which Group accounts are prepared. Copies of these accounts can be obtained on request from the Registered Office.

## 28. PENSIONS

Brockhampton Holdings Limited is the principal employer and its subsidiary undertakings, Portsmouth Water Limited and R. H. Lillywhite Limited, are participating employers in the Brockhampton Pension Scheme. This scheme provides defined benefits based primarily on final pensionable earnings. The assets of the scheme are held in a separate trustee administered fund.

In line with the requirements of FRS 17 : Retirement Benefits, published by the Accounting Standards Board in November 2000, details in respect of the scheme are provided below in accordance with both SSAP 24 : Accounting for Pension Costs and FRS 17. The Company will not be adopting FRS 17 early and therefore the figures in the accounts reflect the SSAP 24 details below:

### SSAP 24

Contributions are determined by qualified actuaries on the basis of periodic investigations. The Company, on the advice of its actuaries, has not made contributions to the scheme since 1 April 1990. The latest actuarial investigation of the scheme was made as at 31 March 2002 and the most significant actuarial assumptions were as follows:

| Valuation Method                                | Projected Unit   |
|---|--|
| Rate of Return on Investments before retirement | 7.7% per annum   |
| Rate of Return on Investments after retirement  | 5.7% per annum   |
| Rate of Increase in Pay                         | 5.55% per annum  |
| Rate of Increase in Pensions in Payment         | 2.8% per annum   |
| Early Retirement                                | 50% of members in service to retire at the earliest age at which an unreduced pension can be taken and 50% at normal pension age |
| Valuation of Assets                             | Valued at 100% of market value   |

The market value of the scheme's assets at 31 March 2002 was £90.930m. and represented 176% of the value of benefits accrued to members, allowing for expected future increases in earnings and pensions.

The actuarial investigation of the scheme as at 31 March 2002 revealed a surplus of £39.236m. However, as stated in the accounting policy on pensions on page 21, the rules of the scheme preclude any repayment of the overfunding. Consequently, no part of the surplus has been recognised as an asset and a nil pension cost has been charged to the profit and loss account.



## NOTES TO THE ACCOUNTS

### FRS 17

An actuarial valuation was undertaken as at 31 March 2002. This valuation was updated to 31 March 2004, by an independent qualified actuary, in accordance with the transitional arrangements of FRS 17. As required by FRS 17, the defined benefit liabilities have been measured using the projected unit method.

The major assumptions used were as follows:

|   | 2004<br>% per annum | 2003<br>% per annum | 2002<br>% per annum |
|---|---------------------|---------------------|---------------------|
| Rate of increase in salaries            | 5.65                | 5.25                | 5.55                |
| Rate of increase in pensions in payment | 2.9                 | 2.5                 | 2.8                 |
| Discount rate                           | 5.5                 | 5.6                 | 6.1                 |
| Inflation                               | 2.9                 | 2.5                 | 2.8                 |

The market value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at the balance sheet date were:

|          | 2004                                       |                       | 2003                                       |                       | 2002                                       |                       |
|----------|--|-----------------------|--|-----------------------|--|-----------------------|
|          | <i>Expected<br/>Return %<br/>per annum</i> | <i>Value<br/>£000</i> | <i>Expected<br/>Return %<br/>per annum</i> | <i>Value<br/>£000</i> | <i>Expected<br/>Return %<br/>per annum</i> | <i>Value<br/>£000</i> |
| Equities | 7.9  | 56,721                | 7.5  | 45,247                | 8.3  | 73,322                |
| Bonds    | 4.7  | 21,037                | 4.5  | 13,007                | 5.4  | 10,488                |
| Other    | 4.6  | 3,300                 | 3.8  | 7,121                 | 5.2  | 7,126                 |

|                                     | 2004<br>£000 | 2003<br>£000 |
|-------------------------------------|--------------|--------------|
| Total market value of scheme assets | 81,058       | 65,375       |
| Present value of scheme liabilities | 66,845       | 58,101       |
| Surplus in the scheme               | 14,213       | 7,274        |
| Related deferred tax liability      | 4,264        | 2,182        |
| Net pension asset                   | 9,949        | 5,092        |

During the year to 31 March 2004, no contributions were made by the Company to the scheme. The Company, on the advice of its actuaries, has not made contributions since 1 April 1990. This is subject to review at future actuarial valuations of the scheme.

## NOTES TO THE ACCOUNTS

The movement in the scheme surplus during the year to 31 March 2004 was as follows:

|                                    | 2004<br>£000  | 2003<br>£000    |
|------------------------------------|---------------|-----------------|
| Surplus in scheme at 1 April 2003  | 7,274         | 34,068          |
| Current service cost               | (1,700)       | (1,764)         |
| Contributions                      | 7             | 7               |
| Other finance income               | 938           | 3,481           |
| Actuarial gain/(loss)              | <u>7,694</u>  | <u>(28,518)</u> |
| Surplus in scheme at 31 March 2004 | <u>14,213</u> | <u>7,274</u>    |

Had FRS 17 been implemented in full throughout the financial year, the following amounts would have been charged to the profit and loss account:

|  | 2004<br>£000   | 2003<br>£000   |
|--|----------------|----------------|
| Included within operating profit:        |                |                |
| Current service cost                     | 1,693          | 1,757          |
| Past service cost                        | -              | -              |
|  | <u>1,693</u>   | <u>1,757</u>   |
| Included as other finance income:        |                |                |
| Expected return on pension scheme assets | 4,166          | 6,926          |
| Interest on post retirement liabilities  | <u>(3,228)</u> | <u>(3,445)</u> |
|  | <u>938</u>     | <u>3,481</u>   |

In addition, the following amounts would have been recognised in the statement of recognised gains and losses (STRGL):

|   | 2004           |             | 2003            |             |
|---|----------------|-------------|-----------------|-------------|
|   | £000           | %           | £000            | %           |
| Actual return less expected return on scheme assets                                     | 14,123         | 17          | (29,941)        | (46)        |
| Experience gains arising on scheme liabilities  | 207            | -           | 3,571           | 6           |
| (Loss) due to changes in assumptions underlying the present value of scheme liabilities | <u>(6,636)</u> | <u>(10)</u> | <u>(2,148)</u>  | <u>(4)</u>  |
| Actuarial gain/(loss) recognised in the STRGL   | <u>7,694</u>   | <u>12</u>   | <u>(28,518)</u> | <u>(49)</u> |

The above percentages show the STRGL components as a percentage of the end of year value of assets or liabilities as appropriate.

The Company's net assets, including the disclosed FRS 17 balance sheet item above, would be £49.461m. at 31 March 2004 (2003 - £43.242m.).

## NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Portsmouth Water Limited will be held at the Company's Registered Office, P O Box 8, West Street, Havant, Hants, at 11.00 am on Wednesday, the 21st day of July 2004, on the following business:

1. To receive and consider the Directors' Report and Accounts for the year ended 31 March 2004 and the Auditors' Report thereon.
2. To re-elect Mr. A. R. Neve a Director of the Company.
3. To re-elect Mr. T. M. Lazenby a Director of the Company.
4. To re-appoint Grant Thornton as Company Auditors and to authorise the Directors to fix their remuneration.

**REGISTERED OFFICE**  
**P O BOX 8**  
**WEST STREET HAVANT**  
**HANTS PO9 1LG**  
**26 MAY 2004**

**BY ORDER OF THE BOARD**  
**N. SMITH**  
**SECRETARY**

### **Notes:**

- i) Debenture holders are reminded that the holding of debenture stock does not entitle them to attend or vote at the meeting.
- ii) Shareholders are reminded that no voting rights attach to the 'A' Ordinary Shares. 'A' Ordinary Shareholders are not entitled to attend the meeting.
- iii) A proxy form is enclosed for Shareholders entitled to vote at the meeting.
- iv) To be valid proxies must reach the Company's Registered Office not later than forty-eight hours before the time fixed for the meeting.