PORTSMOUTH WATER

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COMPANIES HOUSE 31/07/03

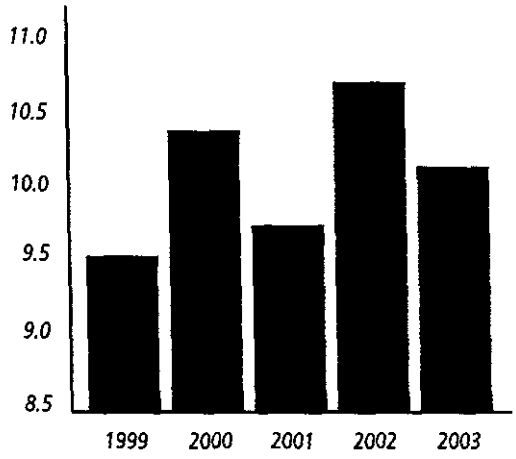
REPORT & ACCOUNTS 2003

COMPANY NUMBER
2536455

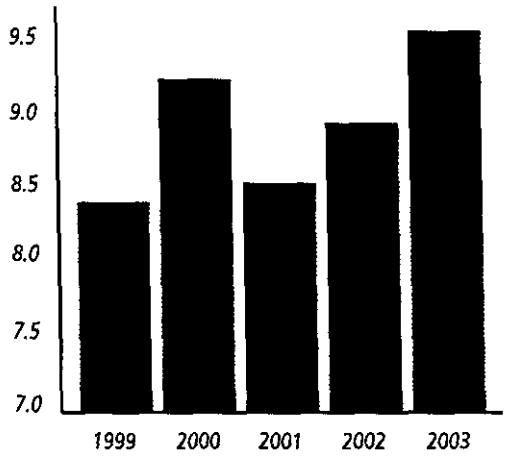
FINANCIAL HIGHLIGHTS

	2003 £000	2002 £000
TURNOVER	29,547	29,674
OPERATING PROFIT	10,081	10,682
PROFIT BEFORE TAXATION	9,525	8,903
PROFIT AFTER TAXATION	6,912	6,319
CAPITAL EXPENDITURE	11,225	6,483

OPERATING PROFIT (£m)



PROFIT BEFORE TAXATION (£m)



CONTENTS

1	Financial Highlights
2	Board of Directors
3	Chairman's Statement
4	Managing Director's Review
8	Financial Review
10	Company Information
11	Directors' Report
14	Report on Remuneration
17	Report of the Independent Auditors
18	Profit and Loss Account
18	Statement of Total Recognised Gains and Losses
19	Balance Sheet
20	Cash Flow Statement
21	Notes to the Accounts
35	Notice of Meeting

BOARD OF DIRECTORS

EXECUTIVE

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

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.

This is my first statement as the new Chairman of Portsmouth Water. I am therefore pleased to report that the Company has once again produced a solid overall performance, maintaining the high level of financial achievement recorded in past years, continuing the provision of quality services to customers and completing another substantial capital investment programme. An important achievement this year was the securing of long term financing suited to the nature of the water business and giving rise to a lower cost of capital.

The refinancing of Portsmouth Water was completed in June 2002, with a £66.5m. index-linked loan at a competitive rate of interest. The new balance sheet structure has reduced the Company's cost of capital and secured its investment needs for the foreseeable future.

The financial results for the year show an increase in pre-tax profits of £0.6m. to £9.5m. This was achieved despite a small decrease in turnover, which resulted principally from a reduction in tariffs, and a £0.5m. increase in depreciation charges. Operating expenditure, excluding depreciation, was restrained to the same level as the previous year, largely as a result of a reduction in employee numbers, following an early retirement programme implemented at the end of 2001/02.

The business generated £3.2m. (2002 - £5.3m.) in cash after interest, tax and capital expenditure and, in the light of these results, the Board has approved dividends totalling £7.0m. during the year, including a special refinancing dividend of £3.6m., which formed part of the overall restructuring package. This package was agreed with the Regulator, subject to enhanced ring fencing of the water business. Ordinary dividends are covered 2.1 times by earnings after tax, if this one-off distribution is excluded.

The year has also seen a further major investment in improving water quality and maintaining both infrastructure and other operating assets. The programme was delivered effectively and included the completion of a £4.8m. project to install a membrane filtration plant at the Farlington Treatment Works, ensuring that customers receive water of the highest quality.

The Company is currently engaged in the Periodic Review process, at the end of which the Director General of Water Services will set charges limits for the years 2005-2010. The information requirements of this process are extensive and are occupying an increasing amount of management time, but the transparency of the approach involving all interested parties is one which is welcomed.

The Company has continued to excel in the Ofwat measures for efficiency and customer service, being recognised for 2001/02 as having the highest rating in all categories of customer service and again being the most efficient water company when operating and capital efficiency rankings are combined. This impressive record for customer service has been maintained in 2002/03, while the leakage target for the year was once again achieved. Supplies have been maintained throughout the year without restrictions. Portsmouth Water has an enviable record for efficiency, price, services and quality and continues to maintain its position at the leading edge of industry performance.

Progress is being made with the provision of a bulk supply of water to Southern Water Services. The Environment Agency has granted a variation to one of the Company's licences and the agreement with Southern Water Services is close to being signed. The project should be completed in 2004.

I was appointed to the Board on 1 June 2002, together with two other new non-executive Directors, Mr Robert Sullivan and Mr Ray Tennant. On 1 January 2003, I succeeded Mr John Batty following his retirement after 38 years with the Company, including 5 as Managing Director and 5 as Chairman. I would like to take this opportunity, on behalf of those who have worked with John over the years and benefited from his wise counsel, to pay tribute to him for his service and to thank him for his vast contribution to the achievements of the business. We all wish him a long and happy retirement. It is a hard act to follow!

My fellow Directors and I are looking forward to working with the loyal and committed workforce to maintain the high standards of customer service and efficiency, for which the Company is renowned.

I am confident that the Company is well equipped to meet the challenges that lie ahead and that the current financial year will bring another creditable performance.

T. M. LAZENBY
CHAIRMAN

This has been another year of solid progress for the Company, which has continued to provide an excellent service to customers at a price which is the lowest in the industry. With long term, low cost financing now in place, the Company is well positioned to progress for the benefit of customers, while fully complying with the regulatory framework within which it operates.

Regulation

The 2004 Periodic Prices Review process is now well under way. In March 2003, the Office of Water Services (Ofwat) published a framework document, which set out its approach for the review. It was pleasing to see that Ofwat was keen to encourage a dialogue with the industry on important issues, such as efficiency incentives and dealing with uncertain cost items. A draft Business Plan, in which the Company will set out its priorities and proposals for investment and levels of service, will be submitted to Ofwat in August 2003. After a period of consultation on those priorities, the final Business Plan will be submitted in April 2004 and final price limits determined in November 2004.

A new Water Bill was introduced to the current session of Parliament and the Company will continue to monitor its progress. The bill contained the proposal to introduce competition for all businesses using more than 50Ml per year.

Operating Efficiency

The Company has continued its quest for increased efficiency and lower operating costs. During the year, it benefited from an early retirement programme implemented at the end of the previous year. This programme has contributed significantly to the 18% reduction in staff numbers over the last 3 years and ensured that the Company has bettered the efficiency targets set by Ofwat at the last review. In the performance tables published by Ofwat, Portsmouth Water was the only company to be placed in the top efficiency band for both operating costs and capital maintenance and is therefore at the efficiency frontier when both are combined. Efficiency savings have been achieved, despite having to accommodate costs resulting from increased statutory monitoring of water supplies, the climate change levy and an increase in bad debt resulting from the withdrawal of the right to disconnect domestic water supplies for non-payment of bills. Future efficiencies will be much tougher to achieve and this should be reflected in the 2004 price review.

High lift pumping station at the River Itchen Treatment Works

Hydrant flushing

Services to Customers

The Company has again continued to provide excellent value to its customers, both in terms of price and levels of service. The permitted tariff increase of 2.1% allowed from July 2003 will still maintain the long tradition of providing a water service at a price significantly below the national average. Throughout the year, the Company has ensured that its level and quality of service continue to be measured in the top assessment categories laid down by Ofwat.

The Company is required to meet minimum guaranteed levels of service standards and statutory minimum compensation payments have been set. It is a measure of its desire to meet and exceed those standards that the statutory minimum compensation has been increased by 50%, and additional standards covering meter reading, supply interruption and flooding to premises have been introduced.

During the year, many domestic customers have benefited from free leak detection and supply pipe

Meter reading

repair. Customers who have replaced lead pipework have also benefited from free connection pipe replacement. For its larger customers who operate 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.

Further development has taken place on the Company website to provide customers with up to date and relevant information about their local water company and the service it provides.

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 have generally been at, or above, the long-term average following changeable weather throughout the year. Above average rainfall during November and December 2002 ensured winter recharge of the South Downs chalk, and hence resources for the summer of 2003 are in a healthy condition.

Plans to provide Southern Water Services with a bulk supply of up to 15 Ml/d are now at an advanced stage. The Environment Agency has recently granted a variation to the Eastergate Group abstraction licence, which should enable construction work on the pipeline and other infrastructure to commence in the summer of this year.

Applications for licence variations have also been made for the licensing of new boreholes at Lower Upham and Newtown in the Meon and Hamble valleys which will enable the Company to relinquish its licence at Hoe, Bishop's Waltham. This forms part of the Company's AMP3 Environmental Programme.

New lining for well at Soberton

Leakage and Water Efficiency

Balancing the needs of customers with those of the environment is an important issue for the Company. During the year overall leakage fell again from 29.8 Ml/d to 29.7 Ml/d, demonstrating the continuing long-term commitment to maintaining economic levels of leakage.

Leakage control monitoring at night

The Company has continued, through various channels of communication, such as the newsletter and the website, to promote the need for the efficient use of water by both domestic and commercial customers. It also conducted a study of water efficiency measures at its own Head Office, which successfully demonstrated that Government targets are achievable.

New membrane filtration plant at Farlington Treatment Works

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, 23,769 compliance samples, taken from the distribution network, sources and reservoirs, were tested, with 99.92% passing the strict standards set by the Drinking Water Inspectorate. The Company continues to claim one of the highest levels of compliance in England and Wales.

Improvements to the treatment process have been completed at eleven operational sites to ensure that new lead standards, which come into force in December 2003, are achieved.

At Farlington, a significant additional stage of treatment, a new membrane filtration plant, has been completed and commissioned to ensure the removal of cryptosporidium oocysts, which are occasionally found in the raw water from the Havant and Bedhampton Springs. At Lovedean, a source in the same catchments as Havant and Bedhampton, a membrane filtration plant is also being constructed, with completion expected early in 2004.

Environment

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

During the year, it finally made applications for the licensing of two new boreholes, which will allow it to give up its licence at Hoe, where abstraction is known occasionally to affect 'The Moors' Site of Special Scientific Interest near Bishop's Waltham.

As part of its Environmental Programme, the Company has continued to contribute to the River Itchen Sustainability Study, which is considering 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 study is due for completion later in 2003. In addition, the Company has been managing an investigation of the impacts of its Fishbourne source upon Chichester Harbour. Test pumping has taken place in conjunction with hydrogeological and ecological surveys and the final report on the impacts of abstraction is due to be published later this year.

The Company also published its Biodiversity Action Plan during the year, detailing habitat and species action plans, which will further enhance land management policies for the benefit of wildlife on its operational sites.

Capital Investment

Capital investment for the year amounted to £11.2m., a substantial programme by Portsmouth Water standards. This included expenditure of £4.1m. on the new membrane filtration plant at Farlington Treatment Works. The total cost of the project was £4.8m.

The continuing programme of renewing mains, where structural deterioration and increased burst frequency have resulted from corrosion or ground movement, resulted in expenditure of £4.1m. for the year. As part of its work on the forthcoming Periodic Review, the Company is modelling its infrastructure using the UKWIR framework for maintenance planning. The objective is 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.

Company stand at the Science Fair at Portsmouth University

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. In addition, the Company, in partnership with the Drinking Water Inspectorate, invited junior schools to take part in a competition aimed at encouraging children to understand the importance of clean drinking water. Prizes were awarded to pupils from four schools. The Company also donated 15,000 drinking water bottles to junior schoolchildren, thereby helping them to maintain hydration during the school day and assisting them to remain alert and attentive during class lessons.

Presenting the first water bottle at Bosmere Junior School in Havant

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

Refinancing

In June 2002, the Company restructured its balance sheet by securing a thirty year index-linked loan facility. The loan, arranged by Royal Bank of Scotland at a favourable interest rate of 3.635%, has reduced the Company's cost of capital and reflects the index-linked regulatory asset value and pricing structure of the industry. The loan is provided by a special purpose vehicle, whose bond issuance programme is arranged by Royal Bank of Scotland. This vehicle has been established to raise funds in the capital markets and to lend the proceeds to regulated water businesses such as Portsmouth Water. The bonds issued in the market are credit insured and therefore carry an AAA rating.

The proceeds of the issue were used to repay existing loans, to provide an inter-company loan to another Group company, South Downs Limited, and to finance the operations of the Company. The costs of establishing the loan amounted to £1.7m. and will be amortised over the life of the loan.

Financial Results

Turnover for the year was marginally lower than the previous year at £29.5m., principally as a result of an overall reduction of 0.5% in the permitted tariff from July 2002. Operating profit reduced by 5.6%, principally through higher depreciation, which reflected a large capital programme in the year. Total operating costs, excluding depreciation, remained at the same level as the previous year, despite inflationary increases in rates and abstraction charges.

Net interest payable at £0.6m. (2002 - £1.8m.) reflected the impact of the refinancing exercise. Interest payable included interest charged on the index-linked loan of £1.8m., annual indexation of the loan of £0.6m. and amortisation of issue costs and administration fees of £0.1m. These amounts were offset by interest received on the inter-company loan to another Group company, South Downs Limited.

The tax charge for the year of £2.6m. included a provision for deferred taxation of £0.5m., giving rise to an overall deferred liability of £8.8m. after discounting.

Dividends declared in the year amounted to £7.0m., of which £3.6m. related to a special dividend arising from the financial restructuring carried out in June 2002.

Capital Investment

Capital expenditure during the year amounted to £11.2m., compared with £6.5m. in the previous year. This included £4.1m. (2002 - £2.8m.) of infrastructure renewals expenditure, which was higher than the normal annual level and reflected catch-up of a backlog from the previous 2 years. Expenditure on a new membrane filtration plant at the Company's largest treatment works at Farlington, which is now complete, amounted to £4.1m. in the year.

Excavation work in progress at Lovedean

Cashflow

Net cashflow from operating activities at £15.8m. (2002 - £14.4m.) improved as a result of working capital movements relating to the timing of certain payments, which had been prepaid in the previous year.

Lower net interest paid, resulting from the refinancing exercise, was more than offset by a significant increase in net capital expenditure, leaving cash generated before dividends and financing at £3.2m. against £5.3m. last year.

The loan to another Group company, South Downs Limited, of £58.9m. was made as part of the financial restructuring of the Group and allowed South Downs Limited to repay a short term bridging loan used for the acquisition of the Brockhampton Group. This arrangement had been discussed with the Office of Water Services before taking effect and was conditional upon the Board following the "whitewash" procedures in accordance with Sections 155 to 158 of the Companies Act, 1985.

Net Debt

Net debt for the Company at 31 March 2003 was £69.1m. (2002 - £6.2m.). 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 2003 was 78.2%.

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.

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, £5m. of the £15m. facility had been drawn, but the overdraft arrangement remained unutilised. Details of borrowings are included in notes 16, 17 and 19 to the accounts on pages 26 to 28.

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

Company Number: 2536455

FACTS AND FIGURES	2003
Area of Supply	868 km²
Population	660,000
Number of Properties Served	290,000
Length of Mains	3,247 km
Average Daily Output	177 Ml

AUDITORS
GRANT THORNTON
Manor Court
Barnes Wallis Road
Segensworth
Fareham Hampshire

BANKERS
NATIONAL WESTMINSTER
BANK plc
P. O. Box 34
15 Bishopsgate
London

CORPORATE SOLICITORS
BLAKE LAPTHORN
New Court
1 Barnes Wallis Road
Segensworth
Fareham Hampshire

INSURANCE BROKERS
AON LIMITED
Richmond House
College Street
Southampton
Hampshire

AREA OF SUPPLY

The Directors have pleasure in presenting their Report and Accounts for the year ended 31 March 2003.

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 290,000 domestic and commercial customers in an area of 868 square kilometres in Hampshire and West Sussex through a mains network of 3,247 kilometres. The Company's area of supply is shown on page 10 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 9.

FINANCIAL RESULTS AND DIVIDENDS

The Company's profit before taxation amounts to £9.525m. After deducting £2.613m. for taxation and £6.965m. for dividends, a loss of £0.053m. has been transferred to reserves.

The Directors are recommending the payment of a final dividend on the ordinary share capital of £1.688m.

REFINANCING

On 26 June 2002, the Company secured a 30 year index-linked loan facility, arranged by Royal Bank of Scotland. Further information is provided in note 17 to the accounts on page 27.

FIXED ASSETS

Capital expenditure on tangible fixed assets was £11.225m. (2002 - £6.483m.), including £4.141m. on infrastructure renewals (2002 - £2.758m.). Information relating to these and other changes in fixed assets is shown in note 11 to the accounts on page 25.

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 present Directors of the Company are shown on page 2. With the exception of Mr. T. M. Lazenby, Mr. R. L. Sullivan and Mr. R. J. Tennant, who were appointed on 1 June 2002, all the Directors served throughout the year. Mr. J. F. Batty retired on 31 December 2002 and was succeeded as Chairman by Mr. T. M. Lazenby.

Mr. J. E. Cogley and Mr. N. Smith, who retire by rotation, offer themselves for re-election. They both have one year service contracts with the Company.

The interests of the Directors in Group shares are detailed in the Report on Remuneration on page 15.

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.

DIRECTORS

Following the resignation of three non-executive Directors on 7 December 2001, the Board operated with a non-executive Chairman and four executive Directors, until the appointment of three new non-executive Directors on 1 June 2002. The Board currently comprises a non-executive Chairman, four executive Directors and two other non-executive Directors, following the retirement of Mr. J. F. Batty on 31 December 2002.

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. The senior independent Director is Mr. T. M. Lazenby.

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

Following the resignation of Mr. M. C. Copp and Mr. H. J. Y. Pringle on 7 December 2001, the Nomination Committee comprised Mr. J. F. Batty and Mr. N. J. Roadnight, until the appointment of three new non-executive Directors on 1 June 2002. The current membership now comprises Mr. T. M. Lazenby, Mr. N. J. Roadnight, Mr. R. L. Sullivan and Mr. R. J. Tennant, following the retirement of Mr. J. F. Batty on 31 December 2002.

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 was established during the year. Membership comprises the three non-executive Directors, Mr. T. M. Lazenby (Chairman), Mr. R. L. Sullivan and Mr. R. J. Tennant.

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

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 2003 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 2003 Board meeting, the Directors carried out their annual assessment for the year to 31 March 2003, including consideration of events since the year end.

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.

The balance between executive and non-executive Directors was affected by the three non-executive resignations on 7 December 2001. That balance has now been restored following the appointment of three new non-executive Directors on 1 June 2002.

The non-executive resignations also affected the composition of both the Nomination and Remuneration Committees, as detailed on pages 11 and 14. The new non-executive appointments have ensured that both Committees now have appropriate memberships.

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.

The Company did not have an Audit Committee for the full year. However, following the appointment of three new non-executive Directors on 1 June 2002, an Audit Committee was established comprising those three non-executive Directors.

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 parties. At 31 March 2003, the Company's creditor days were 10.

SUBSTANTIAL SHAREHOLDER

At 31 March 2003, 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 is being 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 page 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
FINANCE DIRECTOR
HAVANT
21 MAY 2003

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 comprised Mr. J. F. Batty (Chairman), Mr. M. C. Copp, Mr. J. D. King and Mr. H. J. Y. Pringle until the three resignations on 7 December 2001. Following the appointment of three new non-executive Directors on 1 June 2002, the Remuneration Committee again comprised the four non-executive Directors, until Mr. J. F. Batty retired on 31 December 2002. The Remuneration Committee now comprises 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

Directors' remuneration:	*2003* *£000*	*2002* *£000*
Total remuneration	489	478
Highest paid Director	137	142

Remuneration is analysed by Director below:

	Salary/ Fees *£000*	***Benefits*** *£000*	***Total*** *2003* *£000*	***Total*** *2002* *£000*
Executive:				
J. E. COGLEY	85	13	98	110
A. R. NEVE	85	7	92	106
N. J. ROADNIGHT	120	17	137	142
N. SMITH	90	12	102	114
Non-executive:				
T. M. LAZENBY (Chairman)	16	-	16	-
J. F. BATTY (former Chairman)	14	2	16	6
R. L. SULLIVAN	14	-	14	-
R. J. TENNANT	14	-	14	-
	438	51	489	478

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

Benefits comprise, in the main, company cars and medical insurance. The remuneration of non-executive Directors, including the Chairman, was paid by Brockhampton Holdings Limited, until 7 December 2001.

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. Benefits received by them during the year under this scheme are detailed below:

	2003 *£000*	*2002* *£000*
J. E. COGLEY	2	17
A. R. NEVE	2	16
N. J. ROADNIGHT	2	23
N. SMITH	2	15

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.

	'C' ORDINARY SHARES
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 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.

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

	Increase in Accrued Pension During Year to 31 March 2003	*Transfer Value of Increase*	*Accumulated Accrued Pension At 31 March 2003*	*Accumulated Accrued Pension At 31 March 2002*
	£000	*£000*	*£000*	*£000*
J. E. COGLEY	8	80	47	39
A. R. NEVE	8	85	48	40
N. J. ROADNIGHT	3	33	55	52
N. SMITH	5	44	33	28

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
21 MAY 2003

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 2003 which comprise the principal accounting policies, the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and notes 1 to 29. 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.

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 our review by the Listing Rules, 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, the Financial Review and the Corporate Governance Statement. 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 2003 and of its loss 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

GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
PORTSMOUTH
21 MAY 2003

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2003

	Notes	2003 £000	2002 £000
TURNOVER	3	29,547	29,674
COST OF SALES		(13,267)	(12,895)
GROSS PROFIT		16,280	16,779
Net operating expenses	4	(6,199)	(6,097)
OPERATING PROFIT		10,081	10,682
Profit/(loss) on sale of fixed assets		16	(18)
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		10,097	10,664
Interest receivable	6	2,359	204
		12,456	10,868
Interest payable	7	(2,931)	(1,965)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	8	9,525	8,903
Taxation on profit on ordinary activities	9	(2,613)	(2,584)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		6,912	6,319
Dividends	10	(6,965)	(4,967)
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR	21	(53)	1,352

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2003

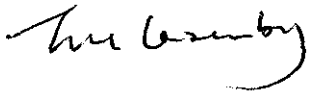
	Note	2003 £000	2002 £000
Profit for the financial year		6,912	6,319
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR		6,912	6,319
Prior year adjustment	2	-	(8,011)
TOTAL RECOGNISED GAINS AND LOSSES SINCE LAST ANNUAL REPORT		6,912	(1,692)

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

As at 31 March 2003

	Notes	2003 £000	2003 £000	2002 £000	2002 £000
FIXED ASSETS					
Tangible	11	69,488		64,694	
Investment	12	58,850	128,338	-	64,694
CURRENT ASSETS					
Stores		643		706	
Debtors	13	1,238		1,630	
Investments	14	4		4	
Cash and short-term deposits	15	1,575		4,001	
		3,460		6,341	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	16	(19,432)		(24,563)	
NET CURRENT LIABILITIES			(15,972)		(18,222)
TOTAL ASSETS LESS CURRENT LIABILITIES			112,366		46,472
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR	17		(65,431)		-
PROVISIONS FOR LIABILITIES AND CHARGES	18		(8,785)		(8,269)
			38,150		38,203
CAPITAL AND RESERVES					
Called up share capital	20		1,078		1,078
Share premium account	21		1,539		1,539
Capital redemption reserve	21		3,250		3,250
Profit and loss account	21		32,283		32,336
EQUITY SHAREHOLDERS' FUNDS	22		38,150		38,203

The accounts were approved by the Board on 21 May 2003.



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 2003

	Notes	2003 £000	2003 £000	2002 £000	2002 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	23		15,805		14,378
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received		1,674		213	
Interest paid		(2,252)	(578)	(2,135)	(1,922)
TAXATION					
UK corporation tax paid		(2,048)		(2,132)	
Payments for group relief		(803)	(2,851)	(54)	(2,186)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT					
Loan to Group company		(58,850)		-	
Purchase of tangible fixed assets		(10,665)		(6,253)	
Sale of tangible fixed assets		39		24	
Capital contributions received		1,464	(68,012)	1,238	(4,991)
EQUITY DIVIDENDS PAID			(6,644)		(1,445)
CASH (OUTFLOW)/INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING			(62,280)		3,834
MANAGEMENT OF LIQUID RESOURCES					
Sale of short-term deposits			2,650		250
FINANCING					
Cancellation of debenture stock		(16)		-	
New loan		66,500		10,000	
Loan issue expenses		(1,722)		-	
Repayment of loans		(4,400)	60,362	(15,600)	(5,600)
INCREASE/(DECREASE) IN CASH IN THE YEAR	24		732		(1,516)

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

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 now 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 11 to the accounts on page 25. 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 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 on defined benefit pension scheme surpluses or deficits is adjusted against these surpluses. 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.

(h) Pensions

The Brockhampton Pension Scheme surplus is such that no contributions are likely to be needed from the Company in the foreseeable future. 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 29 to the accounts on pages 32 to 34.

(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.

2. PRIOR YEAR ADJUSTMENT

The prior year adjustment in 2002 resulted from the adoption of FRS 19 : Deferred Tax.

3. TURNOVER

	2003 *£000*	*2002* *£000*
Unmeasured supplies	19,921	20,013
Measured supplies	8,295	8,441
Chargeable work	1,331	1,220
	29,547	29,674

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

4. NET OPERATING EXPENSES

	2003 *£000*	*2002* *£000*
Administrative expenses	6,368	6,250
Other operating income	(169)	(153)
	6,199	6,097

5. DIRECTORS AND EMPLOYEES

	2003 £000	2002 £000
Employment costs:		
Remuneration	5,123	5,244
Social security costs	376	420
Pensions management charge	193	201
Contribution to employee share incentive scheme	-	187
	5,692	6,052
Average numbers employed during year:	*Number*	*Number*
Operations	154	171
Administration	69	71
	223	242

Directors' remuneration:	£000	£000
Total remuneration	489	478
Highest paid Director	137	142

Further details relating to Directors' remuneration are set out in the Report on Remuneration on pages 14 to 16

6. INTEREST RECEIVABLE

	2003 £000	2002 £000
Loan to Group company	2,279	-
Interest on short-term deposits	37	181
Other interest receivable	43	23
	2,359	204

7. INTEREST PAYABLE

Debenture stocks	10	11
Bank loans and overdraft	2,761	1,822
Loans from Group companies	147	120
Other interest payable	13	12
	2,931	1,965

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.

Included within interest payable on bank loans and overdraft for the year to 31 March 2002 are exceptional costs of £0.935m. relating to the early repayment of all bank loans during the year.

8. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

		2003 £000	2002 £000
After charging:			
Depreciation	- infrastructure assets	3,153	3,055
	- non infrastructure assets	1,791	1,419
Rates		2,017	1,986
Water abstraction charges		1,472	1,436
Auditors' remuneration:			
Audit services		32	26
Non-audit services		34	12
Hire of plant and machinery		23	22
Other operating leases		305	331

9. TAXATION

United Kingdom corporation tax at 30% (2002 - 30%)	2,337	2,633
Adjustment in respect of prior periods	(240)	(307)
Total current tax	2,097	2,326
Origination and reversal of timing differences (note 18)	516	258
Tax on profit on ordinary activities	2,613	2,584

Profit on ordinary activities before tax	9,525	8,903
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002 - 30%)	2,858	2,671
Effect of:		
Expenses not deductible for tax purposes	85	79
Depreciation for the period in excess of capital allowances	411	497
Revenue items charged to capital	(1,017)	(614)
Adjustments to tax charge in respect of prior periods	(240)	(307)
Current tax charge for period	2,097	2,326

10. DIVIDENDS

		2003 £000	2002 £000
Equity:			
Ordinary/'A' Ordinary Shares	- interims paid/proposed	1,677	4,967
	- final proposed	1,688	-
Special refinancing dividend		3,600	-
		6,965	4,967

11. TANGIBLE FIXED ASSETS

	Freehold land, buildings & reservoirs	Mains	Pumping plant	Vehicles, mobile plant and office equipment	TOTAL
COST	£000	£000	£000	£000	£000
At 1 April 2002	33,394	72,662	14,900	6,026	126,982
Additions	1,830	5,007	3,568	820	11,225
Disposals	-	(198)	(5)	(239)	(442)
At 31 March 2003	35,224	77,471	18,463	6,607	137,765
DEPRECIATION					
At 1 April 2002	4,773	39,418	2,858	3,822	50,871
Charge for year	327	3,153	856	608	4,944
Disposals during year	-	(198)	(5)	(216)	(419)
At 31 March 2003	5,100	42,373	3,709	4,214	55,396
NET BOOK VALUE					
At 31 March 2003	30,124	35,098	14,754	2,393	82,369
At 31 March 2002	28,621	33,244	12,042	2,204	76,111
CAPITAL CONTRIBUTIONS					
At 1 April 2002	-	11,417	-	-	11,417
Received during year	-	1,464	-	-	1,464
At 31 March 2003	-	12,881	-	-	12,881
NET BOOK VALUE AFTER DEDUCTING CAPITAL CONTRIBUTIONS					
At 31 March 2003	30,124	22,217	14,754	2,393	69,488
At 31 March 2002	28,621	21,827	12,042	2,204	64,694

12. FIXED ASSET INVESTMENT

	Loans to Group undertaking
	£000
Loan during year to South Downs Limited	58,850
At 31 March 2003	58,850

13. DEBTORS

	2003	*2002*
	£000	*£000*
Trade debtors	1,047	640
Prepayments and accrued income	142	946
Other debtors	49	44
	1,238	1,630

All of the above amounts fall due within one year.

14. INVESTMENTS

Unlisted investments: £4,000 (2002 - £4,000).

15. CASH AND SHORT-TERM DEPOSITS

Of the total amount shown of £1.575m., £1.361m. (2002 - NIL) is held specifically for the payment of the next half yearly loan interest charges.

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003	*2002*
	£000	*£000*
3% Perpetual debenture stock	60	77
3½% Perpetual debenture stock	185	198
4% Perpetual debenture stock	39	39
Bank loan	5,000	-
Bank overdraft	-	508
Payments received on account	1,062	847
Trade creditors	621	443
Amounts owed to Group companies	328	10,074
Corporation tax	304	1,257
Social security and other taxation	180	201
Other creditors	2,146	1,590
Accruals	324	239
Water rates in advance	3,895	4,123
Proposed dividends	5,288	4,967
	19,432	24,563

The £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.

17. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2003 £000	2002 £000
In five years or more:		
Bank loan	67,110	-
Less : deferred arrangement costs	1,679	-
	65,431	-

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.

18. PROVISIONS FOR LIABILITIES AND CHARGES

	2003 £000	2002 £000
Deferred taxation:		
At 1 April 2002	8,269	8,011
Provided during the year in profit and loss account	516	258
At 31 March 2003	8,785	8,269

The total deferred tax balance before the effect of discounting is £13.835m. (2002 - £13.071m.). 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. (2002 - £0.431m.). At present it is not envisaged that any tax will become payable in the foreseeable future.

19. FINANCIAL INSTRUMENTS

The Financial Review on page 9 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 FRS 13 : Derivatives and Other Financial Instruments: Disclosures. Short-term debtors and creditors have been excluded from all disclosures.

Financial assets

The Company has no financial assets other than sterling cash and cash deposits and current asset investments totalling £1.579m. (2002 - £4.005m.). The sterling cash deposit of £1.350m. 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.

Financial liabilities

The Company has no foreign currency contracts. The interest rate profile of its financial liabilities at 31 March 2003 is detailed on page 28.

	Fixed Rate		Floating Rate		TOTAL	
Sterling	2003 £000	2002 £000	2003 £000	2002 £000	2003 £000	2002 £000
Bank loans and overdraft	65,431	-	5,000	508	70,431	508
Debenture stock	284	314	-	-	284	314
	65,715	314	5,000	508	70,715	822

	Fixed Rate			
	Weighted Average Interest Rate %		Weighted Average Period For Which Rate Is Fixed Years	
Sterling	2003	2002	2003	2002
	3.6	3.4	29	1

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 2003 is detailed below:

	2003 £000	2002 £000
In one year or less	5,284	822
In more than five years	65,431	-
	70,715	822

The Company had undrawn committed borrowing facilities at 31 March 2003, in respect of which all conditions precedent had been met, as follows:

	2003 £000	2002 £000
Expiring in one year or less	2,000	1,492
Expiring in more than two years	10,000	-
	12,000	1,492

20. CALLED UP SHARE CAPITAL

	2003 £000	2002 £000
Authorised:		
Equity:		
6,000,000 Ordinary Shares of 10p each	600	600
10,500,000 'A' Ordinary Shares of 10p each	1,050	1,050
	1,650	1,650
Non-equity:		
3,250,000 Redeemable Preference Shares of £1 each	3,250	3,250
	4,900	4,900
Allotted, called up and fully paid:		
Equity:		
4,265,177 Ordinary Shares of 10p each	427	427
6,509,162 'A' Ordinary Shares of 10p each	651	651
	1,078	1,078

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.

21. RESERVES

	Share Premium £000	Capital Redemption £000	Profit and Loss £000
At 1 April 2002	1,539	3,250	32,336
Retained loss for the year	-	-	(53)
At 31 March 2003	1,539	3,250	32,283

22. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2003 £000	2002 £000
Profit for the financial year	6,912	6,319
Dividends	6,965	4,967
Net (decrease)/increase in shareholders' funds	(53)	1,352
Shareholders' funds at 1 April 2002	38,203	36,851
Shareholders' funds at 31 March 2003	38,150	38,203

23. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

Operating profit	10,081	10,682
Depreciation charge	4,944	4,474
Profit on cancellation of debenture stock	(14)	-
Decrease in stores	63	87
Decrease/(increase) in debtors	1,077	(706)
(Decrease) in creditors	(346)	(159)
Net cash inflow from operating activities	15,805	14,378

24. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

Increase/(decrease) in cash in the year	732	(1,516)
Cash (inflow) from (decrease) in liquid resources	(2,650)	(250)
Cash (inflow)/outflow from (increase)/decrease in debt	(61,001)	5,600
Movement in net debt in the year	(62,919)	3,834
Net debt at 1 April 2002	(6,217)	(10,051)
Net debt at 31 March 2003	(69,136)	(6,217)

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

25. ANALYSIS OF CHANGES IN NET DEBT

	At 1 April 2002 £000	Cash Flow £000	At 31 March 2003 £000
Cash at bank and in hand	1	224	225
Bank overdraft	(508)	508	-
	(507)	732	225
Debt falling due within one year	(9,714)	4,430	(5,284)
Debt falling due after one year	-	(65,431)	(65,431)
	(9,714)	(61,001)	(70,715)
Short term deposits	4,000	(2,650)	1,350
Current asset equity investments	4	-	4
	4,004	(2,650)	1,354
TOTAL	(6,217)	(62,919)	(69,136)

26. CAPITAL COMMITMENTS

	2003 £000	2002 £000
Contracted for but not provided in these financial statements	2,129	4,569

The Company has a further commitment under operating leases relating to computer hardware and associated software of £0.305m. per annum (2002 - £0.305m.) which expire as set out below:

	2003 £000	2002 £000
Within two to five years	305	305

27. CONTINGENT LIABILITIES

There were no contingent liabilities at 31 March 2003 or at 31 March 2002.

28. ULTIMATE PARENT UNDERTAKING

Portsmouth Water Limited is a wholly-owned subsidiary of Brockhampton Holdings Limited and has, therefore, taken advantage of the exemption under FRS 8 : 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 company for which Group accounts are prepared. Copies of these accounts can be obtained on request from the Registered Office.

29. 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 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 Investment before retirement	7.7% per annum
Rate of Return on Investment 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 22, 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.

FRS 17

An actuarial valuation was undertaken as at 31 March 2002. This valuation was updated to 31 March 2003, 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 following table sets out the key FRS 17 assumptions used for the scheme. It also sets out, as at 31 March 2002 and 31 March 2003, the market value of assets, a breakdown of the assets into the main asset classes, the present value of the FRS 17 liabilities and the surplus of assets above those liabilities.

Assumptions	*2003* *% per annum*	*2002* *% per annum*
Rate of increase in salaries	5.25	5.55
Rate of increase in pensions in payment	2.5	2.8
Discount rate	5.6	6.1
Inflation	2.5	2.8

Asset distribution and expected returns

	2003		*2002*	
Components:	*Expected Return % per annum*	*Value £000*	*Expected Return % per annum*	*Value £000*
Equities	7.5	45,247	8.3	73,322
Bonds	4.5	13,007	5.4	10,488
Other	3.8	7,121	5.2	7,126

	2003 *£000*	*2002* *£000*
Total market value of scheme assets	65,375	90,936
Present value of scheme liabilities	58,101	56,868
Surplus in the scheme	7,274	34,068
Related deferred tax liability	2,182	10,220
Net pension asset	5,092	23,848

During the year to 31 March 2003, 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.

The surplus in the scheme would have moved as detailed below during the year to 31 March 2003:

	£000
Surplus in scheme at 1 April 2002	34,068
Current service cost	(1,764)
Contributions	7
Other finance income	3,481
Actuarial (loss)	(28,518)
Surplus in scheme at 31 March 2003	7,274

The amount charged to operating profit would have been:

Current service cost	1,757
Past service cost	-
Total operating charge	1,757

Other finance income would have been:

Expected return on pension scheme assets	6,926
Interest on post retirement liabilities	(3,445)
Other finance income	3,481

The following amounts would have been recognised in the statement of recognised gains and losses ("STRGL"):

	£000	%
Actual return less expected return on scheme assets	(29,941)	(46)
Experience gains arising on scheme liabilities	3,571	6
(Loss) due to changes in assumptions underlying the present value of scheme liabilities	(2,148)	(4)
Actuarial (loss) recognised in the STRGL	(28,518)	(49)

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 £62.051m. at 31 March 2002 and £43.242m. at 31 March 2003.

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 23rd day of July 2003, on the following business:

1. To receive and consider the Directors' Report and Accounts for the year ended 31 March 2003 and the Auditors' Report thereon.
2. To re-elect Mr. J. E. Cogley a Director of the Company.
3. To re-elect Mr. N. Smith 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
21 MAY 2003

BY ORDER OF THE BOARD
S. G. HALFORD
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.