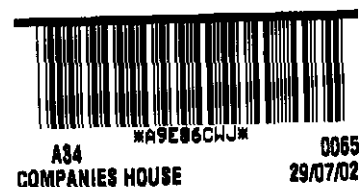


PORTSMOUTH WATER LIMITED

REPORT & ACCOUNTS 2002



COMPANY NUMBER: 02536455

FINANCIAL HIGHLIGHTS

TURNOVER

OPERATING PROFIT

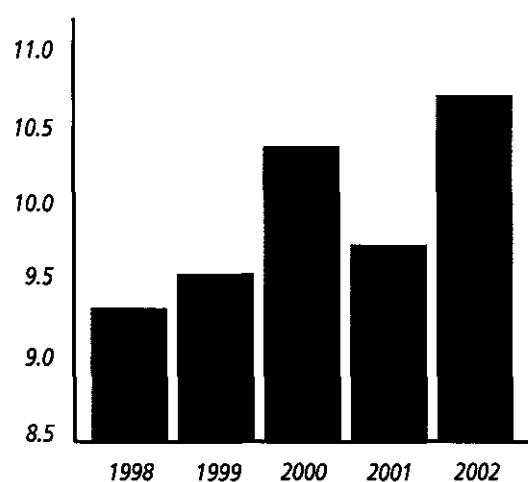
PROFIT BEFORE TAXATION

PROFIT AFTER TAXATION

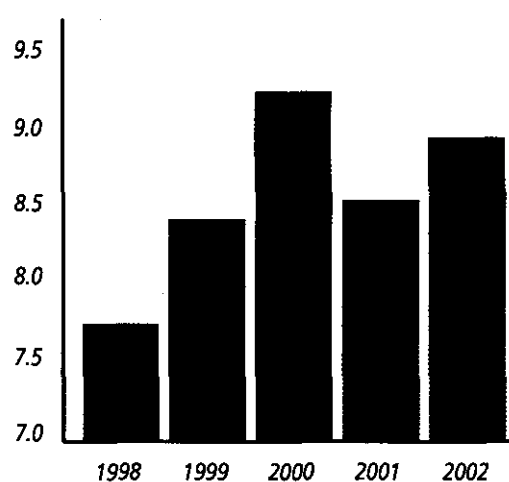
CAPITAL EXPENDITURE

2002 £000	2001 £000
29,674	28,390
10,682	9,606
8,903	8,487
6,319	7,070
6,483	7,030

OPERATING PROFIT (£m)



PROFIT BEFORE TAXATION (£m)

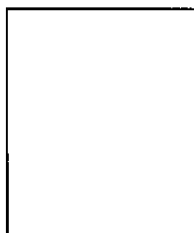


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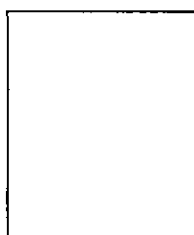
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BOARD OF DIRECTORS

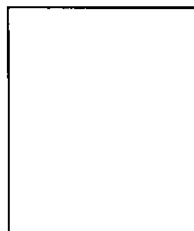
EXECUTIVE



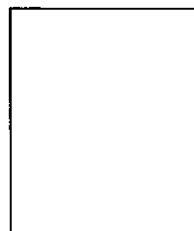
NICHOLAS JOHN ROADNIGHT
F.C.A.
Managing Director



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



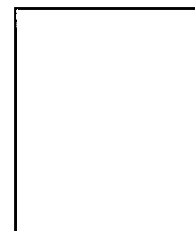
NEVILLE SMITH
B.A., A.C.M.A.
Finance Director

NON-EXECUTIVE



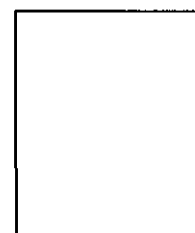
JOHN FRANCIS BATTY
F.C.A., A.T.I.I.
Chairman

Former Managing Director of the Company and Brockhampton Holdings Limited. Former Chairman of Brockhampton Holdings Limited. Former Director of other Group companies. Director of Portsmouth Water Superannuation Fund Trustee Limited and Portsmouth Rotary Housing Association Limited. Chairman of Emsworth Community Association.



TERENCE MICHAEL LAZENBY
F.Eng.

Director of CAPCIS Group Limited and MTL Instruments plc. Consultant to the British Museum. Previously held a number of senior executive positions with British Petroleum.



ROBERT LEONARD SULLIVAN
B.Sc.

Director of Van Zyl and Pritchard UK Ltd. 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.

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

The Company has again produced an impressive financial performance and continues to perform well in the Ofwat efficiency and customer service tables. This has been achieved in the context of a momentous year for Portsmouth Water and the Brockhampton Group. The Group delisted and became private as a result of an offer from its Management and an Employee Trust, both backed by Royal Bank of Scotland. Furthermore, long term financing suited to the nature of the water business and giving rise to a lower cost of capital has been secured.

In the 2001 Brockhampton Holdings Group Accounts, I stated that the Board was considering how to improve the efficiency of the balance sheet as regards the balance between debt and equity. During the course of reviewing all the options, the Executive Management approached the Board with an offer for shareholders which would result in the Company becoming privately owned. The transaction was completed in December 2001, when South Downs Limited, a vehicle established for the purpose, acquired all the share capital of Brockhampton Holdings. The next stage was completed in June 2002, when Portsmouth Water was refinanced by a £66.5m. index-linked loan at a competitive rate of interest, backed by an index-linked bond issue. The bond is credit insured and comes with an AAA rating.

The financial results for the year show an increase in pre-tax profits of £0.4m. to £8.9m. This was achieved through higher turnover principally as a result of increased consumption from commercial customers and despite a £0.9m. charge to break the existing fixed term loan arrangements. The business continues to exert tight cost control and the operating expenditure increase was well below the level of inflation. In the ongoing quest for further efficiency, employee numbers continue to be reduced, aided this year by an early retirement scheme. This year's tax charge returned to a more normal level following the significant one-off repayment in the previous year.

The business generated £5.3m. cash after interest, tax and capital expenditure, and, in the light of these results, the Board has approved dividends during the year of £5.0m. Dividends are covered 1.3 times by earnings after tax. Future dividends will reflect the Company's lower cost of capital and new balance sheet structure.

The Company has continued to perform well in the Ofwat measures for efficiency and customer service, being recognised for 2000/01 as having the highest rating in all categories of customer service and being the most efficient water company when operating and capital efficiency rankings were combined. This

impressive record for customer service has been maintained in 2001/02. The leakage target for 2001/02 was achieved and during the year the Company's calculation of the economic level of leakage was accepted by Ofwat. Supplies have once again been maintained through-

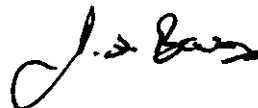
out the year without restrictions. Portsmouth Water has a good record for efficiency, price, services and quality and is determined to remain at the leading edge of industry performance.

Following the acquisition of Portsmouth Water's parent by South Downs Limited, Mr Martin Copp, Mr John King and Mr Hugh Pringle retired from the Boards of both Portsmouth Water and Brockhampton Holdings. I would like to thank them personally for their valuable contributions over many years. In particular John King has served the Company for 44 years, including his time as Chief Engineer and non-executive Director.

On 1 June 2002, three new non-executive Directors, Mr Terence Lazenby, Mr Robert Sullivan and Mr Ray Tennant were appointed to the Board. Mr Lazenby, an engineer, has held senior positions within British Petroleum. Mr Sullivan has extensive experience of change management, while Mr Tennant is a former Managing Director of South East Water and former Chairman of the Water Companies Association. Together they bring a wealth of business knowledge and experience to the Board, which I believe will greatly benefit the Company in the years ahead.

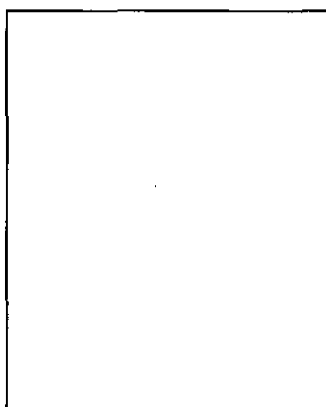
Throughout the restructuring process the Company has maintained the highest level of service to customers. This achievement is of credit to the executive management team and to the continued dedication and hard work of all the staff in the Company. It is again a pleasure to acknowledge their contribution.

With a stable capital structure and long term financing now in place, I am confident of the Company's ability to continue its fine record of achievement in the future.



J. F. BATTY
CHAIRMAN

MANAGING DIRECTOR'S REVIEW



This has been a highly significant year, which has seen continued progress and achievement. Throughout the complex restructuring process, it is pleasing to report that the Company still accomplished its principal objective of providing customers with a first class service.

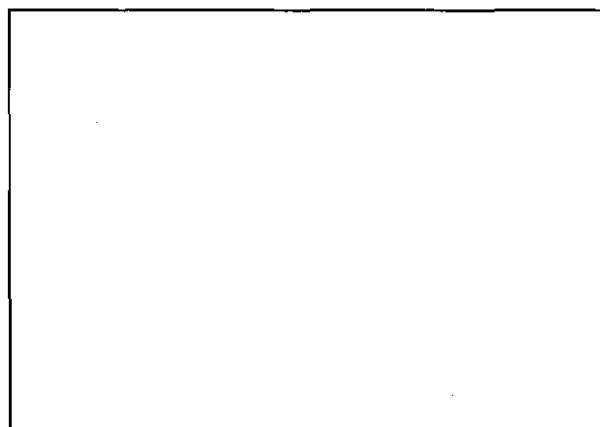
Company Structure

During the course of the year, Portsmouth Water's parent company, Brockhampton Holdings, was acquired by South Downs Limited, a newly formed company established for the purpose of making the bid and owned by the executive Directors of Portsmouth Water, an Employee Benefit Trust, Royal Bank Investments Limited and Abbey National Treasury Services plc. This action resolved a long standing dispute between a small number of significant Brockhampton shareholders and enabled Portsmouth Water to secure a capital structure more suited to a company in a long term industry. Following consultation by Ofwat on the bid, the Company accepted a number of licence changes, which served to ring fence the core water business from the rest of the Group and to ensure that customers' interests were protected.

The move brought to an end a period of uncertainty surrounding the future of the Company and left it well positioned to continue developing for the benefit of customers, investors and employees alike, whilst fulfilling all its regulatory obligations.

Regulation

The year has brought Government proposals to introduce competition for businesses using significant amounts of water. These proposals could form part of the Water Bill, a draft of which was published for consultation in November 2000.



Competition will not, however, be extended to domestic customers.

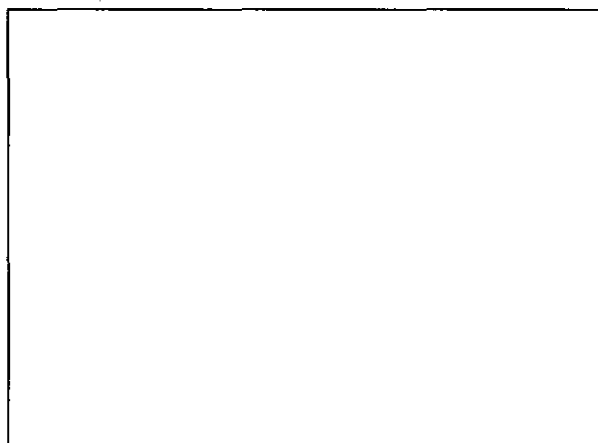
The process for the 2004 Periodic Review of prices has already commenced through a series of Ofwat consultations with the industry. Work on the Company's proposals, which are due for submission in August 2003, will start shortly. The Company hopes that, with appropriate consultation, the 2004 process will prove better than its predecessor.

Future Efficiency

The drive for increased efficiency and lower operating costs will continue. Further staff reductions were achieved during the year as a result of an early retirement scheme. The 27% decrease in the headcount over the last ten years, despite the Company's small size, is a measure of how much has already been achieved, but the Company is not complacent. Meeting existing efficiency targets will become tougher, as new costs have to be accommodated, but the Company expects to meet the level of performance assumed in the last price setting round.

Services to Customers

The Company is rightly proud of the high quality service which its customers enjoy. It is equally proud of the fact that they benefit from the lowest water charges in England and Wales. Charges will actually be reduced on 1 July 2002 by 0.4% and, at £75, the average annual domestic bill will be 30% below the average for the industry as a whole.

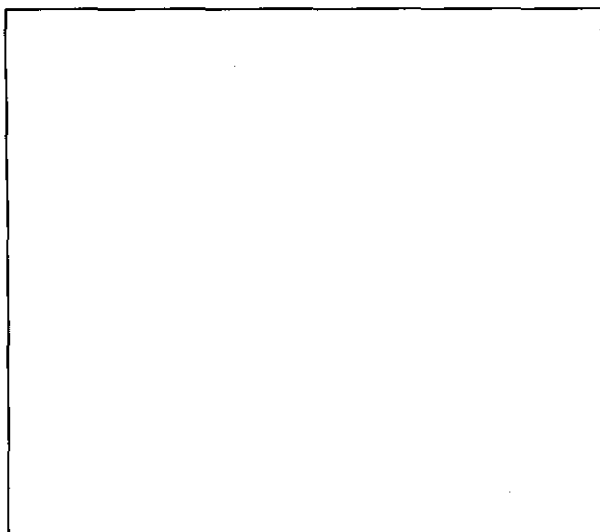


During the year, the Company was again assessed as being in the top group in the industry in terms of quality of service provided to customers. By Ofwat's own measures of performance in various areas of customer service, it achieved the highest ranking in all categories and, when operating and capital efficiency ratings were combined, was reported to be the most efficient water company.

Many household customers have benefited from free leakage detection and repairs to their underground pipework. In addition, pipe replacements have also been carried out either free of charge or at a heavily subsidised cost, while any householders, concerned about lead in their water, can change their internal lead plumbing and then request the Company to change its connection pipe free of charge.

During the year, the Company established closer contacts with its large users, offering to provide leak detection services and carry out emergency repairs. In some instances, advice was also given on meter sizing. The offer has resulted in a modest level of new business, at the same time as satisfying the needs of those customers.

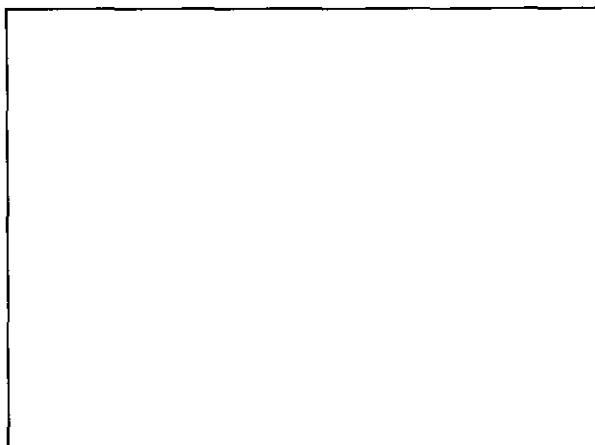
Customers continue to be kept updated with regard to initiatives, plans and progress through the annual customer newsletter. In addition, the Company's website has recently been completely redeveloped, as a result of which it is now more comprehensive and user friendly and viewed as a valuable resource for people of all ages.



Water Efficiency

The Company is very aware of its role in balancing the water needs of its customers with those of the environment. Continued efforts during the year have produced another reduction in the overall level of leakage from 30.0MI/d to 29.8MI/d. The 40% fall in this level over the ten year period is a clear indication of the Company's record in this important area of water conservation. The Company is, however, confident that it is operating at the economic level and further significant reductions are likely to be uneconomic. The final phase of the strategic metering project is now substantially complete, resulting in over 80% of properties' usage being continuously monitored through 48 strategic meters. Night time monitoring enables leakage problems to be identified and prioritised for further investigation.

During the year, in consultation with Hampshire County Education Authority and the Environment Agency, the Company was involved in an initiative to supply a water saving pack to all schools supplied by Portsmouth Water in the Hampshire County Council area. This initiative followed a similar project for schools in the West Sussex County Council area in the previous year.



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 outside Southampton. Groundwater levels are therefore critical to maintaining supplies. Following the wet winter of the previous year, water resources have remained healthy. Average rainfall during the winter this year has ensured that resources continue to be at a satisfactory level.

Discussions with Southern Water Services regarding the provision of a bulk supply of water to West Sussex are entering their final stages. Engineering works, however, cannot be commenced until the approval of an abstraction licence variation, which is due to be considered by the Environment Agency.

Water Quality

An exhaustive programme of testing is carried out to ensure that the very best quality water is supplied to customers. During the year, 22,751 compliance samples, taken from the distribution network, sources and reservoirs, were tested, with 99.89% passing the strict standards set by the Drinking Water Inspectorate. The Company can claim one of the highest levels of compliance with stringent water quality regulations.

Significant progress has been achieved at seven operational sites, where new water quality standards require the installation of orthophosphoric acid dosing plants aimed at reducing lead levels in water supplies at customers' taps. Monitoring databases in

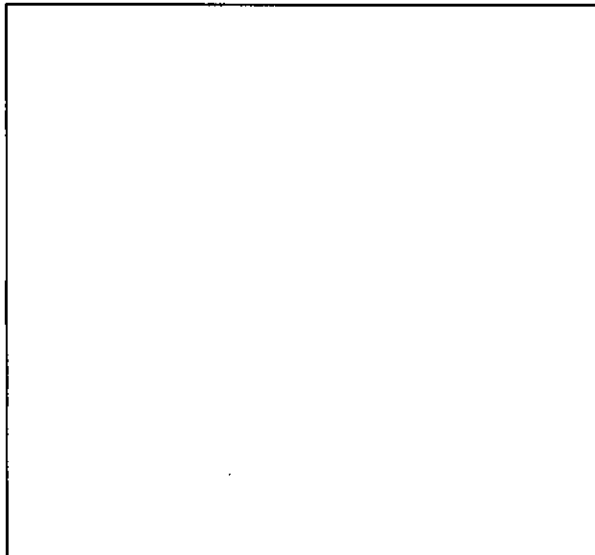
all the areas subjected to dosing have already begun to report reductions in levels and the Company is on target to meet the new standards, which come into force at the end of December 2003.

New membrane filtration plants for cryptosporidium removal are planned to be completed at two treatment works within the next twelve months.

Environment

The Company takes its responsibility to the water environment most seriously and continues to work closely with all environmental stakeholders. It has a long history of good practice in consultation and development in its area of supply, which contains many important wildlife sites and landscape appreciated by both residents and visitors.

During the year, prolonged test-pumping exercises were conducted on two boreholes in the Meon and Hamble valleys in support of efforts to relocate the Hoe source, which is considered to affect the springs at The Moors Site of Special Scientific Interest near Bishops Waltham. A major programme of environmental monitoring revealed minimal impacts upon the local water environment around the two boreholes and, as a result, options for abstraction licensing are now being prepared.



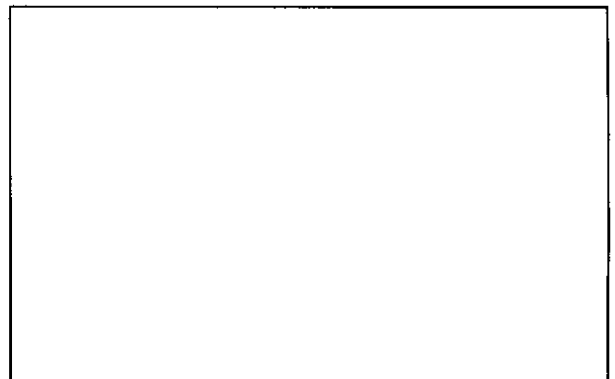
The Company has also been involved in two major environmental studies forming part of the Environment Agency's National Environment Programme. As an abstractor from Gaters Mill just upstream of the tidal limit of the River Itchen, it has a keen interest in the impacts of abstractions from and discharges to the river. Whilst contributing financially to the Itchen Sustainability Study, the Company is also represented on the Project Management and Steering Groups. This study is due to be completed in 2003.

At Fishbourne, where water has been abstracted to

supply the city of Chichester since 1874, investigations are taking place to identify possible impacts upon the neighbouring Site of Special Scientific Interest, as well as the Chichester Harbour Special Area of Conservation and Special Protection Area. This study, funded solely by the Company, is also due to be completed in 2003.

Following an ecological survey of all operational sites in 2000/01, the Company is now finalising its Biodiversity Action Plan, which will set out the planned actions and timetable for conserving and enhancing the environment and ecology of its sites.

Capital Investment



Capital investment for the year amounted to £6.5m. Two major schemes within the programme were significantly delayed by administrative difficulties relating to planning permission. In connection with these projects for the installation of membrane filtration processes at Farlington and Lovedean, the respective planning authorities required smaller scale designs to be subjected to the full rigours of the planning process. It is anticipated that both projects will be completed early in 2003.

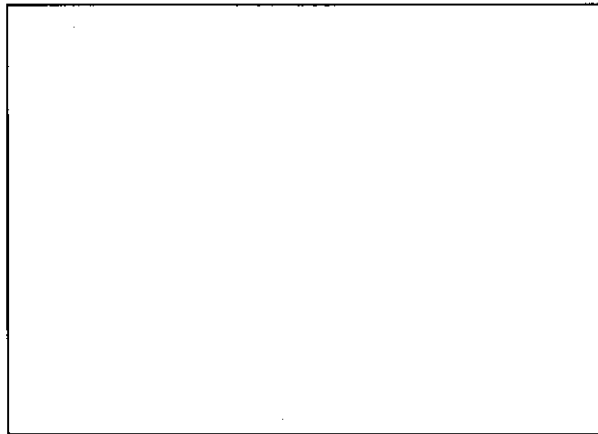
The year also saw significant progress on the installation of orthophosphoric acid dosing plants at a number of operational sites within the Company's area of supply, together with the substantial completion of its strategic metering project. In addition, the Company continued its programme of renewing mains, where structural deterioration and increased burst frequency have resulted from corrosion or ground movement, investing £2.8m. for the year.

Together with many other projects undertaken during the year, this represents another substantial capital investment programme aimed at maintaining and enhancing the service provided to customers.

Community and Education

The Company works in partnership with the community it serves. Site visits, talks and film shows are provided for schools, colleges and local organisations and societies. During the year, the Company attended two science fairs, one promoted by Portsmouth and South East Hampshire Business and Education Partnership, the other at Riders Junior School in Leigh Park. On both occasions, the Company's exhibition stand attracted great interest.

During the year, the Company agreed that the Horizon Angling Club, whose members are disabled, could fish a large pond at its Head Office complex. When originally approached, the Company sought advice from the Environment Agency, who were keen to assist with the project. As a result of the partnership, the Company has provided the necessary facilities for the disabled to fish at the pond, while the Environment Agency has stocked the pond with approximately 700 silver fish and provided protection from predatory birds. The Environment Agency intends to use the pond as a training facility for any disabled person wishing to learn how to fish.



Employees

The performance achieved by employees during another challenging year has once again been commendable. Despite reductions in headcount, the quality service provided to customers has been maintained, which is testament to the conscientious and willing way in which staff are prepared to work. I thank them all for their efforts and achievements.

**N. J. ROADNIGHT
MANAGING DIRECTOR**

Refinancing

The Company has historically financed operations through retained earnings and bank borrowing. At 31 March 2001, bank borrowing was £15m., with £4m. bearing interest based on London Interbank rates and the remainder at relatively

expensive fixed rates. Gearing at 22% was low by industry levels and consequently the cost of capital was higher than that allowed for by the Regulator at the 1999 Periodic Review. The case for changing the capital structure of the business was overwhelming.

During the year, a radical restructuring took place, which involved a change of ownership of the Group and was completed in June 2002 by the securing of a 30 year index-linked loan facility. This 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. 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 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.

As part of the restructuring exercise, the existing bank loans were all repaid during the year. Net debt at 31 March 2002 was £6.2m., against £10.1m. the previous year. Following the refinancing, debt will be approximately 85% of regulatory capital value.

Financial Results

Turnover for the year has increased by 5% to £29.7m. This improvement reflected the overall permitted tariff increase of 2% on 1 July 2001, a 6% rise in *measured revenue resulting from higher demand* from commercial customers and increased income from new connections and other chargeable work. Total operating costs, excluding depreciation, were maintained at the 2000/01 level, despite the impact of the climate change levy and inflationary increases in rates and abstraction charges. Operating profit, at £10.7m., showed an 11% improvement on the previous year.

Net interest payable at £1.8m. was £0.7m. above the previous year's figure, but included exceptional costs of £0.9m. relating to the early repayment of expensive fixed term loans, as part of the refinancing

package. Although the taxation charge for the year of £2.6m. included a £0.3m. provision for deferred taxation following the introduction of FRS 19, it was nevertheless significantly higher than its restated prior year comparative, which was reduced by a £1.2m. repayment following the agreement of previous year computations with the Inland Revenue. The liability for deferred taxation of £8.3m. shown on the balance sheet is after discounting as permitted by the new standard.

After allowing for ordinary dividends of £5.0m. approved during the year, a profit of £1.4m. has been transferred to reserves. Dividends were covered 1.3 times.

Capital Investment

Capital expenditure during the year amounted to £6.5m. compared with £7.0m. the previous year. Progress on two major schemes was, however, hindered by problems with planning permission.

Cashflow

The cash position of the Company reduced by £1.5m. during the year. Operating cashflow was only marginally higher at £14.4m., as the improved operating profit was almost negated by movements in working capital resulting from earlier payments of insurance and rates bills. Higher net interest paid and a more normal level of tax payment were more than offset by lower net capital expenditure and dividend payments, leaving cash generated before financing of £3.8m., against £2.7m. last year. The repayment of existing loans during the year was financed principally through an inter-company loan, which will be repaid from the proceeds of the index-linked facility.

Financial Instruments

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

The Company's policy has been to finance operations through a mixture of retained profits and term borrowings. The structure of borrowings is kept under review and a minimum risk approach has been adopted. Exposure to interest rate fluctuations has been managed by borrowing at both fixed and floating rates of interest and for varying durations. However, following the refinancing, the Company's exposure will be limited by the fixed interest rate applicable to the loan. Details of borrowings are included in notes 14, 15 and 17 to the accounts on pages 27 to 29.

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 flexibility is achieved by overdraft facilities, and, following the refinancing, additional liquidity is now available through a £15m. working capital facility.

A handwritten signature in black ink, appearing to read 'N. Smith', positioned above the printed name.

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 2002

Area of Supply	868 km ²
Population	659,000
Number of Properties Served	288,000
Length of Mains	3,240 km
Average Daily Output	179 MI

AUDITORS

GRANT THORNTON
Manor Court
Barnes Wallis Road
Segensworth
Fareham Hampshire

BANKERS

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

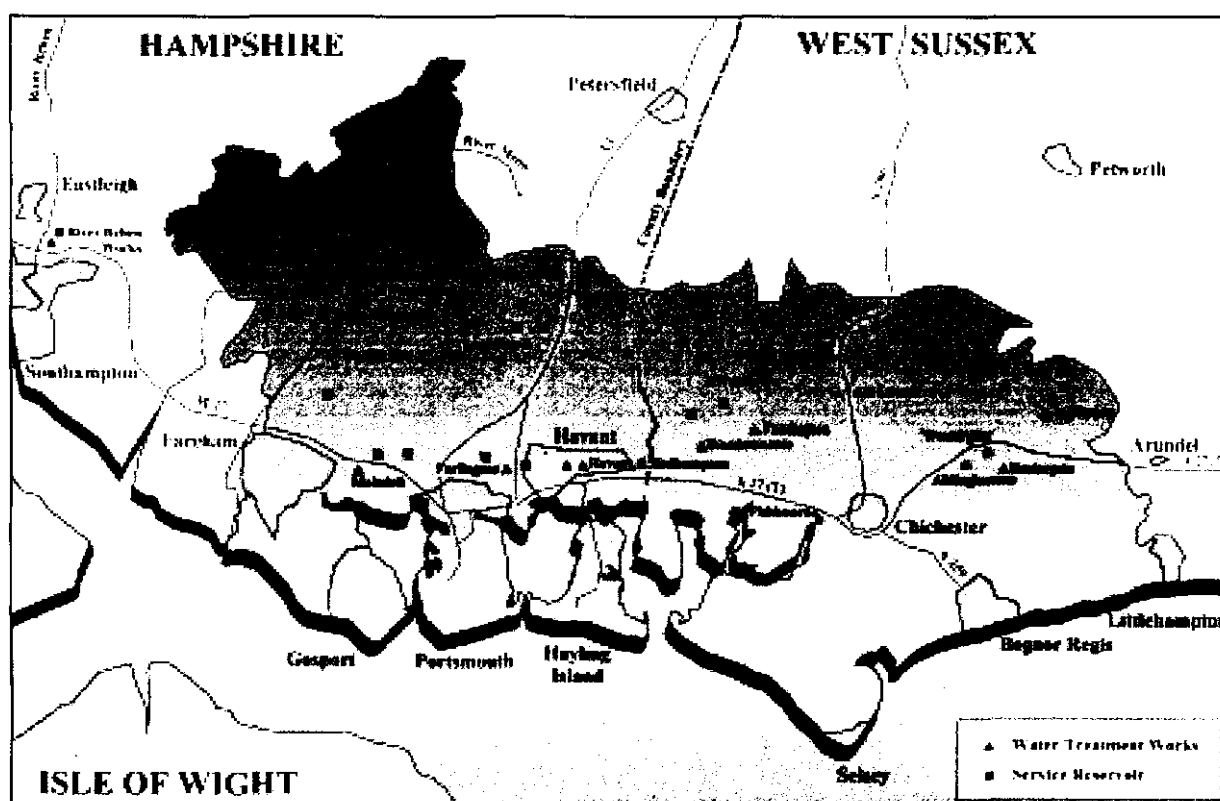
CORPORATE SOLICITORS

BLAKE LAPHORN
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 2002.

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 288,000 domestic and commercial customers in an area of 868 square kilometres in Hampshire and West Sussex through a mains network of 3,240 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 £8.903m. After deducting £2.584m. for taxation and £4.967m. for dividends proposed, a balance of £1.352m. has been transferred to reserves.

The Directors are not recommending the payment of a final dividend on the ordinary share capital in view of the interim dividends already declared.

FIXED ASSETS

Capital expenditure on tangible fixed assets was £6.483m. (2001 - £7.030m.), including £2.758m. on infrastructure renewals (2001 - £2.531m.). Information relating to these and other changes in fixed assets is shown in note 11 to the accounts on page 26.

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. M. C. Copp, Mr. J. D. King and Mr. H. J. Y. Pringle resigned on 7 December 2001.

Mr. J. E. Cogley and Mr. A.R. Neve, 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 note 5 to the accounts on page 23.

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

The Board comprised a non-executive Chairman, four executive Directors and three other non-executive Directors until 7 December 2001, when the three other non-executive Directors resigned. Since that time, it has operated with a non-executive Chairman and four executive Directors, until the appointment of three new non-executive Directors on 1 June 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. Mr. M.C. Copp was the senior independent Director until his resignation on 7 December 2001. Following his appointment on 1 June 2002, Mr. T. M. Lazenby has assumed this role.

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.

The Nomination Committee, which has the task of recommending new appointments to the Board, comprised Mr. J. F. Batty, Mr. M. C. Copp, Mr. H. J. Y. Pringle and Mr. N. J. Roadnight, until 7 December 2001, when Mr. M. C. Copp and Mr. H. J. Y. Pringle resigned. Following the appointment of three new non-executive Directors on 1 June 2002, the current membership now comprises Mr. J. F. Batty, Mr. T. M. Lazenby, Mr. N. J. Roadnight, Mr. R. L. Sullivan and Mr. R. J. Tennant.

DIRECTORS' REMUNERATION

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 comprises the four non-executive Directors.

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.

Long-term incentive schemes

The Company does not operate any long-term performance linked bonus scheme. An employee share incentive scheme was in operation for part of the year and the executive Directors participated on the same basis as all other employees. Benefits received by the Directors under this scheme are shown in note 5 to the accounts on page 22.

Share options

The Company does not operate an Executive Share Option Scheme.

The Brockhampton Savings-Related Share Option Scheme for employees was in operation for part of the year and details of share options exercised by the Directors under this Scheme are shown in note 5 to the accounts on page 23.

Service contracts

Until 7 December 2001, the Managing Director had a fixed two year service contract with the Company, which was subject to termination, without compensation, by the Company giving him not less than 24 months' notice or by him giving the Company not less than 6 months' notice. His employment had, however, to terminate in any event at normal retirement age. This service contract has now been replaced by a one year agreement.

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

The non-executive Directors do not have service contracts.

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.

Directors' remuneration

Information relating to the remuneration of Directors is shown in note 5 to the accounts on page 21.

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 maintaining 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.

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 2002 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 2002 Board meeting, the Directors carried out their annual assessment for the year to 31 March 2002, 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 Nominations and Remuneration Committees, as detailed on pages 11 and 12. 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, save for the special bonus payments awarded following the restructuring of the Company. 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 Managing Director has, for part of the year, had a fixed two year service contract with the Company, which exceeded the recommended one year notice period. This service contract has now been replaced by one which is in accordance with the Combined Code.

The Company did not have an Audit Committee during the year. However, following the appointment of three new non-executive Directors on 1 June 2002, an Audit Committee has been 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 2002, the Company's creditor days were 9.

SUBSTANTIAL SHAREHOLDER

At 31 March 2002, Brockhampton Holdings Limited owned the entire voting capital of the Company. On 31 May 2002, all shares were transferred to Portsmouth Water Holdings Limited in exchange for shares in that company.

During the year the whole of the issued share capital of Brockhampton Holdings Limited was acquired by South Downs Limited, a newly formed company

established for the purpose of making the offer. South Downs Limited is owned by South Downs Capital Limited, whose ordinary share capital is owned 36% by Abbey National Treasury Services plc, 9% by Royal Bank Investments Limited, 15% by the executive Directors of Portsmouth Water Limited and 40% by an Employee Benefit Trust.

Following the acquisition, Portsmouth Water plc re-registered as a private limited 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.

Health and safety continues to be an important issue within the Company, with the active participation of employee safety representatives taking place through the safety committee.

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
S. G. HALFORD
SECRETARY
HAVANT
2 JULY 2002**

**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 2002 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 27. These financial statements have been prepared under the accounting policies set out therein.

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 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 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.

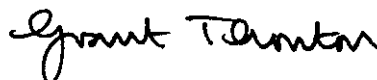
Basis of Opinion

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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
PORTSMOUTH
2 JULY 2002**

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2002

	Notes	2002 £000	2001 £000 (restated)
TURNOVER	3	29,674	28,390
COST OF SALES		<u>(12,895)</u>	<u>(12,639)</u>
GROSS PROFIT		16,779	15,751
Net operating expenses	4	<u>(6,097)</u>	<u>(6,145)</u>
OPERATING PROFIT		10,682	9,606
Loss on sale of fixed assets		<u>(18)</u>	<u>(54)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		10,664	9,552
Interest receivable	6	<u>204</u>	<u>177</u>
		10,868	9,729
Interest payable	7	<u>(1,965)</u>	<u>(1,242)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	8	8,903	8,487
Taxation on profit on ordinary activities	9	<u>(2,584)</u>	<u>(1,417)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		6,319	7,070
Dividends paid and proposed	10	<u>(4,967)</u>	<u>(2,890)</u>
RETAINED PROFIT FOR THE FINANCIAL YEAR	19	<u>1,352</u>	<u>4,180</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2002

	Note	2002 £000	2001 £000 (restated)
Profit for the financial year		<u>6,319</u>	<u>7,070</u>
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR		6,319	<u>7,070</u>
Prior year adjustment	2	<u>(8,011)</u>	
TOTAL RECOGNISED GAINS AND LOSSES SINCE LAST ANNUAL REPORT		<u>(1,692)</u>	

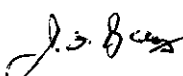
The accompanying accounting policies and notes form an integral part of these financial statements.

BALANCE SHEET

As at 31 March 2002

	Notes	2002		2001	
		£000	£000	£000	£000 (restated)
FIXED ASSETS					
Tangible	11		64,694		63,965
CURRENT ASSETS					
Stores		706		793	
Debtors	12	1,630		916	
Investments	13	4		4	
Cash and short-term deposits		4,001		5,259	
		<u>6,341</u>		<u>6,972</u>	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	14	(24,563)		(11,075)	
NET CURRENT LIABILITIES			<u>(18,222)</u>		<u>(4,103)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			46,472		59,862
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR	15		-		(15,000)
PROVISIONS FOR LIABILITIES AND CHARGES	16		<u>(8,269)</u>		<u>(8,011)</u>
			<u>38,203</u>		<u>36,851</u>
CAPITAL AND RESERVES					
Called up share capital	18		1,078		1,078
Share premium account	19		1,539		1,539
Capital redemption reserve	19		3,250		3,250
Profit and loss account	19		<u>32,336</u>		<u>30,984</u>
EQUITY SHAREHOLDERS' FUNDS	20		<u>38,203</u>		<u>36,851</u>

The accounts were approved by the Board on 2 July 2002.


J. F. BATTY CHAIRMAN

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

CASH FLOW STATEMENT

For the year ended 31 March 2002

	Notes	2002		2001	
		£000	£000	£000	£000
NET CASH INFLOW FROM OPERATING ACTIVITIES	21		14,378		14,301
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received		213		164	
Interest paid		<u>(2,135)</u>	(1,922)	<u>(1,228)</u>	(1,064)
TAXATION					
UK corporation tax paid			(2,186)		(817)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT					
Purchase of tangible fixed assets		(6,253)		(7,588)	
Sale of tangible fixed assets		24		29	
Capital contributions received		<u>1,238</u>	(4,991)	<u>907</u>	(6,652)
EQUITY DIVIDENDS PAID			<u>(1,445)</u>		<u>(3,054)</u>
CASH INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING			3,834		2,714
MANAGEMENT OF LIQUID RESOURCES					
Sale/(purchase) of short-term deposits			250		(2,700)
FINANCING					
New loan		10,000		-	
Repayment of loans		<u>(15,600)</u>	<u>(5,600)</u>	<u>-</u>	<u>-</u>
(DECREASE)/INCREASE IN CASH IN THE YEAR	23		<u><u>(1,516)</u></u>		<u><u>14</u></u>

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, with the exception of that relating to deferred taxation as detailed on page 20, 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 26. 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.

Following the introduction of FRS19 : Deferred Tax, the Company has provided for all deferred tax where there is an obligation to pay more tax in the future. Deferred tax was previously only disclosed as a contingent liability due to the continuing programme of capital expenditure. However, as FRS19 does not permit future capital expenditure to be taken into account, its adoption has resulted in a prior year adjustment, as detailed in note 2 to the accounts.

(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.

2. PRIOR YEAR ADJUSTMENT

As explained in note 1 to the accounts, the Company has provided in full for its deferred tax liability, following the introduction of FRS19: Deferred Tax.

The comparative figures for the prior period have been restated accordingly. The effect of the restatement is an increase in the taxation charge for the prior period of £0.289m. and an adjustment to opening shareholders' funds of £7.722m., resulting in a provision for deferred tax at 31 March 2001 of £8.011m.

3. TURNOVER

Unmeasured supplies
Measured supplies
Chargeable work

2002 £000	2001 £000
20,013	19,647
8,441	7,752
1,220	991
<u>29,674</u>	<u>28,390</u>

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

4. NET OPERATING EXPENSES

Administrative expenses
Other operating income

2002 £000	2001 £000
6,250	6,298
(153)	(153)
<u>6,097</u>	<u>6,145</u>

5. DIRECTORS AND EMPLOYEES

Employment costs:

	2002 £000	2001 £000
Remuneration	5,244	5,285
Social security costs	420	440
Contribution to employee share incentive scheme	187	149
	<u>5,851</u>	<u>5,874</u>

Average numbers employed during year:

	Number	Number
Operations	171	180
Administration	71	71
	<u>242</u>	<u>251</u>

Directors' emoluments:

	£000	£000
Total remuneration	<u>478</u>	<u>320</u>
Highest paid Director	<u>142</u>	<u>100</u>

Emoluments are analysed by Director below:

	Salary/ Fees £000	Bonus £000	Benefits £000	Total 2002 £000	Total 2001 £000
Executive:					
J. E. COGLEY	74	11	25	110	74
A. R. NEVE	72	11	23	106	70
N. J. ROADNIGHT	103	11	28	142	100
N. SMITH	77	11	26	114	76
Non-executive:					
J. F. BATTY (Chairman)	6	-	-	6	-
	<u>332</u>	<u>44</u>	<u>102</u>	<u>478</u>	<u>320</u>

This year the executive Directors received special bonus payments following the restructuring of the Company. These payments were made by South Downs Limited.

Benefits comprise, in the main, company cars for the executive Directors and medical insurance for all of the Directors. The emoluments of non-executive Directors, including the Chairman, were paid by the parent undertaking, Brockhampton Holdings Limited, until 7 December 2001. During the year, the executive Directors received professional advice with regard to their shareholdings in South Downs Capital Limited. This advice was paid for by South Downs Limited.

The executive Directors have accrued pension benefits under the Brockhampton Pension Scheme, which is a defined benefits scheme, during the year:

	<i>Increase in Accrued Pension During Year to 31 March 2002</i>	<i>Transfer Value of Increase</i>	<i>Accumulated Accrued Pension at 31 March 2002</i>	<i>Accumulated Accrued Pension at 31 March 2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
J. E. COGLEY	5	49	39	34
A. R. NEVE	6	57	40	34
N. J. ROADNIGHT	9	83	52	43
N. SMITH	5	30	28	23

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.

Mr. J. F. Batty receives a pension under the Scheme.

Directors' interests:

The Directors received the following payments from the employee share incentive scheme during the year:

	<i>2002 £000</i>	<i>2001 £000</i>
J. E. COGLEY	17	1
A. R. NEVE	16	1
N. J. ROADNIGHT	23	1
N. SMITH	15	1

Following the acquisition of the whole of the issued share capital of Brockhampton Holdings Limited by South Downs Limited during the year, no Directors now have any interests in Brockhampton shares, nor do they have any interests in the shares of Portsmouth Water Limited. Their 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:

'C' ORDINARY SHARES

J. E. COGLEY	30
A. R. NEVE	30
N. J. ROADNIGHT	48
N. SMITH	42

Following the acquisition detailed above, options under the Savings-Related Share Option Scheme became exercisable early, as a result of which the Directors were not entitled to exercise the total number of options originally granted. No Directors now hold any share options as detailed below:

	AT 31 MARCH 2001	REDUCTION IN ENTITLEMENT	EXERCISED	AT 31 MARCH 2002	EXERCISE PRICE	MARKET PRICE AT DATE OF EXERCISE	
J. E. COGLEY	1,472	(96)	1,376	-	164p	300p	(Ordinary)
	19,519	(5,465)	14,054	-	76p	125p	('A' Ordinary)
A. R. NEVE	1,472	(96)	1,376	-	164p	300p	(Ordinary)
	12,256	(3,432)	8,824	-	76p	125p	('A' Ordinary)
	7,397	(7,397)	-	-	73p	-	('A' Ordinary)
N. J. ROADNIGHT	1,472	(96)	1,376	-	164p	300p	(Ordinary)
	19,519	(5,465)	14,054	-	76p	125p	('A' Ordinary)
N. SMITH	9,246	(5,871)	3,375	-	73p	125p	('A' Ordinary)

The aggregate gain made by the Directors on the exercise of share options was £25,466 (2001 - NIL). The gain made by the highest paid Director was £8,758 (2001 - NIL). All share options were exercised on 31 December 2001.

6. INTEREST RECEIVABLE

Interest on short-term deposits

Other interest receivable

2002 £000	2001 £000
181	96
<u>23</u>	<u>81</u>
<u>204</u>	<u>177</u>

7. INTEREST PAYABLE

Debenture stocks

Bank loans and overdraft

Loans from Group companies

Other interest payable

11	11
1,822	1,216
120	-
<u>12</u>	<u>15</u>
<u>1,965</u>	<u>1,242</u>

Included within interest payable on bank loans and overdraft 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

After charging:

Depreciation - infrastructure assets

- non infrastructure assets

Rates

Water abstraction charges

Auditors' remuneration:

Audit services

Non-audit services

Hire of plant and machinery

Other operating leases

2002 £000	2001 £000
3,055	2,955
1,419	1,321
1,986	1,921
1,436	1,401
26	18
12	6
22	29
331	393

9. TAXATION

	2002 £000	2001 £000 (restated)
United Kingdom corporation tax at 30% (2001 - 30%)	2,633	2,302
Adjustment in respect of prior periods	<u>(307)</u>	<u>(1,174)</u>
Total current tax	2,326	1,128
Origination and reversal of timing differences (note 16)	<u>258</u>	<u>289</u>
Tax on profit on ordinary activities	<u><u>2,584</u></u>	<u><u>1,417</u></u>

The prior period tax charge has been restated following the adoption of FRS19: Deferred Tax.

	2002 £000	2001 £000
Profit on ordinary activities before tax	8,903	8,487
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001 - 30%)	2,671	2,546
Effect of:		
Expenses not deductible for tax purposes	79	36
Depreciation for the period in excess of capital allowances	497	328
Revenue items charged to capital	(614)	(608)
Adjustments to tax charge in respect of prior periods	<u>(307)</u>	<u>(1,174)</u>
Current tax charge for period	<u><u>2,326</u></u>	<u><u>1,128</u></u>

10. DIVIDENDS PAID AND PROPOSED

Equity:

Ordinary/'A' Ordinary Shares - interims proposed/paid	4,967	1,445
- final proposed	<u>-</u>	<u>1,445</u>
	<u><u>4,967</u></u>	<u><u>2,890</u></u>

11. TANGIBLE FIXED ASSETS

	<i>Freehold land, buildings & reservoirs</i>	<i>Mains</i>	<i>Pumping plant</i>	<i>Vehicles, mobile plant and office equipment</i>	<i>TOTAL</i>
COST	£000	£000	£000	£000	£000
At 1 April 2001	32,978	69,630	12,794	5,624	121,026
Additions	416	3,224	2,108	735	6,483
Disposals	-	(192)	(2)	(333)	(527)
At 31 March 2002	<u>33,394</u>	<u>72,662</u>	<u>14,900</u>	<u>6,026</u>	<u>126,982</u>
DEPRECIATION					
At 1 April 2001	4,457	36,555	2,301	3,569	46,882
Charge for year	316	3,055	559	544	4,474
Disposals during year	-	(192)	(2)	(291)	(485)
At 31 March 2002	<u>4,773</u>	<u>39,418</u>	<u>2,858</u>	<u>3,822</u>	<u>50,871</u>
NET BOOK VALUE					
At 31 March 2002	<u>28,621</u>	<u>33,244</u>	<u>12,042</u>	<u>2,204</u>	<u>76,111</u>
At 31 March 2001	<u>28,521</u>	<u>33,075</u>	<u>10,493</u>	<u>2,055</u>	<u>74,144</u>
CAPITAL CONTRIBUTIONS					
At 1 April 2001	-	10,179	-	-	10,179
Received during year	-	1,238	-	-	1,238
At 31 March 2002	<u>-</u>	<u>11,417</u>	<u>-</u>	<u>-</u>	<u>11,417</u>
NET BOOK VALUE AFTER DEDUCTING CAPITAL CONTRIBUTIONS					
At 31 March 2002	<u>28,621</u>	<u>21,827</u>	<u>12,042</u>	<u>2,204</u>	<u>64,694</u>
At 31 March 2001	<u>28,521</u>	<u>22,896</u>	<u>10,493</u>	<u>2,055</u>	<u>63,965</u>

12. DEBTORS

Trade debtors

Prepayments and accrued income

Other debtors

2002

£000

640

946

44

1,630

2001

£000

490

394

32

916

All of the above amounts fall due within one year.

13. INVESTMENTS

Unlisted investments: £4,000 (2001 - £4,000).

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Bank overdraft

3% Perpetual debenture stock

3½% Perpetual debenture stock

4% Perpetual debenture stock

Payments received on account

Trade creditors

Amounts owed to Group companies

Corporation tax

Social security and other taxation

Other creditors

Accruals

Water rates in advance

Proposed dividends

508

77

198

39

847

443

10,074

1,257

201

1,590

239

4,123

4,967

24,563

-

77

198

39

584

1,019

132

1,617

180

1,361

368

4,055

1,445

11,075

15. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

Between two and five years:

Bank loan

In five years or more:

Bank loans

-

-

-

-

5,000

10,000

15,000

All bank loans were repaid on 19 December 2001.

16. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation:

At 1 April 2001 restated

Opening balance adjustment (note 2)

Provided during the year in profit and loss account

At 31 March 2002

2002 £000	2001 £000 (restated)
8,011	-
-	7,722
258	289
<u>8,269</u>	<u>8,011</u>

The total deferred tax balance before the effect of discounting is £13.071m. (2001 - £12.626m.). 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. At present it is not envisaged that any tax will become payable in the foreseeable future.

17. FINANCIAL INSTRUMENTS

The Financial Review on pages 8 and 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 FRS13 : 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 £4.005m. (2001 - £5.263m.). The sterling cash deposits comprise deposits placed on the money market at monthly rates.

Financial liabilities

The Company has no foreign currency contracts. The interest rate profile of its financial liabilities at 31 March 2002 is detailed below:

	Fixed Rate		Floating Rate		TOTAL	
	2002 £000	2001 £000	2002 £000	2001 £000	2002 £000	2001 £000
Sterling						
Bank loans and overdraft	-	11,000	508	4,000	508	15,000
Debenture stock	314	314	-	-	314	314
	<u>314</u>	<u>11,314</u>	<u>508</u>	<u>4,000</u>	<u>822</u>	<u>15,314</u>

	<i>Fixed Rate</i>			
	<i>Weighted Average Interest Rate</i>		<i>Weighted Average Period For Which Rate Is Fixed</i>	
	<i>%</i>		<i>Years</i>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Sterling	<u>3.4</u>	<u>8.4</u>	<u>1</u>	<u>6</u>

Interest on the floating rate financial liability is charged at 1% above base rate.

The maturity profile of the Company's financial liabilities at 31 March 2002 is detailed below:

	<u>2002</u> <u>£000</u>	<u>2001</u> <u>£000</u>
In one year or less	822	314
In more than two years but not more than five years	-	5,000
In more than five years	-	10,000
	<u>822</u>	<u>15,314</u>

The Company had undrawn committed borrowing facilities at 31 March 2002, in respect of which all conditions precedent had been met, as follows:

	<u>2002</u> <u>£000</u>	<u>2001</u> <u>£000</u>
Expiring in one year or less	1,492	2,000
Expiring in more than two years	-	3,000
	<u>1,492</u>	<u>5,000</u>

18. CALLED UP SHARE CAPITAL

Authorised:

Equity:

6,000,000 Ordinary Shares of 10p each

10,500,000 'A' Ordinary Shares of 10p each

Non-equity:

3,250,000 Redeemable Preference Shares of £1 each

Allotted, called up and fully paid:

Equity:

4,265,177 Ordinary Shares of 10p each

6,509,162 'A' Ordinary Shares of 10p each

600	600
<u>1,050</u>	<u>1,050</u>
<u>1,650</u>	<u>1,650</u>
<u>3,250</u>	<u>3,250</u>
<u>4,900</u>	<u>4,900</u>
427	427
<u>651</u>	<u>651</u>
<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.

19. RESERVES

	<i>Share Premium £000</i>	<i>Capital Redemption £000</i>	<i>Profit and Loss £000</i>
At 1 April 2001	1,539	3,250	38,995
Prior year adjustment (note 2)	-	-	8,011
At 1 April 2001 restated	1,539	3,250	30,984
Retained profit for the year	-	-	1,352
At 31 March 2002	<u>1,539</u>	<u>3,250</u>	<u>32,336</u>

20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<i>2002 £000</i>	<i>2001 £000 (restated)</i>
Profit for the financial year	6,319	7,070
Dividends	<u>4,967</u>	<u>2,890</u>
Net addition to shareholders' funds	1,352	4,180
Shareholders' funds at 1 April 2001 (originally £44.862m. before deducting prior year adjustment of £8.011m.)	<u>36,851</u>	<u>32,671</u>
Shareholders' funds at 31 March 2002	<u>38,203</u>	<u>36,851</u>

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

	<i>2002 £000</i>	<i>2001 £000</i>
Operating profit	10,682	9,606
Depreciation charge	4,474	4,276
Decrease in stores	87	61
(Increase)/decrease in debtors	(706)	214
(Decrease)/increase in creditors	<u>(159)</u>	<u>144</u>
Net cash inflow from operating activities	<u>14,378</u>	<u>14,301</u>

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

(Decrease)/increase in cash in the year

Cash (inflow)/outflow from
(decrease)/increase in liquid resources

Cash outflow from decrease in debt

Movement in net debt in the year

Net debt at 1 April 2001

Net debt at 31 March 2002

2002 £000	2001 £000
(1,516)	14
(250)	2,700
5,600	-
3,834	2,714
(10,051)	(12,765)
(6,217)	(10,051)

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

23. ANALYSIS OF CHANGES IN NET DEBT

Cash at bank and in hand

Bank overdraft

Debt falling due within one year

Debt falling due after one year

Short term deposits

Current asset equity investments

TOTAL

At 1 April 2001 £000	Cash Flow £000	At 31 March 2002 £000
1,009	(1,008)	1
-	(508)	(508)
1,009	(1,516)	(507)
(314)	(9,400)	(9,714)
(15,000)	15,000	-
(15,314)	5,600	(9,714)
4,250	(250)	4,000
4	-	4
4,254	(250)	4,004
(10,051)	3,834	(6,217)

24. CAPITAL COMMITMENTS

Contracted for but not provided in
these financial statements

2002 £000	2001 £000
4,569	665

The Company has a further commitment under operating leases relating to computer hardware and associated software of £0.305m. per annum (2001 - £0.331m.) which expire as set out below:

Within two to five years

2002 £000	2001 £000
305	331

25. CONTINGENT LIABILITIES

There were no contingent liabilities at 31 March 2002 or at 31 March 2001.

26. ULTIMATE PARENT UNDERTAKING

Portsmouth Water Limited was a wholly-owned subsidiary of Brockhampton 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 company for which Group accounts are prepared. Copies of these accounts can be obtained on request from the Registered Office.

27. PENSIONS

Portsmouth Water Limited is a participating employer 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.

Contributions are determined by qualified actuaries on the basis of periodic investigations. The Company, on the advice of the 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 1999 and full details are contained in the Brockhampton Holdings Limited accounts.