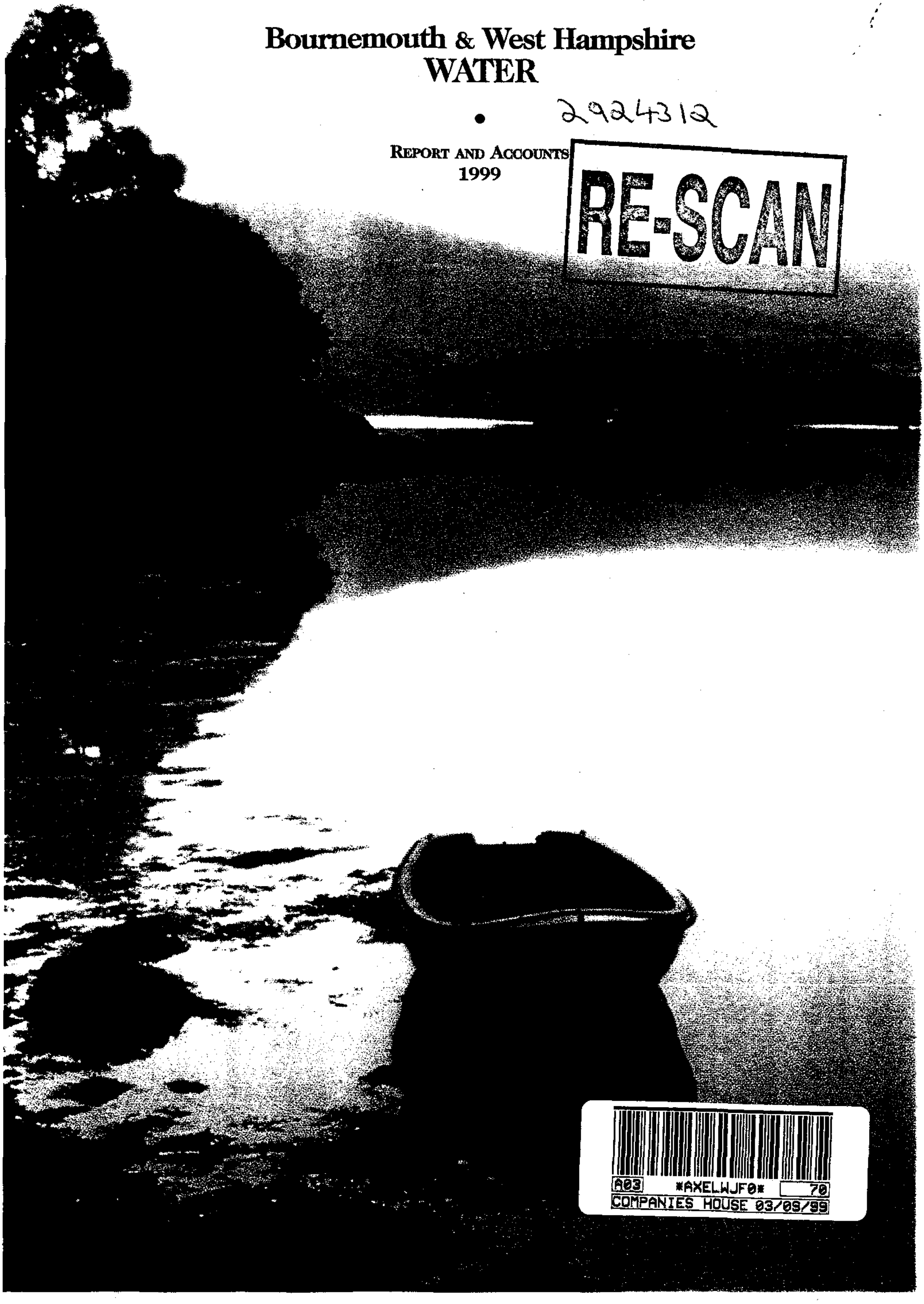
Bournemouth & West Hampshire
WATER

2924312

REPORT AND ACCOUNTS
1999



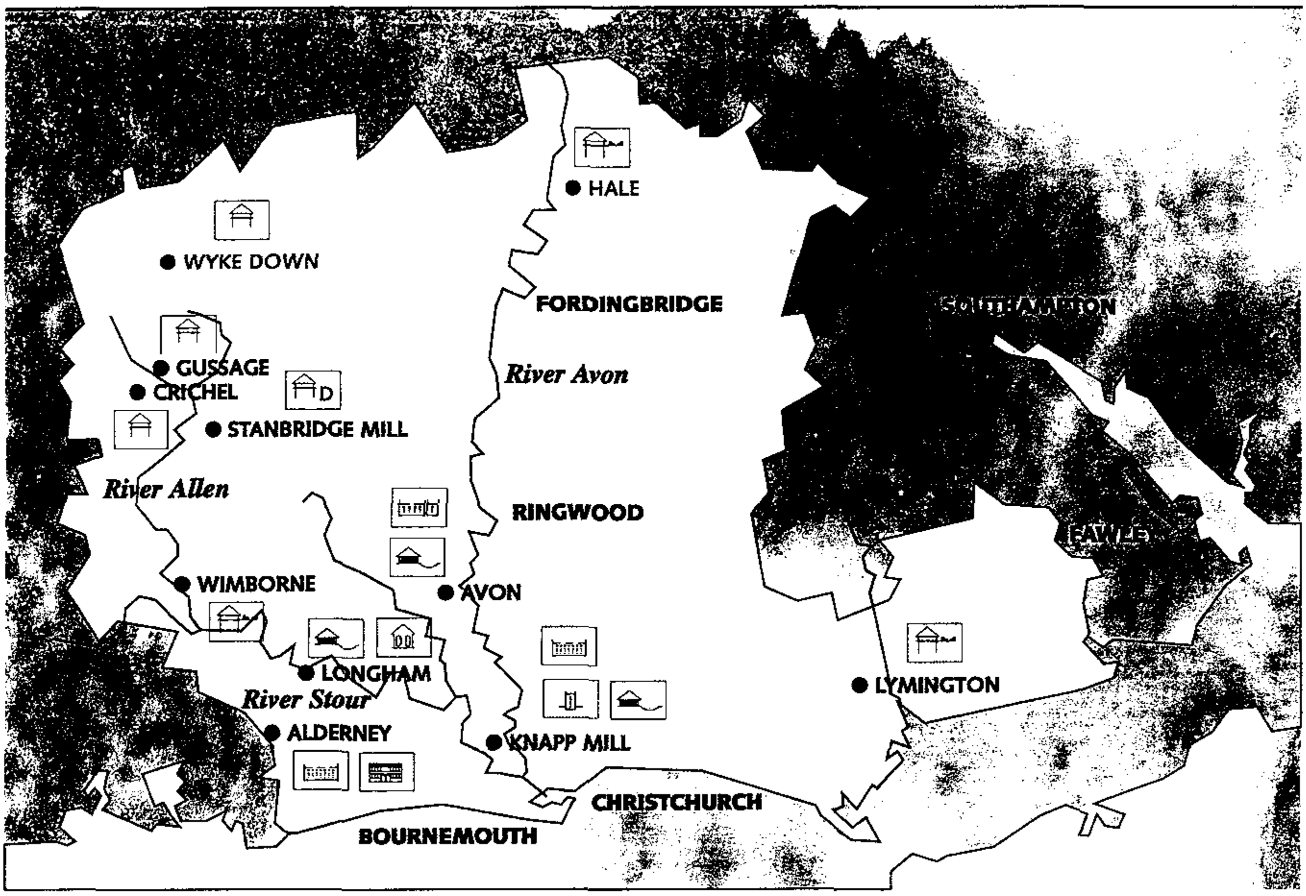
CONTENTS

Bournemouth & West Hampshire WATER

FINANCIAL HIGHLIGHTS

	1999 £ million	1998 £ million
Turnover	26.7	25.8
Profit before tax	8.8	8.5
Profit after tax	6.5	6.3
Profit attributable to ordinary shareholders	4.4	4.1
Earnings per ordinary share (basic and fully diluted)	19.4p	18.3p
Dividend per ordinary share	4.6p	3.7p
Dividend cover		
- preference share dividends	3.1 times	2.9 times
- ordinary share dividends	4.2 times	4.9 times
- combined	2.1 times	2.1 times
Tangible fixed assets	84.6	79.0 (restated)
Capital employed	64.0	60.7
Gearing	26%	21%

Area of Supply and Principal Sites



Facts and figures

		1999
Area of supply		1041km²
Population	- winter	429,000
	- summer	485,000
Length of mains		2,754km
Average daily output		156Ml
Peak day demand		199Ml
Number of properties served		184,000

Ml = megalitre (a million litres or 220,000 gallons).

Key to sites

- Boreholes - disinfection only
- River augmentation source
- Boreholes - disinfection plus filtration
- River intake
- Pressure filters
- Administration
- Slow sand filtration with GAC
- Water treatment plant
- Rapid gravity filtration

COMPANY INFORMATION

DIRECTORS

D F W White*
Chairman
He is Vice Chairman of Biwater Plc and has extensive experience in human resource management.

Major J M Mills*†
Deputy Chairman
A local landowner and farmer who has been closely involved in the water industry for many years, having previously served with the Wessex Water Authority and NRA (Wessex Region).

J S Cox*† (appointed 22 April 1999)
Non-Executive Director
A Chartered Accountant who is currently a Director of Moores Rowland International. Prior to that he was a partner in Moores Rowland with responsibility for corporate finance and audit work.

T J R Kirkhope*† (appointed 22 April 1999)
Non-Executive Director
A Solicitor by profession. He was a Member of Parliament for ten years up to 1997 and during that time a Minister for several years including Under Secretary of State at the Home Office between 1995 and 1997.

C D Morpeth*†
Non-Executive Director
Joined the Board in 1996. He is a former member of the London Stock Exchange.

W G H Tripp*†
Non-Executive Director
A Civil Engineer who has considerable experience in the water industry having previously served with Southampton Corporation Waterworks and Southern Water Authority.

A R F Cooke
Managing Director
An Economist by background with extensive UK and international general management experience.

A J D Ferrar
Finance Director and Company Secretary
A Chartered Management Accountant and Chartered Secretary, who spent ten years with the Biwater Group in the UK and overseas operations, prior to his appointment to the Board.

R I Harrington
Technical Director
A Civil Engineer who has wide experience in the water industry in operational, engineering and general management roles.

* Non-Executive † Independent

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30 Channel Way
Ocean Village
Southampton
Hampshire SO14 3QG

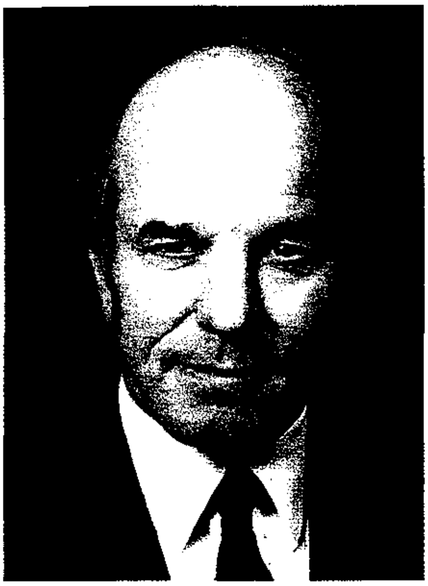
BANKERS
Lloyds Bank Plc
101 High Street, Poole
Dorset BH15 1AJ

STOCKBROKERS
Collins Stewart Ltd
21 New Street, Bishopsgate
London EC2M 4HR

REGISTRARS
Lloyds Bank Registrars
The Causeway, Worthing
West Sussex BW99 6DA

REGISTERED IN ENGLAND
Company Number 2924312

CHAIRMAN'S STATEMENT



I am pleased to present our annual report and accounts for 1998/99 for the first time as Chairman.

We have had a satisfactory year with turnover increasing by 3% to £26.7 million and profit before tax increasing by 4% to £8.8 million. This result has been achieved despite a loss of income resulting from low water users switching to meters to reduce their bills, the wetter summer affecting demand and water efficiency initiatives encouraging customers to use water wisely.

Cost of sales has risen only marginally in part reflecting our continuous effort to improve efficiency although the scope for doing so in the future is reducing.

A second interim dividend of 2.3p per ordinary share is to be paid in August 1999 in addition to the interim dividend of 2.3p paid in December 1998. No final dividend is proposed. Preference share dividends were paid in October 1998 and April 1999. Dividends are covered 2.1 times.

Water quality remains high at 99.8% compliance with the regulations. Customer service levels meet high standards. Price levels continue to reduce in real terms. Independent research demonstrates a very high level of customer satisfaction. Capital investment amounted to £9.7 million.

We have the second lowest unit operating costs in the industry and believe we are operating at the economic level of leakage. We continue to meet the demands of our customers without ever having imposed restrictions.

We have submitted our Business Plan to Ofwat in support of our bid for price limits for the 2000/01 to 2004/05 period. The scale of the investment programme to cover quality and environmental obligations required by the quality regulators and ministers is significant. Additional investment in security of essential supplies to customers, balancing future demand and supply and ongoing maintenance means that we have not been able to offer in our plan the one-off price cut in 2000/01 as suggested by Ofwat. Our plan is also based upon our own key assumptions on such issues as cost of capital, the scope for future efficiency savings and unit costs. We believe Ofwat's published assumptions in these areas are optimistic.

Draft price limits are due to be set by Ofwat on 27 July. Final price limits will be determined in November 1999 following further consultation by Ofwat and representations on the draft limits by the Company.

In order to mitigate what is expected to be a very challenging pricing review we are developing our non-core activities.

CHAIRMAN'S STATEMENT

Non-core profit before tax grew by 25% during the year to £0.2 million. Growth has largely stemmed from our Aquacare and Aquacover plumbing and home emergency insurance services. A useful contribution to non-core earnings was also made by our Fishery and Moorings activities. We will continue to seek non-core diversification where we can add value and create opportunities for our staff.

I am grateful to all our staff who have contributed to our good record and our success and to my fellow Directors.

I should like to pay tribute to my predecessor, Kenneth Gardener, who left the Board on 22 April 1999 because of his other commitments. He has steered the Company through a number of significant developments including the merger of the two former companies and the listing of the new Company. He has left me a Company in fine shape. I wish him well.

I also welcome two new non-executive Directors John Cox and Timothy Kirkhope a Chartered Accountant and Lawyer respectively, appointed on 22 April 1999. Their appointments maintain the Board's independent structure.

We anticipate making further changes to the non-executive composition of the Board during the forthcoming year to help us meet the challenges of the future.

David White

DAVID WHITE
Chairman

27 May 1999

Managing Director's Review

Water Quality
Our compliance with the drinking water standards continued to be high at 99.8%. The new disinfection process and 27 megalitre Service Reservoir at Knapp Mill were completed during the year at a cost of £5.8 million. Relining of 20km of mains near Fordingbridge was completed at a cost of £1.3 million. These investments have enabled us to discharge Undertakings under Section 19 of the Water Supply (Water Quality) Regulations.

We shall have to enter into new Undertakings following isolated exceedances of the PAH, iron and turbidity standards during the year. These Undertakings will require investigative work.

There was one water quality incident during the year relating to mains relining. A taint from a new plastic lining affected a small number of properties. There was no risk to health and the isolated problem was fully overcome. The Drinking Water Inspectorate decided that action against the company was inappropriate.

Over 100,000 operational and compliance tests were made during the year.

Resources
Rainfall for the year was 1,017 mm against the long term average of 827 mm. Ministers have confirmed that as part of our programme for 2000/01 to 2004/05 we must reduce our abstraction at Stanbridge Mill by half because of low flows on the River Allen. We must also conduct investigations into the sustainability of our abstraction on the River Avon and investigations into River Stour flows at Longham where we wish to offset the reduction at Stanbridge.

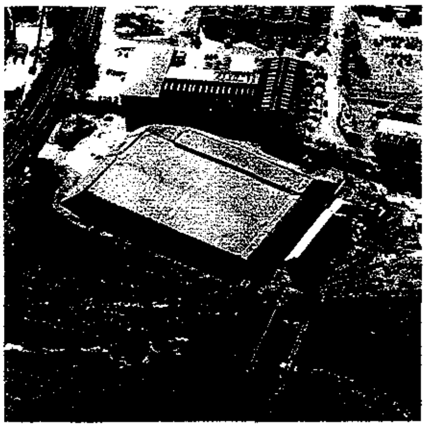
Demand Management, Metering and Water Efficiency
Demand for the year further decreased by 2.15 megalitres per day. The wet summer meant that summer demand was low.

During the year we installed 6,575 meters either at customer option or selectively in the case of sprinkler users, commercial customers and new properties. We also repaired 576 customers' supply pipes free of charge and provided subsidised replacement to a further 252. This and our active campaign to promote water efficiency by our customers through advice, cistern displacement devices, support for Action at Home and Local Agenda 21 have contributed to reduced demand.

During the next five years we intend to increase meter penetration from the current level of 21% by 5% per year. This will be achieved through customer option and further selective metering of high discretionary use, notably in areas where resources are under greatest pressure and peak demand is the highest.

Managing Director's Review

Leakage detection



New Reservoir at Knapp Mill

Longham Works

Leakage

Our target for 1998/99 was 24.3 megalitres per day which is below the level we consider to be economic. Our actual performance was 28.3 megalitres per day. This apparent increase is as a result of better information and does not represent an increase in physical losses. We are discussing our future leakage targets with Ofwat.

Water Charges

The average bill has fallen to £102 for 1999/00 from £103 in 1998/99. This compares with the industry average of £112.

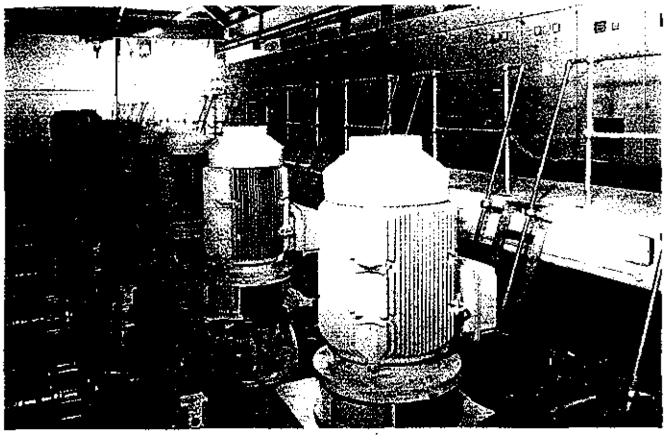
Increasing meter penetration has resulted in unmeasured charges rising faster than measured charges. The high take-up of our no charge meter option has resulted in a loss of revenue as low users switch to meters to reduce their bills. This is a key issue for discussion with Ofwat at the current pricing review.

Investment Programme

Capital investment for the year amounted to £9.7 million.

The principal projects undertaken during the year or in progress are:-

- Completion of new Reservoir and Disinfection Plant at Knapp Mill £0.7 million (total project cost £5.8 million).
- Hale Works Refurbishment £0.7 million (total project cost £2.4 million).
- Longham Primary Treatment Project £0.4 million (total project cost £9.6 million).
- Telemetry Replacement and Upgrading £0.5 million (total project cost £2.2 million).
- Completion of Mains Relining near Fordingbridge £1.2 million (total project cost £1.3 million).
- Pressure Improvement to 3,000 properties in the New Milton northern zone £0.3 million (total project cost £0.8 million).
- Bournemouth District Leakage Metering project £0.4 million (total project cost £0.8 million).
- Infrastructure renewals £1.7 million.
- Customer metering £0.6 million.



Knapp Mill reservoir high lift pumps and control panel

Investment Programme (continued)

Our investment programme for 1995/96 to 1999/00 will deliver all of the outputs expected of the Company in the 1995 pricing review.

The investment programme for the next pricing review period is again likely to be substantial. The key areas of expenditure are likely to be reducing the risk and monitoring for Cryptosporidium, security of essential supply for customers and achieving the supply/demand balance as well as providing maintenance to ensure the continued serviceability of our asset base.

Customer Service

Service levels to customers as measured by the Ofwat "DG" indicators were all in the top category for the year except for DG2 properties at risk of low pressure. This is a legacy problem where we have applied efficiency savings to reduce the number of properties potentially affected. During the five years ending in 1999/00 we shall have improved pressure to 6,200 properties leaving 2,700 properties vulnerable. We are seeking funding in our price limits for the 2000/01 to 2004/05 period to further reduce this number.

During the year we made 19 payments under the guaranteed standards scheme amounting to £190 where our service did not meet the terms of our charter.

We applied for a Charter Mark in 1998 after being nominated by one of our customers and achieved a highly commended rating but not the Charter Mark itself. We are reapplying in 1999. Independent research undertaken during the year demonstrates a high degree of customer satisfaction and has together with our Customer Consultative Group guided us on future priorities and areas of improvement. Our newsletters informing customers of our activities, initiatives and progress continue to be very well received.

We continue to work closely with the Wessex Region Ofwat Customer Services Committee in a spirit of close co-operation and shared values.

MANAGING DIRECTOR'S REVIEW

Efficiency and Continuous Improvement
We continue to strive for increased efficiency and lower costs. The scope for doing so is however reducing. Future savings will increasingly be derived from innovation and capital investment such as from automated remote meter reading and the use of mobile systems for asset information and job management.

Our unit operating costs are the second lowest in the industry. Excluding the additional operating costs related to the lowest cost solution of pesticide removal, we have exceeded the industry average efficiency improvement performance during the period 1992/93 to 1997/98.

We continue to use focus groups and benchmarking to identify areas for improvement and to use our ISO9001 accreditation to achieve best practice.

Environment
We have continued to work closely with all stakeholders to improve our environmental performance. During the year we agreed a management plan for Christchurch Harbour with English Nature. We also have engaged Hampshire Wildlife Trust to manage our Ibsley/Mockbeggar site north of Ringwood. This site is earmarked for future water storage. Our sponsorship of Local Agenda 21 programmes in Christchurch, Bournemouth and Poole has brought conservation awareness to 800 households. We are the main sponsor of the Bournemouth and Christchurch Urban Wildlife Project organised by Dorset Wildlife Trust which has been very active and successful.

We have worked constructively with the Environment Agency in developing our supply/demand balance projections and plan to meet them and our drought contingency plans. There are several key environmental issues on our future agenda mainly related to sustainability of our abstractions.

Our Environmental Review is widely distributed.


Red Admiral Butterfly

Community and Education
We continue to work closely with the communities we serve and be part of them. During the year we hosted visits to our works by groups from schools, colleges and societies in our area. We also gave external talks about our work. We participated in exhibitions including the Bournemouth Ideal Home Exhibition. The key theme of these activities is to promote understanding of our work and water conservation. We continue to support local charities in a modest way against clearly defined criteria.

We shall be holding a Public Open Day on Sunday 4 July 1999.

Managing Director's Review

1999 Periodic Review of Price Limits

After a great deal of hard work we have now submitted our Business Plan to Ofwat. Consultation on the public version of our plan is in hand to assist Ofwat reaching its preliminary conclusions which will culminate in draft price limits being published on 27 July. A further period of consultation will follow and we will be able to make representations before final price limits are set in November. These would be subject to our acceptance or, at our request, review by the Competition Commission.

Because of the scale of the investment programme mainly driven by quality, sustainability of the environment, security of supply, balancing supply and demand and the need for ongoing maintenance we have not been able to offer the one-off price reduction proposed by Ofwat. We have smoothed our proposed price limits over the five year period 2000/01 to 2004/05 to avoid price swings and to provide predictability of bills. Our proposed price limits will result in prices rising by 4.9% per year above the rate of inflation.

Year 2000 Compliance

Work continued during the year on testing and where necessary rectifying plant and equipment for Year 2000 compliance.

Non-Core Activities

Non-core profit before tax has grown by 25% compared with last year. This growth has mainly been attributable to our Aquacare plumbing and gas boiler maintenance service and our Aquacover home emergency insurance scheme. Fishing, moorings and printing activities continue to make useful contributions.

We will continue to seek non-core diversification where we can add value.

MANAGING DIRECTOR'S REVIEW

Biwater

We have continued to provide technical and operational services to Biwater related to their overseas water concessions activities. We have received visits from Biwater's customers from 15 countries during the year and played a key role in assisting Biwater to secure a major water and wastewater concession contract in South Africa.

WaterAid

Our staff raised £1,352 during the year from a variety of imaginative initiatives. The company contributed £1,328 by way of donations related to business customer research, sponsorship of staff and purchase of Christmas cards. The target to fund the Afram Plains project benefitting 4,000 people in Ghana during the year was met. Customers contributed £5,690 in one-off donations plus £6,324 in covenanted payments.

Employees

Our staff continue to benefit from our Investors in People commitment through structured development targeted at meeting their personal targets and the strategic needs of the Company. Our National Vocational Qualification programmes for all staff contribute to these objectives. The Company is Family Friendly accredited.

The skill and dedication of all our staff has been paramount to our success. I thank them all.

Tony Cooke

TONY COOKE
Managing Director

27 May 1999

Financial Review

Turnover

Regulated turnover for the year has increased by 2% to £25,817,000 reflecting the permitted tariff increases of 3.2%, but offset by reduced demand from metered customers. This reduced demand was largely due to the wetter weather in the summer months and our water efficiency initiatives. The metering programme has again resulted in a transfer of turnover from unmeasured to measured. Other regulated chargeable supplies and services increased by 11% to £3,738,000.

The total number of properties on charge increased from 177,600 to 178,900 during the year. The Company's prices were set at 0.5% below RPI for five years from 1 April 1995.

Our non-appointed business turnover grew by 62% to £887,000 reflecting the increased plumbing services activity and the launch of our insurance product, Aquacover.

In summary turnover has increased by 3% to £26,704,000. Unmeasured water sales accounted for 53% of turnover whilst measured sales provided 30%, the remaining 17% coming from other chargeable supplies and services (3% from the non-appointed business).

Operating Costs

Cost of sales in the regulated business has reduced slightly to £12,300,000 reflecting cost control measures and the reduced demand referred to above. The non-appointed cost of sales rose by 76% to £603,000 as a result of increased activity and start-up costs.

Administrative expenses have increased by 2% to £4,151,000 with the most significant factor being the increased costs relating to the 1999 Periodic Review.

Operating Profit

Operating profit has increased by 9% to £9,731,000 with operating margin increasing from 35% to 36%.

Net Interest Payable

Interest receivable reduced to £113,000 from £236,000 in the previous year as a result of lower cash deposits. Interest payable increased to £1,033,000 from £669,000 which is a result of the increase in net debt of £3,994,000 and interest rates that were higher on average compared with the previous year.

In summary, net interest payable has increased by £487,000 to £920,000, with interest covered eleven times.

Taxation

This year the effective rate on profits has remained at 28%, although the charge has been reduced by £175,000 in respect of prior years.

Shareholders Returns

Profit before tax increased by 4% to £8,811,000. The profit attributable to shareholders also increased by 4% to £6,490,000. An interim ordinary dividend of 2.3p per share was paid on 1 December 1998. A further dividend of 2.3p per share will be paid on 13 August 1999. No final dividend is proposed. A preference share dividend of 4.25p per share for the period 1 April 1998 to 30 September 1998 was paid on 1 October 1998. The preference share dividend of 4.25p per share for the period 1 October 1998 to 31 March 1999, which was paid on 1 April 1999 has been accrued in the accounts.

Dividend cover including preference share dividends has remained at 2.1 times. Ordinary dividends were covered four times. The retained profit for the year was £3,331,000.

Financial Review

Capital Investment
Capital expenditure additions during the year amounted to £9,660,000 compared with £10,241,000 in the previous year. The major items of expenditure were infrastructure renewals of £1,725,000, the Downton/Woodgreen mains relining project of £1,165,000, the new treated water reservoir and disinfection plant at Knapp Mill of £683,000 and the refurbishment of Hale treatment works of £667,000.

Various items of plant and surplus operational land were sold during the year with the proceeds exceeding the net book value by £81,000.

Cashflows
Cashflow is very seasonal with large inflows from unmeasured customers in the Spring and Autumn. Revenue expenditure is fairly consistent throughout the year, but capital expenditure can fluctuate depending on the timing of major projects.

The cash position of the Group decreased by £393,000 during the year. Cashflow generated from operations reduced to £11,804,000 from £12,186,000 principally due to timing differences on payments to suppliers. Additions to fixed assets reduced from £11,036,000 to £10,433,000. Equity dividends increased from £292,000 to £1,057,000 since the prior year did not include a final dividend from 1996/97 as ordinary dividends are prohibited under the preference share placing agreement until distributable reserves totalled £10,625,000. The net inflow from financing of £3,679,000 is explained below.

A detailed cashflow is shown on page 26 of the accounts. The gearing ratio is 26% an increase from 21% in 1998.

Financing
A further £3,000,000 of the loan facility with Brown Shipley and Company Limited was drawndown in November 1998. The interest rate on this loan is variable and based on the six month LIBOR plus margin. A short-term loan of £1,000,000 from Lloyds Bank was drawndown in March 1999 and was outstanding on 31 March 1999. A further £306,000 of the lease facility with Royal Bank of Scotland was drawndown in December 1998. This was the final drawdown on the facility. Repayments of capital totalling £627,000 were made on this and the other lease facilities during the year. The outstanding liability on the lease facilities at 31 March 1999 was £9,821,000 of which £8,296,000 related to the Royal Bank of Scotland facility.

Financial Instruments
The Group generally sources borrowings, to fund its capital expenditure programme, on a variable rate basis but will consider fixing its commitment to manage the risk if the market conditions indicate that a fixed rate is beneficial. The £3,000,000 loan from Brown Shipley and Company Limited drawndown in January 1998 was fixed at 7.35% for a five year period. This decision was based on the market conditions prevailing at the time which indicated an element of uncertainty in future interest rates. The Group holds perpetual debentures at a cost of £88,000 and £75,000. These debentures pay a fixed interest rate of 4% and 5% respectively. All other outstanding loans at the balance sheet date were being charged on a variable basis linked to LIBOR. The Group places surplus funds on the money markets usually in the form of short-term fixed deposits which are invested with approved banks. The Group does not trade in commodities, derivatives or foreign currency.

Anthony Ferrar

Anthony Ferrar
Finance Director
27 May 1999

DIRECTORS' REPORT

THE DIRECTORS HAVE PLEASURE IN PRESENTING THEIR REPORT AND THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 1999.

Principal Activities 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 an estimated resident population of 429,000, which increases to 485,000 in summer, in an area of 1,041 square kilometres through a mains network of 2,754 kilometres. The area of supply is shown on page 2 of this report.

A review of the Company's performance during the year, with comments on the financial results and future developments is given in the Managing Director's and Financial Reviews on pages 6 to 13.

Directors

The names of the present Directors of the Company are shown on page 3 . All the Directors served on the Board throughout the financial year, with the exception of Mr J S Cox and Mr T J R Kirkhope, who were appointed on 22 April 1999. In accordance with Article 92 of the Company's Articles of Association, they will retire at the forthcoming Annual General Meeting and offer themselves for re-election. Mr W K Gardener resigned as Chairman and Director on 22 April 1999. Mr D F W White was appointed Chairman in his stead.

In accordance with Article 87 the Directors retiring by rotation are Mr A R F Cooke and Mr C D Morpeth who, being eligible, offers themselves for re-election.

The current Articles require that all the Directors are required to submit themselves for re-election and that in any given year the number to retire by rotation will be one third of the Directors being those who have been in office for the longest period of time. It is proposed to amend Article 86 to ensure compliance with the Principles of Good Governance and Code of Best Practice ("the Combined Code") which provides that all Directors shall be required to submit for re-election at regular intervals and at least every three years.

In addition, under the new licence conditions proposed by Ofwat, it is also proposed to amend Article 98 so no Director can vote on any contract or arrangement or any other proposal where they have an interest by virtue of other directorships.

Results and Dividends

The result for the year was a profit before taxation of £8.8 million. The profit and loss account is shown on page 24.

The Directors propose to pay a further dividend of 2.3p per ordinary share on 13 August 1999. This is in addition to the interim dividend of 2.3p per share paid on 1 December 1998. No final dividend is proposed.

Substantial Shareholdings

The ordinary share capital is 100% owned by Biwater Capital Plc.

Donations

During the year the Company made charitable donations of £1,823. No donations were made for any political purposes during the year.

Employment of Disabled Persons

The Company gives every consideration to applications for employment from disabled persons, where the requirements of the job 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.

DIRECTORS' REPORT

Employee Involvement

Direct communication with employees is achieved through a staff consultancy committee, the Company in-house newspaper and team briefings. A review of the Company's financial position is communicated monthly and there are regular features on different aspects of the Company to help develop employees' awareness of the business.

Good employee communication is given a high priority in order to involve employees in the affairs of the business.

Material Contracts

The Company's contract with Biwater Treatment Limited for the design and construction of a new treated water storage and pumping facility at its Knapp Mill Works at Christchurch was completed at a cost of £5.2 million. The expenditure on the contract during the year was £0.7 million. The Company also completed a contract with Biwater Treatment Limited for the design and construction of the Longham Primary Treatment works at a value of £8.5 million. The expenditure on the contract during the year was £0.4 million.

Environment

Over the years the Company has become increasingly aware of its obligation to both customers and the environment and are taking a more active role in environmental issues. Details of environmental issues are outlined in the Managing Director's Review on page 9.

Payments to Suppliers

The Company's normal payment terms are to pay approved invoices in accordance with terms agreed with suppliers. The number of suppliers' days outstanding at the period end was 23 days.

In 1999/00 the Company will continue to abide by the payment terms contained in its purchase orders or contracts if applicable, whenever it is satisfied that the supplier has provided the goods and services in accordance with the agreed terms and conditions.

Millennium

The Company's aim, at the millennium, is to supply potable water to all its customers in a safe manner, whilst meeting all its statutory and regulatory requirements.

The Company has developed a programme which has identified the risks associated with the Year 2000 and addressed these risks by a series of specific action plans. The objective of the programme is to manage the risk of failure due to date dependency of each of the Company's assets to an acceptable level at minimum cost.

The programme consists of separate processes, which include all above ground operational assets such as treatment works and pumping stations, distribution assets such as meters and data loggers, information systems and telemetry monitoring equipment and all non-operational buildings. The project resource is being drawn from the business, utilising the experience and knowledge of the staff who have operated the assets in question.

Directors' Report

Millennium (continued)
The programme comprises three phases. Firstly, a comprehensive asset survey to identify all assets which would require modification or replacement, followed by a period of compliance matching and/or testing of these assets to determine whether they might fail in the Year 2000. These phases have been completed. The third phase will then either upgrade, replace or modify the assets to ensure compliance by the end of June 1999. The programme is also addressing the area of supplier compliance and the information requirements of the business. The work required to modify and upgrade critical systems is well advanced. Throughout the programme health and safety concerns are a high priority and will continue to be addressed by the project managers.

The other major element of the programme is the contingency plan which covers the critical period from early December 1999 to mid-January 2000. This will involve the planning of staff and other resources over this period which will enable the Company to respond to a variety of scenarios which may occur due to failures of equipment and services, including the impact of failures experienced by other businesses which supply services to the Company. Liaison with the emergency services, other utilities and main suppliers is a key element of the contingency plan.

The total cost incurred on the programme up to 31 March 1999 was £100,000.

The total estimated cost of the programme is currently in the region of £250,000.

Expenditure incurred on upgrade or replacement of assets will be capitalised where there is an enhancement to the operating performance of the asset as a result. Where no enhancements are achieved, expenditure will be written-off to the profit and loss account.

EMU
The Board is considering the impact of the single currency on its commercial activities, and accounting systems, to ensure that the Company will be ready to manage its introduction.

Auditors
Special Notice has been given in accordance with Sections 379 and 388(3), Companies Act 1985 of the intention to propose the ordinary resolution that PricewaterhouseCoopers be re-appointed auditors of the Company (having previously been appointed by the Board on 28 September 1998 to fill the casual vacancy arising by reason of the resignation of Price Waterhouse).

Corporate Governance
The Company's compliance with the Combined Code is reported on pages 17 to 19.

By order of the Board

A J D Ferrar
Secretary

27 May 1999

CORPORATE GOVERNANCE

In June 1998 the Stock Exchange published the Principles of Good Governance and Code of Best Practice ("the Combined Code") which brings together the work of the Cadbury, Greenbury and Hampel Committees and became effective in respect of accounting periods ending on or after 31 December 1998.

The Group is committed to high standards of corporate governance and supports the principles of governance set out in the Combined Code.

THE BOARD

The Board of Bournemouth and West Hampshire Water Plc comprises nine Directors of whom six are non-executive. The Board which meets six times a year, is responsible for the Group's long-term goals and strategy and provides overall financial and organisational control. The Board retains full and effective control over the Group and monitors the executive management.

The roles of Chairman and Chief Executive are separated and clearly defined.

The non-executive Directors do not have service contracts with the Group. The senior independent non-executive member of the non-executive Directors is Major Mills.

Major Mills, John Cox, Timothy Kirkhope, Cameron Morpeth and Graham Tripp are independent non-executive Directors as defined in the Combined Code. Their biographical notes are included with those of the other Directors on page 3.

Non-executive Directors are initially appointed for a three year term after which their appointment may be extended upon mutual agreement. In accordance with the Company's Articles of Association one-third of the Board are required to retire by rotation each year. It is proposed that the Articles be amended at the forthcoming Annual General Meeting to ensure every Director is submitted for re-election every three years.

All Directors have access to the advice and services of the Company Secretary and the Board has established a procedure whereby Directors, wishing to do so in furtherance of their duties, may take independent professional advice at the Company's expense. The Company Secretary is also charged with ensuring that all new Board members are properly equipped to fulfil their duties and responsibilities. As part of this process, new non-executive Directors are encouraged to meet the executive Directors individually and engage in a programme of visits to all areas of the Group.

BOARD COMMITTEES

The Board maintains five standing committees, all of which operate within written terms of reference. Their minutes are circulated for review and consideration to all Directors and supplemented by oral reports from the Committee Chairman.

Audit Committee

The Audit Committee which comprises Graham Tripp, John Cox and Cameron Morpeth, normally meets twice a year. The Managing Director, Finance Director and senior representatives from the external auditors also attend the meetings. Its prime tasks are to review the scope of the external and internal audit, to receive reports from PricewaterhouseCoopers and to review the half yearly and annual accounts before they are presented to the Board. The Committee reviews the effectiveness of the Group's internal financial controls and risk management systems and processes.

CORPORATE GOVERNANCE

Remuneration Committee

The Remuneration Committee comprises Major Mills, Cameron Morpeth and David White, under the Chairmanship of Major Mills. Although David White is also a Director of Biwater Plc the Board considers that this has not resulted in a conflict of interest and his contribution given his extensive experience in human resource management is considered invaluable in the conduct of this Committee.

The Committee which normally meets twice a year, recommends to the Board the Group's policy on executive Director and executive management remuneration. This includes determining the appropriate proportion of executive Directors' remuneration that should be linked to corporate and individual performance. In addition, the Committee recommends to the Board the appropriate level of the annual pay award for the staff. Further details of the remuneration policy can be found in the Remuneration Report on pages 22 and 23.

Nominations Committee

During the year the whole Board constituted a Nominations Committee. In April 1999 a Nominations Committee was established, with a majority of independent non-executive Directors comprising of Major Mills, Cameron Morpeth, Graham Tripp, Tony Cooke and Anthony Ferrar. It is intended that the Committee will meet when necessary and at least once in each year. The Committee's primary function is to make recommendations to the Board on all new appointments and also to advise generally on issues relating to Board composition and balance.

Regulation Committee

The Regulation Committee comprises Major Mills, Graham Tripp and the executive Directors. The prime task of the committee is to review all regulatory returns to Ofwat before they are presented to the Board for approval.

Capital Expenditure Committee

The Capital Expenditure Committee comprises three non-executive Directors, the three executive Directors and is chaired by Major Mills. It normally meets six times a year and its primary task is to consider all capital expenditure proposals.

INTERNAL FINANCIAL CONTROL

The Directors are responsible for the Group's system of internal financial control. The system is designed to provide reasonable but not absolute, assurance against material misstatement or loss.

The key procedures that have been established to provide effective internal financial control are:-

Control Environment and Procedures

The Group has clearly defined organisational responsibilities and limits of authority. Financial controls and procedures including information systems are contained in detailed procedure manuals. A sub-committee of the Board approves all capital expenditure up to £500,000. The sub-committee also monitors the expenditure against approvals on all capital projects. All capital expenditure above £500,000 must be approved by the Board.

Financial Reporting

A three year corporate plan including the annual budget is approved by the Board. Monthly trading results and cashflow statements are reported against the previous year figures and budget with any variances explained and action taken when appropriate. Every quarter the forecast for the full year is reviewed and updated.

CORPORATE GOVERNANCE

Risk Management
The Board's strategy is to follow a prudent risk policy which manages exposures where appropriate. The identification of major business risks is carried out in conjunction with operating management and appropriate steps taken to monitor and mitigate risks.

Monitoring Systems
The control system is monitored by an internal audit function on behalf of the Board which reviews the systems and procedures in all aspects of the Group's business with particular focus on the areas of greatest risk to the Group. The Audit Committee reviews the reports from the internal audit function, all control points raised by the external auditors and approves the internal audit annual programme.

COMPLIANCE STATEMENT
The Company has complied throughout the year with the detailed provisions set out in the Combined Code except for those matters detailed below (references in brackets relate to the specific provisions of the Combined Code).

1 During the period the entire Board has acted as a Nominations Committee for the purpose of Board appointments. A Nominations Committee was established on 22 April 1999 comprising of a majority of independent non-executive Directors (A5.1).

2 The Company's Articles of Association allow for one third of the Board to retire by rotation rather than re-election at intervals of no more than three years (A6.2). It is proposed that the Articles be amended at the forthcoming Annual General Meeting to ensure every Director is submitted for re-election every three years.

3 The composition of the Remuneration Committee includes David White, who is also a Director of Biwater Plc. The Board considers that this has not resulted in a conflict of interest and his contribution given his extensive experience in human resource management is considered invaluable in the conduct of this Committee (B2.1).

As permitted by the London Stock Exchange, the Company has complied with code provision D2.1 on internal control by reporting on financial control in accordance with the guidance for Directors on internal controls and financial reporting that was issued in December 1994.

GOING CONCERN
The Directors consider that the Group and the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the group concern basis in preparing the accounts.

Directors' responsibilities

Company Law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of the affairs of the Group and the Company and the profit or loss 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.

- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Auditors

AUDITORS' REPORT TO THE SHAREHOLDERS OF BOURNEMOUTH AND WEST HAMPSHIRE WATER PLC

We have audited the financial statements on pages 24 to 39 which have been prepared under the historical cost convention and the accounting policies set out on page 29.

Respective responsibilities of Directors and Auditors
The Directors are responsible for preparing the annual report including, as described on page 20, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the listing rules of the London Stock Exchange and our profession's ethical guidance.

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. 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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on page 19 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Group's corporate governance procedures or its internal controls.

Basis of Audit Opinion
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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 affairs of the Company and the Group as at 31 March 1999 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

Chartered Accountants and Registered Auditors
Southampton

27 May 1999

REMUNERATION REPORT

COMPLIANCE

The Remuneration Committee consists of three non-executive Directors, Major Mills, Cameron Morpeth and David White, under the chairmanship of Major Mills. Details of compliance with the Combined Code are set out on page 19.

The responsibility of the Committee is to review the remuneration of the executive Directors and other senior executives, and consider the annual pay award for the staff.

REMUNERATION POLICY

The remuneration policy is designed to attract, motivate and retain the senior executives needed and to reward them for enhancing value to shareholders and for improving efficiency and delivering quality service to customers in recognition of the guidance given by the Director General of Water Services. The determination of their annual remuneration package is undertaken by the Committee by reviewing data in comparable groups of companies.

There are three elements of the remuneration package for executive Directors:-

- Basic annual salary.
- Annual bonus payments dependent on performance and restricted to a maximum of 30% basic salary (20% for 1999/00).
- Taxable benefits in kind comprising the provision of company car, petrol, medical insurance and telephone facilities.

Basic Salary

Basic salary for the executive Directors will be reviewed each year with changes based on an assessment of job responsibilities and individual performance.

Annual Bonus Payments

Bonuses can be paid to executive Directors based on the Company's financial performance compared with the approved budget. The maximum bonus that can be paid relating to 1998/99 is 30% of their basic annual salary prevailing at the start of the financial year. This maximum bonus has been reduced to 20% for 1999/00.

Share Schemes

The executive Directors do not participate in any share option schemes.

Directors' Contracts

The service contracts of the executive Directors include notice periods of one year. The Committee consider this reflects the nature of the Company's business and the need to retain or attract appropriate executives.

REMUNERATION REPORT

Directors' Pensions Arrangements

The executive Directors are contributory members of the Biwater (Water Companies) Pension Scheme. The scheme is a defined benefit, final salary scheme which provides a pension on retirement of 1/60th of pensionable final salary for every year of pensionable service. Pensionable salary includes only basic salary. The scheme provides a pension at the age of 65 and life assurance cover amounting to three times pensionable pay during employment as well as pensions payable in the event of ill health and pensions payable to dependants on death.

NON-EXECUTIVE DIRECTORS

The remuneration of the non-executive Directors is determined by the Board by taking into account fees paid by comparable companies. Non-executive Directors do not participate in the Company's bonus scheme. They do not have service contracts, are not members of the pension schemes and do not receive any taxable benefits in kind.

Major Mills and Graham Tripp will each receive an ex-gratia pension from the Company on retirement, based on their length of service as Directors of Bournemouth Water Plc, West Hampshire Water Plc and the Company. These pensions cannot exceed 50% of their final fees and include arrangements for widows' pensions. No other non-executive Directors are entitled to any pension payments from the Company.

DETAILS OF DIRECTORS' REMUNERATION

This report should be read in conjunction with note 5 to the accounts on page 31, which gives details of all elements of Directors' remuneration and which also constitutes part of this report.

MAJOR J M MILLS
Chairman of the Remuneration Committee

27 May 1999

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 March 1999		1999			1998		
		Appointed business	Non-appointed business	Total	Appointed business	Non-appointed business	Total
	Note	£000	£000	£000	£000	£000	£000
Turnover (continuing operations)	1	25,817	887	26,704	25,285	548	25,833
Cost of sales	2	(12,300)	(603)	(12,903)	(12,494)	(342)	(12,836)
Gross profit		13,517	284	13,801	12,791	206	12,997
Administrative expenses		(4,040)	(111)	(4,151)	(4,021)	(61)	(4,082)
Other operating income	3	81	-	81	15	-	15
Operating profit (continuing operations)	4	9,558	173	9,731	8,785	145	8,930
Net interest (payable)/receivable	6	(932)	12	(920)	(436)	3	(433)
Profit on ordinary activities before taxation		8,626	185	8,811	8,349	148	8,497
Tax on profit on ordinary activities	7	(2,234)	(58)	(2,292)	(2,186)	(43)	(2,229)
Profit on ordinary activities after taxation		6,392	127	6,519	6,163	105	6,268
Minority interests	24	(29)	-	(29)	(29)	-	(29)
Profit for the year attributable to shareholders		6,363	127	6,490	6,134	105	6,239
Dividends - non-equity interests	8	(2,125)	-	(2,125)	(2,125)	-	(2,125)
- equity interests	8	(970)	(64)	(1,034)	(780)	(52)	(832)
Retained profit for the year	19	3,268	63	3,331	3,229	53	3,282
Earnings per share (basic and fully diluted)	25	-	-	19.4p	-	-	18.3p

There were no recognised gains or losses other than as shown above.
Appointed business is that regulated by the Office of Water Services (Ofwat).

BALANCE SHEETS

At 31 March 1999	Note	Group 1999	Group 1998 Restated*	Company 1999	Company 1998 Restated*
		£000	£000	£000	£000
Fixed assets					
Tangible fixed assets	9	84,581	79,014	84,581	79,014
Investments	10	-	-	48,130	48,121
		84,581	79,014	132,711	127,135
Current assets					
Stocks		153	82	153	82
Debtors : amounts falling due after more than one year	11	274	265	265	265
Debtors : amounts falling due within one year	12	3,797	4,126	6,154	6,473
Cash at bank and in hand		307	622	37	428
		4,531	5,095	6,609	7,248
Creditors: amounts falling due within one year	13	(9,578)	(10,608)	(11,867)	(12,893)
Net current liabilities		(5,047)	(5,513)	(5,258)	(5,645)
Total assets less current liabilities		79,534	73,501	127,453	121,490
Creditors: amounts falling due after more than one year	14	(15,554)	(12,843)	(64,054)	(61,343)
		63,980	60,658	63,399	60,147
Capital and reserves					
Called up share capital	18	47,483	47,483	47,483	47,483
Profit and loss account	19	16,027	12,696	15,916	12,664
Total shareholders' funds	20	63,510	60,179	63,399	60,147
Analysed as - equity shareholders' funds		*38,510*	*35,179*	*38,399*	*35,147*
- non-equity shareholders' funds		*25,000*	*25,000*	*25,000*	*25,000*
Minority shareholders' non-equity interest	24	470	479	-	-
		63,980	60,658	63,399	60,147

*See Accounting Policies on page 29 and Note 9.

Approved by the Board on 27 May 1999

D. White

David White
Chairman

CONSOLIDATED STATEMENT OF CASHFLOWS

Year ended 31 March 1999		1999		1998 Restated*	
	Note	£000	£000	£000	£000
Net cash inflow from operating activities	A		11,804		12,186
Returns on investments and the servicing of finance					
Interest received		116		278	
Interest paid on finance leases		(519)		(695)	
Interest paid		(351)		(218)	
Dividends paid on non-equity shares		(2,125)		(2,125)	
Dividends paid to minority interests		(29)		(34)	
			(2,908)		(2,794)
Taxation			(2,347)		(2,801)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(10,433)		(11,036)	
Contributions received		831		722	
Sale of tangible fixed assets		125		34	
			(9,477)		(10,280)
Acquisitions and disposals					
Purchase of shares in subsidiary undertakings			(9)		(82)
Equity dividends paid			(1,057)		(292)
Management of liquid resources					
(Increase)/decrease in short term deposits	C		(78)		2,328
Financing					
Finance lease capital raised		306		1,266	
Finance lease capital repaid		(627)		(392)	
Bank loan raised		4,000		3,000	
Repayment of mortgage loan		-		(2,000)	
			3,679		1,874
(Decrease)/increase in cash	C		(393)		139

The Statement of Cashflows should be read in conjunction with the Notes to the Statement of Cashflows on pages 27 and 28.
*See Accounting Policies on page 29 and Note 9.

NOTES TO THE STATEMENT OF CASHFLOWS

Year ended 31 March 1999	1999	1998
A. Reconciliation of operating profit to net cash inflow from operating activities	£000	£000
Operating profit	9,731	8,930
Depreciation	3,218	3,251
Profit on sale of fixed assets	(81)	(15)
(Increase)/decrease in stocks	(71)	277
Decrease/(increase) in debtors	322	(36)
Decrease in creditors	(1,315)	(221)
Net cash inflow from operating activities	11,804	12,186

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

	1997 £000	1998 £000	1999 £000	Change in year £000
Cash	311	450	57	(393)
Cash on short term deposits	2,500	172	250	78
Cash at bank and in hand	2,811	622	307	(315)

	1999	1998
C. Reconciliation of net cashflow to movement in net debt	£000	£000
(Decrease)/increase in cash in the year	(393)	139
Increase in debt and lease financing	(3,679)	(1,874)
Increase/(decrease) in liquid resources	78	(2,328)
Increase in net debt from cashflows	(3,994)	(4,063)
Net debt at 1 April	(12,683)	(8,620)
Balance at 31 March	(16,677)	(12,683)

NOTES TO THE STATEMENT OF CASHFLOWS

	1999	1998
D. Reconciliation of movement in debtors and creditors to working capital	£000	£000
Decrease in debtors	329	302
Decrease in interest prepayment	(7)	(338)
Net movement in debtors working capital	322	(36)
(Decrease)/increase in creditors	(1,929)	72
(Increase)/decrease in interest accrual	(159)	540
Decrease/(increase) in fixed asset accrual	773	(833)
Net movement in creditors working capital	(1,315)	(221)

E. Analysis of net debt

	1 April 1998	Cash flow	31 March 1999
	£000	£000	£000
Cash	450	(393)	57
Debt due after one year	(3,163)	(3,000)	(6,163)
Debt due within one year	-	(1,000)	(1,000)
Finance leases	(10,142)	321	(9,821)
Cash on short term deposits	172	78	250
	(12,683)	(3,994)	(16,677)

ACCOUNTING POLICIES

Basis of accounting
The financial statements on pages 24 to 39 have been prepared in accordance with applicable accounting standards and, except for the treatment of certain contributions, with the Companies Act 1985 ('the Act'). An explanation of this departure from the requirements of the Act is given in the fixed assets section below.

Accounting convention
The financial statements have been prepared under the historical cost convention.

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

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

Fixed assets

a) Infrastructure assets

Infrastructure assets comprise a network of underground 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 at cost after deducting any grants and contributions.

The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network which is based on the Company's independently certified asset management plan.

It has been necessary to change the method of accounting for infrastructure maintenance expenditure following the introduction of FRS12 as it is no longer possible to account for the difference between planned and actual expenditure on infrastructure renewals as a provision or prepayment. As a consequence the balance sheet has been restated to take account of necessary changes since the year to 31 March 1989, when renewals accounting was first adopted in the accounts, and any previous provisions or prepayments have been subsumed into fixed assets. Further information is given in note 9. This change of accounting policy has no effect on the profit and loss account other than to reclassify the renewals charge as depreciation.

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

b) Other fixed assets

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

Buildings and reservoirs	80 - 100 years	Office equipment	3 - 5 years
Plant and equipment	10 - 40 years	Motor vehicles	4 - 5 years

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

Investments
Investments in subsidiary undertakings are stated at cost.

Stocks
Stocks comprise materials and consumables valued at lower of cost or net realisable value. In accordance with established practice in the Water Industry no value has been placed upon the water in reservoirs, mains and in the course of treatment.

Deferred taxation
Deferred taxation is provided for timing differences of a material amount, which are expected to result in a taxation liability or asset in the foreseeable future.

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

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

NOTES TO THE ACCOUNTS

	1999			1998		
	Appointed business	Non-appointed business	Total	Appointed business	Non-appointed business	Total
	£000	£000	£000	£000	£000	£000
1. Turnover, all of which, except for £8,000 (1998 £36,000) arises in the UK.						
Unmeasured supplies	14,223	-	14,223	14,576	-	14,576
Measured supplies	7,856	-	7,856	7,331	-	7,331
Other chargeable supplies and services	3,738	887	4,625	3,378	548	3,926
	25,817	887	26,704	25,285	548	25,833
2. Cost of sales						
Distribution	5,907	-	5,907	6,109	-	6,109
Sources of supply	4,062	-	4,062	4,164	-	4,164
Rates	1,642	-	1,642	1,553	-	1,553
Water abstraction charges	689	-	689	668	-	668
Other	-	603	603	-	342	342
	12,300	603	12,903	12,494	342	12,836
3. Other operating income						
Profit on disposal of fixed assets	81	-	81	15	-	15

4. Operating profit	1999	1998
	£000	£000
Operating profit is stated after charging:		
Depreciation - owned assets	1,871	1,651
- assets held under finance leases	250	380
- infrastructure assets (1998 restated)	1,097	1,220
Auditors' remuneration - statutory accounts (Group and Company)	26	25
- non-audit services (Group and Company) - Price Waterhouse	10	101
- PricewaterhouseCoopers	67	-
Operating leases - plant and machinery	36	47
Staff costs including those capitalised in fixed assets comprise:		
Wages and salaries	5,014	4,761
Social security costs	437	410
Other pension costs	38	74
	5,489	5,245
The average number of employees during the year was:	Number	Number
Full-time employees	237	228
Part-time employees	20	15

NOTES TO THE ACCOUNTS

5. Directors' emoluments

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

	1999 Salary or Fees £000	1999 Bonus £000	1999 Benefits £000	1999 Total £000	1998 Total £000
Chairman					
W K Gardener (resigned 22 April 1999)	20	-	-	20	20
Executive Directors					
A R F Cooke	75	9	9	93	100
A J D Ferrar	64	8	8	80	86
R I Harrington (appointed 19 December 1997)	64	8	8	80	24
Non-executive Directors					
Major J M Mills	15	-	-	15	15
C D Morpeth	13	-	-	13	13
W G H Tripp	13	-	-	13	13
D F W White	13	-	-	13	13
Total remuneration	277	25	25	327	284

a) Fees paid in respect of W K Gardener and D F W White are paid to Biwater Plc.

b) Benefits consist of the provision of company car, petrol, medical insurance and telephone facilities.

c) The bonus payments relate to a performance related scheme based on the Company's financial performance compared with budget. The payments relate to a 12 month period from 1 April 1998 to 31 March 1999. The maximum payable to executive Directors is 30% per annum of basic salary at the start of the bonus payment period. The bonus payable for the period 1 April 1998 to 31 March 1999 amounted to 12.5%. No other Directors participate in the bonus scheme.

d) The executive Directors' also participate in the Company's profit related pay scheme.

e) Major J M Mills had a beneficial interest of 1,000 shares in West Hampshire Water Plc at 1 April 1998 and 31 March 1999. There was no change in his shareholding up until the date of this report.

f) For further information on the remuneration of Directors see the Remuneration Report on pages 22 and 23.

The accrued pension benefits of the Directors at 31 March 1999 were as follows :

Name	Increase in accrued pension in year (per annum) £	Transfer value increase £	Total accrued pension as at 31 March 1999 (per annum) £
A R F Cooke	1,336	14,141	9,681
A J D Ferrar	1,296	9,381	15,841
R I Harrington	1,136	10,232	6,441
Major J M Mills	159	1,542(a)	7,125
W G H Tripp	133	1,424(a)	5,938

a) Transfer values have been calculated as if retirement had taken place on 31 March 1999. These ex-gratia pension arrangements are not funded within the Company's pension scheme.

NOTES TO THE ACCOUNTS

	1999	1998
	£000	£000
6. Net interest payable		
Interest payable		
Perpetual debenture stocks	(7)	(7)
Finance lease agreements	(643)	(577)
Bank borrowings	(348)	(67)
Mortgage loans and acceptance credit	-	(16)
Other	(35)	(2)
	(1,033)	(669)
Interest receivable		
Short term and bank deposits	97	185
Parent undertakings	16	10
Other	-	41
	113	236
Net interest payable	(920)	(433)
7. Tax on profit on ordinary activities		
Corporation tax based on profit for the period at 31% (1998 31%)	2,467	2,379
Adjustment in respect of prior years	(175)	(150)
	2,292	2,229

The effective rate of tax in 1999 is lower than 31% largely because of deferred tax not being provided on accelerated capital allowances, where that tax is not expected to crystallise in the foreseeable future.

	1999	1998
8. Dividends paid		
8.5% cumulative irredeemable preference shares	1,062	1,062
Ordinary shares	517	292
	1,579	1,354
Dividends proposed		
8.5% cumulative irredeemable preference shares	1,063	1,063
Ordinary shares	517	540
	3,159	2,957
Analysed as :		
Non-equity interests	2,125	2,125
Equity interests	1,034	832
	3,159	2,957

NOTES TO THE ACCOUNTS

9. Tangible fixed assets -Group and Company	Freehold land and easements	Property and reservoirs	Plant and equipment	Infra-structure assets	Office equipment	Motor vehicles	Total
				1999			
Cost	£000	£000	£000	£000	£000	£000	£000
1 April 1998	1,252	20,506	29,259	47,022	3,400	1,979	103,418
Additions	152	2,409	2,361	3,974	368	396	9,660
Disposals	-	(45)	(153)	(184)	(2)	(237)	(621)
31 March 1999	1,404	22,870	31,467	50,812	3,766	2,138	112,457
Contributions							
1 April 1998	-	-	-	3,653	-	-	3,653
Additions	-	-	-	831	-	-	831
Disposals	-	-	-	(15)	-	-	(15)
31 March 1999	-	-	-	4,469	-	-	4,469
Depreciation							
1 April 1998	-	3,461	6,994	6,223	2,802	1,271	20,751
Charge in the year	-	283	1,321	1,097	280	237	3,218
Disposals	-	(23)	(136)	(169)	(2)	(232)	(562)
31 March 1999	-	3,721	8,179	7,151	3,080	1,276	23,407
Net book amount							
31 March 1999	1,404	19,149	23,288	39,192	686	862	84,581
1 April 1998	1,252	17,045	22,265	37,146	598	708	79,014

a) Tangible fixed assets financed by leasing amounted to £12,800,000 (1998 £12,977,000) less accumulated depreciation of £1,907,000 (1998 £1,772,000). Property and reservoirs includes an amount of £481,000 (1998 £2,942,000) and plant and equipment includes an amount of £186,000 (1998 £3,204,000) relating to assets in the course of construction.

b) Following the introduction of FRS12, and the change in accounting for infrastructure maintenance expenditure detailed in the Accounting Policy note on page 29, the following adjustments have been made to prior year figures:

	31 March 1998 Restated	As previously reported
	£000	£000
Cost of infrastructure assets	47,022	40,303
Contributions	3,653	3,688
Cumulative depreciation of infrastructure assets	6,223	-
Creditors - accruals and deferred income	819	880
Debtors - prepayments	328	920

This change of accounting policy has no effect on shareholders' funds or the profit and loss account other than to reclassify the infrastructure renewals charge as depreciation.

NOTES TO THE ACCOUNTS

	Group 1999	Group 1998	Company 1999	Company 1998
	£000	£000	£000	£000
10. Investments				
Shares in subsidiary undertakings	-	-	48,130	48,121

During the year a further 420 shares of the ordinary share capital of Bournemouth Water Plc has been acquired for a cash consideration of £5,804, at a price of £13.82 per share.

During the year a further 282 shares of the ordinary share capital of West Hampshire Water Plc has been acquired for a cash consideration of £2,831, at a price of £10.04 per share.

At 31 March 1999 the Company's subsidiary undertakings were:

Name	**Country of registration**	**Principal activity**	**Proportion of ordinary shares held**	
Bournemouth Water Plc	England	Investment holding company	Voting -	99%
West Hampshire Water Plc	England	Investment holding company	Voting -	99%
			Non-voting -	97%
Mill Stream Insurance Ltd	Guernsey	Insurance	Voting -	100%

	Group 1999	Group 1998	Company 1999	Company 1998
11. Debtors: amounts falling due after more than one year				
ACT recoverable	274	265	265	265

	Group 1999	Group 1998	Company 1999	Company 1998
12. Debtors: amounts falling due within one year				
Trade debtors	3,031	3,452	3,031	3,452
Amounts owed by parent and fellow subsidiary undertakings	5	65	2,322	2,412
Other debtors	427	281	427	281
Prepayments	334	328	374	328
	3,797	4,126	6,154	6,473

NOTES TO THE ACCOUNTS

	Group 1999	Group 1998	Company 1999	Company 1998
	£000	£000	£000	£000
13. Creditors : amounts falling due within one year				
Bank loans	1,000	-	1,000	-
Payments on account	1,772	1,759	1,772	1,759
Trade creditors	1,163	2,171	1,163	2,171
Amounts owed to parent undertaking and fellow subsidiaries	148	1,053	148	1,053
Amounts owed to subsidiary undertakings : interest	-	-	3,712	3,988
Other creditors	98	86	98	70
Dividends payable	1,580	1,603	1,580	1,603
Dividends payable - minority interests	23	23	-	-
Net obligations under finance leases	430	462	430	462
Taxation and social security	135	133	135	133
Corporation tax	2,188	2,234	792	573
ACT payable	265	265	265	265
Accruals and deferred income	776	819	772	816
	9,578	10,608	11,867	12,893
14. Creditors : amounts falling due after more than one year				
Amounts due between one and five years :				
Bank loan	6,000	3,000	6,000	3,000
Net obligations under finance leases	2,013	2,030	2,013	2,030
Amounts due after more than five years :				
Perpetual debentures	163	163	163	163
Net obligations under finance leases	7,378	7,650	7,378	7,650
Amounts owed to subsidiary undertakings	-	-	48,500	48,500
	15,554	12,843	64,054	61,343

NOTES TO THE ACCOUNTS

	Group 1999	Group 1998	Company 1999	Company 1998
14. Creditors - continued	£000	£000	£000	£000
Analysis of borrowings				
Borrowings are repayable as follows:				
Due within one year				
Bank loan	1,000	-	1,000	-
Leases	430	462	430	462
	1,430	462	1,430	462
Due within one to two years				
Leases	457	463	457	463
Due within two to five years				
Bank loan	6,000	3,000	6,000	3,000
Leases	1,556	1,567	1,556	1,567
	7,556	4,567	7,556	4,567
Due after five years				
Perpetual debentures	163	163	163	163
Leases	7,378	7,650	7,378	7,650
Amounts owed to subsidiary undertakings	-	-	48,500	48,500
	7,541	7,813	56,041	56,313
Total due in over one year	15,554	12,843	64,054	61,343

£3,000,000 of a five year loan facility with Brown Shipley and Company Limited of £6,000,000 was drawndown on 7 January 1998. Interest is fixed at 7.35% for the five year period by way of an interest rate swap with Lloyds Bank Plc on 7 January 1998. The balance of £3,000,000 was drawndown on 19 November 1998 and incurs interest based on the six month LIBOR rate prevailing at the time. The total facility is repayable on 6 January 2003.

There are three finance leases due for completion after five years and these will be fully repaid within, 7, 9 and 11 years. Repayments of principal and interest are made on a half-yearly basis with interest calculated at the six month LIBOR rate prevailing at the time of payment. In addition, the Company has entered into a 20 year finance lease of which £8,296,000 (1998 £8,497,000) was outstanding at 31 March 1999. Repayments of principal and interest are made annually and commenced in January 1998. Interest is based on the three month variable rate of LIBOR. The perpetual debentures consist of £88,000 at 4% per annum and £75,000 at 5% per annum.

The amounts owed to subsidiary undertakings represent loan notes with no repayment date and bear interest at 9.275% (1998 9.275%) per annum. Due to the reduction in corporation tax to 30% from 1 April 1999 the interest on the loan notes reduced to 9.15% per annum from that date.

NOTES TO THE ACCOUNTS

15. Financial Instruments

Short term debtors and creditors have been excluded from the following disclosures.
Currency and interest rate profile for the Group at 31 March 1999 was:-

Currency	Fixed interest rate %	Period	Fixed rate £000	Floating rate £000	Total £000
Sterling	8.50	irredeemable	25,000		25,000
Sterling	7.35	4 years	3,000		3,000
Sterling	5.00	perpetual	75		75
Sterling	4.00	perpetual	88		88
Sterling				12,391	12,391
			28,163	12,391	40,554

Generally the Group sources borrowings on a variable rate, but considers fixing its commitment if the market conditions indicate that a fixed rate is beneficial (see page 13 for details of the Group's financial instrument policy). Floating rate borrowings bear interest based on the three or six months LIBOR rate prevailing at the time.

The fair value of cash at bank and in hand and borrowings at 31 March 1999 was equal to the book value at that date. The fair value of the interest rate swap at the mark to market rate held for hedging purposes was £3,165,581, against a book value of £3,000,000, of which £165,581 was unrecognised at 31 March 1999. The value of the Group's undrawn borrowing facilities at 31 March 1999 was £2,000,000.

	Group 1999	Group 1998	Company 1999	Company 1998
	£000	£000	£000	£000
16. Operating leases - plant and machinery				
At 31 March 1999 the Group and the Company had annual commitments under operating leases which expire :				
Within one year	6	6	6	6
In the second to fifth years inclusive	49	41	49	41
	55	47	55	47
17. Deferred taxation				
The maximum potential liability for deferred taxation comprises :				
Accelerated capital allowances	7,200	7,370	7,200	7,370

No provision is made for tax deferred by capital allowances as the continuing programme of capital expenditure makes it appear unlikely that such timing differences will reverse.

NOTES TO THE ACCOUNTS

	Authorised 1999	Authorised 1998	Issued and fully paid 1999	Issued and fully paid 1998
	£000	£000	£000	£000
18. Called up share capital - Group and Company				
The authorised and issued share capital is as follows :				
Equity interests : Ordinary shares of £1 each	**50,000**	50,000	**22,483**	22,483
Non-equity interests: 8.5% cumulative irredeemable preference shares of £1 each	**25,000**	25,000	**25,000**	25,000
	75,000	75,000	**47,483**	47,483

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

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

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

	Group 1999	Group 1998	Company 1999	Company 1998
19. Profit and loss account	£000	£000	£000	£000
Retained profit brought forward	**12,696**	9,414	**12,664**	9,414
Retained profit for the period	**3,331**	3,282	**3,252**	3,250
Balance at 31 March	**16,027**	12,696	**15,916**	12,664

A separate profit and loss account for the Company has not been presented in accordance with section 230 of the Companies Act 1985.

	Group 1999	Group 1998	Company 1999	Company 1998
20. Movement in shareholders' funds				
Profit for the financial year	**6,490**	6,239	**6,411**	6,207
Dividends	**(3,159)**	(2,957)	**(3,159)**	(2,957)
Net additions to shareholders' funds	**3,331**	3,282	**3,252**	3,250
Opening shareholders' funds	**60,179**	56,897	**60,147**	56,897
Closing shareholders' funds	**63,510**	60,179	**63,399**	60,147
21. Capital commitments - Group and Company				
Authorised and contracted	530	1,080	530	1,080

NOTES TO THE ACCOUNTS

22. Pension commitments

The Biwater (Water Companies) Pension Scheme was established, as a separate division of the Biwater Retirement and Security Scheme (BRASS), to provide defined benefits to a closed group of employees of the former East Worcestershire, Bournemouth and West Hampshire Water Companies who were previously members of the Water Companies Association Pension Scheme.

On 1 July 1994, the three individual 'sub funds' that initially related to each of these three employers were merged; also from that date the scheme began admitting new members. A transfer of 31 members from the main section of BRASS into this scheme was effected on 1 July 1994 together with an appropriate transfer of assets. These members will receive benefits in accordance with the terms of the main section of BRASS. The Company paid contributions to the scheme during the year at a rate recommended by the professionally qualified actuaries. The most recent actuarial valuation was as at 1 January 1997. The significant actuarial assumptions in that valuation were as follows:-

Valuation method	Projected unit
Investment returns	9.0% per annum
Salary growth	7.0% per annum
Price inflation	5.0% per annum

The actuarial valuation at 1 January 1997 by an independent qualified actuary showed that the market value of that part of the scheme's assets relating to the Company was £43 million. The actuarial value of the assets was sufficient to cover 116% of the value of benefits that had accrued to members, allowing for assumed future pay and pensions increases.

Pension costs charged in the accounts were £38,000 (1998 £74,000). The reduction in pension costs reflects the full year impact of the reduced regular cost following the most recent valuation.

23. Ultimate parent undertaking

The ultimate parent undertaking is Biwater Plc, which is registered in England and Wales, and is the largest company for which Group accounts are prepared. Copies of these accounts for the year ended 31 March 1999 are available from the Company Secretary, Biwater Plc, Biwater House, Station Approach, Dorking, Surrey RH4 1TZ. The controlling shareholder is Mr A E White C.B.E.

24. Minority shareholders' non-equity interest

	£000
At 1 April 1998	479
Purchase of minority interests	(9)
Profit and loss account - charge for year	29
Dividends payable	(29)
At 31 March 1999	**470**

25. Earnings per share

The earnings per share for the year ended 31 March 1999 is based on earnings of £4,365,000 and ordinary shares of 22,483,492 (1998 - earnings of £4,114,000 and ordinary shares of 22,483,492).

26. Related parties

The Group is exempt from complying with FRS 8 on transactions with other related companies within the Biwater Group which qualify as related parties, but similar information may be seen in the Notes to the Regulatory Accounts on page 50.

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Bournemouth and West Hampshire Water Plc will be held at George Jessel House, Francis Avenue, Bournemouth on 1 October 1999 at 2.15pm for the following purposes :

1. To receive and adopt the Report of the Directors and the Audited Accounts for the period ended 31 March 1999.

2. That as a result of two interim dividends each of 2.3p per ordinary share having been paid for the year ended 31 March 1999, no final dividend be paid.

3. To re-elect Mr J S Cox as a Director.

4. To re-elect Mr T J R Kirkhope as a Director.

5. To re-elect Mr A R F Cooke as a Director, who retires by rotation and offers himself for re-election.

6. To re-elect Mr C D Morpeth as a Director, who retires by rotation and offers himself for re-election.

7. To re-appoint PricewaterhouseCoopers as auditors (having previously been appointed by the Board to fill a casual vacancy arising by reason of the resignation of Price Waterhouse) and to authorise the Directors to fix their remuneration.

8. To consider and, if thought fit, pass the following as a special resolution:
That the Articles of Association of the Company be amended by the deletion of the existing Articles 86 and 98 and the substitution of the following Articles:-

86. (A) Each Director must retire not later than the third Annual General Meeting following his last appointment or reappointment in general meeting.

(B) In any event, at every Annual General Meeting, a minimum number of Directors must retire, and that number includes any Directors retiring under Article 86(A). The minimum number is one-third, or where the number of Directors is not divisible by three, the number which is nearest to and less than one-third. If there are fewer than three Directors they shall all retire.

(C) The Directors to retire on each occasion (both as to number and identity) shall be determined by the composition of the Board at the start of business on the date of the notice convening the Annual General Meeting and no Director shall be required to retire or to be relieved from retiring by reason of any change in the number or identity of Directors after that time on the date of the notice but before close of the meeting.

98. (A) Save as otherwise provided by these Articles, a Director shall not vote at a meeting of the Directors or of a committee of the Directors in respect of any contract or arrangement or any other proposal whatsoever (i) in which he has any material interest otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company or (ii) which involves another company of which he is a Director.
A Director shall not be counted in the Quorum at a meeting in relation to any resolution on which he is debarred from voting.

(B) Subject to the provisions of the Statutes, a Director shall (in the absence of some material interest other than one indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution at such meeting concerning any of the following matters, namely:-

(i) The giving of any security or indemnity to him in respect of money lent or obligations incurred by him at the request of or for the benefits of the Company or any of its subsidiaries;

(ii) The giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

(iii) Any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase in which offer he is or is to be interested as a participant in the underwriting or sub-underwriting thereof for subscription, purchase or exchange.

(iv) Any proposal concerning any other company in which he is interested, directly or indirectly and whether shareholder or otherwise howsoever, provided that he (together with persons connected with him within the meaning of Section 346 of the Act) is not a director of such company or the holder of or beneficially interested in one per cent or more of the issued shares of any class of such company (or of any third company through which his interest is derived) or of the voting rights available to members of the relevant company (any such interest being deemed for the purpose of this Article to be a material interest in all circumstances), interest for the purposes of this paragraph (iv) having the meaning given to it in Sections 198 to 211 of the Act;

NOTICE OF MEETING

(v) Any arrangement for the benefit of employees of the Company or of any of its subsidiaries under which the Director benefits in a similar manner to the employees and that does not accord to any Director as such any privilege or advantage not generally accorded to the employees to whom such arrangement relates;

(vi) Any proposal concerning an insurance policy or policies proposed to be purchased or maintained by the Company for the benefit of the Directors or other persons including the Directors.

(C) Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) of two or more Directors to offices or employments with the Company or any Company in which the Company is interested, such proposals may be divided and considered in relation to each Director separately and in such case each of the Directors concerned (if not debarred from voting under paragraph (B) (iv) of this Article) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.

(D) If any question shall arise at any time as to the materiality of a Director's interest or as to the entitlement of any Director to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to any other Director shall be final and conclusive and in case the Director be the chairman of the meeting the decision of the other Directors shall be final and conclusive expect in a case where the nature or extent of the interests of such Director has not been fairly disclosed.

(E) The Company may by Ordinary Resolution suspend or relax the provisions of this Article to any extent or ratify any transaction not duly authorised by reason of a contravention of this Article.

By order of the Board

A J D Ferrar
Secretary

Registered Office:
George Jessel House,
Francis Avenue,
Bournemouth,
Dorset BH11 8NB.

27 May 1999

A shareholder entitled to attend and vote is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a shareholder of the Company. A form of proxy accompanies this document.

Explanation of Agenda item 8
Article 86 (Rotation of Directors) is to be amended to ensure compliance with the Combined Code which provides that all Directors shall be required to submit for re-election at regular intervals and at least every three years.
Article 98 (Directors' entitlement to vote at Meetings of Directors) is to be amended to ensure compliance with the new licence proposed by Ofwat which requires the Directors to be prohibited from voting in matters where they have an interest by virtue of other directorships.

PROVISION OF REGULATORY ACCOUNTING INFORMATION AND LICENCE CONDITION F6A

PROVISION OF REGULATORY ACCOUNTING INFORMATION

The historic profit and loss account required by the Director General of Water Services has been incorporated into the Statutory Accounts, except for certain additional information, which is included on pages 44 to 50. The historic cost regulatory balance sheet (page 44) and cashflow information (Pages 45 to 47) are presented separately due to the introduction of FRS12 and the change in accounting for infrastructure maintenance expenditure detailed in the Accounting Policy note on page 29. In accordance with instructions from Ofwat the requirements of FRS12 have not been applied to infrastructure maintenance expenditure. Consequently the additional information on pages 44 to 50 present a revised balance sheet, cashflow and notes using the accounting principles for infrastructure maintenance expenditure applied in previous years. The Current Cost Accounts are included on pages 51 to 59.

LICENCE CONDITION F6A

As required by the Director General of Water Services, the Board hereby certifies :

1. that in the opinion of the Directors, Bournemouth and West Hampshire Water Plc will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the appointee's obligations under the appointment); and

2. that in the opinion of the Directors the appointee will, for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out those functions.

By order of the Board

A J D Ferrar
Secretary

27 May 1999

REPORT OF THE AUDITORS ON THE REGULATORY ACCOUNTS

Report of the Auditors to the Director General of Water Services

We have audited the financial statements for the year ended 31 March 1999, on pages 24 to 39 together with the additional information on pages 44 to 50 which have been prepared under the historical cost convention and the accounting policies set out on pages 29 and 42. We have audited the financial statements for the year ended 31 March 1999, on pages 51 to 59 which have been prepared under the current cost convention and the accounting policies set out on page 54.

Respective responsibilities of directors and auditors

As described on page 20 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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 – qualified solely as regards the historical cost regulatory balance sheet

The historical cost regulatory balance sheet on page 44 has been drawn up in accordance with Ofwat's instructions of 21 April 1999 that infrastructure renewals accounting as applied in previous years should be continued and the relevant sections of Financial Reporting Standard 12 are disapplied. As a consequence amounts of £58,000 and £1,217,000 have been included under provisions and prepayments respectively in the regulatory balance sheet. This has the effect of reducing the net book value of fixed assets compared to that shown in the statutory balance sheet on page 25 by £1,159,000.

In our opinion the financial statements contain the information for the year to 31 March 1999 required to be published and submitted to you by Bournemouth and West Hampshire Water Plc to comply with Condition F of the Instrument of Appointment by the Secretary of State for the Environment of the Company as a water undertaker under the Water Industry Act 1991.

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

1 Proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F of the Instrument.

2 The information is in agreement with the appointee's accounting records, complies with the requirements of Condition F of the Instrument and has been properly prepared in accordance with the Regulatory Accounting Guidelines issued by the Office of Water Services.

3 The financial statements on pages 24 to 39 together with additional information on pages 44 to 50 for the year to 31 March 1999 give, under the historical cost convention, a true and fair view of the revenues, costs and, except for accounting for infrastructure renewals in the regulatory balance sheet in the manner referred to above, the assets and liabilities of the appointee and its appointed business.

4 The current cost financial information on pages 51 to 59 has been properly prepared in accordance with the Regulatory Accounting Guidelines 1.02, Accounting for the Current Costs issued in May 1992 by the Office of Water Services.

PRICEWATERHOUSECOOPERS

Chartered Accountants and Registered Auditors
Southampton

27 May 1999

CONSOLIDATED HISTORIC COST REGULATORY BALANCE SHEET

At 31 March 1999	Statutory Note	Regulatory Note	1999 £000	1998 £000
Fixed assets				
Tangible fixed assets		A	**83,422**	78,483
			83,422	78,483
Current assets				
Stocks			**153**	82
Debtors - amounts falling due after more than one year	11		**274**	265
Debtors - amounts falling due within one year		B	**5,014**	4,718
Cash at bank and in hand			**307**	622
			5,748	5,687
Creditors: amounts falling due within one year		C	**(9,636)**	(10,669)
Net current liabilities			**(3,888)**	(4,982)
Total assets less current liabilities			**79,534**	73,501
Creditors: amounts falling due after more than one year	14		**(15,554)**	(12,843)
			63,980	60,658
Capital and reserves				
Called up share capital	18		**47,483**	47,483
Profit and loss account	19		**16,027**	12,696
Total shareholders' funds	20		**63,510**	60,179
Analysed as - equity shareholders' funds			*38,510*	*35,179*
- non-equity shareholders' funds			*25,000*	*25,000*
Minority shareholders' non-equity interest	24		**470**	479
			63,980	60,658

Due to the immateriality of amounts involved, a separate balance sheet for the non-appointed business has not been prepared.

CONSOLIDATED HISTORIC COST REGULATORY STATEMENT OF CASHFLOWS

Year ended 31 March 1999		1999		1998	
	Note	£000	£000	£000	£000
Net cash inflow from operating activities	(i)		**11,804**		12,186
Returns on investments and the servicing of finance					
Interest received		**116**		278	
Interest paid - finance lease		**(519)**		(695)	
Interest paid		**(351)**		(218)	
Dividends paid on non-equity shares		**(2,125)**		(2,125)	
Dividends paid to minority interests		**(29)**		(34)	
			(2,908)		(2,794)
Taxation			**(2,347)**		(2,801)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(8,708)**		(9,408)	
Infrastructure renewals expenditure		**(1,725)**		(1,628)	
Contributions received		**831**		722	
Sale of tangible fixed assets		**125**		34	
			(9,477)		(10,280)
Acquisitions and disposals					
Purchase of shares in subsidiary undertakings			**(9)**		(82)
Equity dividends paid			**(1,057)**		(292)
Management of liquid resources					
(Increase)/decrease in short term deposits	(iii)		**(78)**		2,328
Financing					
Net finance lease capital raised		**306**		1,266	
Finance lease capital repaid		**(627)**		(392)	
Bank loan raised		**4,000**		3,000	
Repayment of mortgage loan		**-**		(2,000)	
			3,679		1,874
(Decrease)/increase in cash	(iii)		**(393)**		139

The Statement of Cashflows should be read in conjunction with the Notes to the Statement of Cashflows on pages 46 and 47.
For the reconciliation of current cost operating profit to net cashflow from operating activities see Note 6 to the Current Cost Accounts.

NOTES TO THE HISTORIC COST REGULATORY STATEMENT OF CASHFLOWS

Year ended 31 March 1999	1999	1998
	£000	£000
(i) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	**9,731**	8,930
Depreciation	**2,121**	2,031
Profit on sale of fixed assets	**(81)**	(15)
(Increase)/decrease in stocks	**(71)**	277
Increase in debtors	**(303)**	(364)
Decrease in creditors	**(1,318)**	(301)
Infrastructure renewals expenditure	**1,725**	1,628
Net cash inflow from operating activities	**11,804**	12,186

(ii) Analysis of the balances of cash at bank and in hand shown in the balance sheet

	1997	1998	1999	Change in year
	£000	£000	£000	£000
Cash	311	450	**57**	(393)
Cash on short term deposit	2,500	172	**250**	78
Cast at bank and in hand	2,811	622	**307**	(315)

	1999	1998
(iii) Reconciliation of net cashflow to movement in net debt	**£000**	£000
(Decrease)/increase in cash in the year	**(393)**	139
Increase in debt and lease financing	**(3,679)**	(1,874)
Increase/(decrease) in liquid resources	**78**	(2,328)
Increase in net debt from cashflows	**(3,994)**	(4,063)
Net debt at 1 April	**(12,683)**	(8,620)
Balance at 31 March	**(16,677)**	(12,683)

NOTES TO THE HISTORIC COST REGULATORY STATEMENT OF CASHFLOWS

	1999	1998
	£000	£000
(iv) Reconciliation of movement in debtors and creditors to working capital		
Decrease in debtors	**329**	302
Decrease in interest prepayment	**(7)**	(338)
Increase in infrastructure renewals prepayment	**(625)**	(328)
Net movement in debtors working capital	**(303)**	(364)
(Decrease)/increase in creditors	**(1,929)**	72
(Increase)/decrease in interest accrual	**(159)**	540
Decrease/(increase) in fixed asset accrual	**773**	(833)
Decrease in infrastructure renewals accrual	**(3)**	(80)
Net movement in creditors working capital	**(1,318)**	(301)

(v) Analysis of net debt

	1 April 1998	Cash flow	**31 March 1999**
	£000	£000	**£000**
Cash	450	(393)	**57**
Debt due after one year	(3,163)	(3,000)	**(6,163)**
Debt due within one year	-	(1,000)	**(1,000)**
Finance leases	(10,142)	321	**(9,821)**
Cash on short term deposit	172	78	**250**
	(12,683)	(3,994)	***(16,677)***

NOTES TO THE HISTORIC COST REGULATORY ACCOUNTS

A. Tangible fixed assets - Group and Company	Freehold land and easements	Property and reservoirs	Plant and equipment	Infra structure assets	Office equipment	Motor vehicles	Total
	1999						
	£000	£000	£000	£000	£000	£000	£000
Cost							
1 April 1998	1,252	20,506	29,259	40,303	3,400	1,979	96,699
Additions	152	2,409	2,361	2,249	368	396	7,935
Disposals	-	(45)	(153)	-	(2)	(237)	(437)
31 March 1999	1,404	22,870	31,467	42,552	3,766	2,138	104,197
Contributions							
1 April 1998	-	-	-	3,688	-	-	3,688
Additions	-	-	-	831	-	-	831
31 March 1999	-	-	-	4,519	-	-	4,519
Depreciation							
1 April 1998	-	3,461	6,994	-	2,802	1,271	14,528
Charge in the year	-	283	1,321	-	280	237	2,121
Disposals	-	(23)	(136)	-	(2)	(232)	(393)
31 March 1999	-	3,721	8,179	-	3,080	1,276	16,256
Net book amount							
31 March 1999	1,404	19,149	23,288	38,033	686	862	83,422
1 April 1998	1,252	17,045	22,265	36,615	598	708	78,483

i) Tangible fixed assets financed by leasing amounted to £12,800,000 (1998 £12,977,000) less accumulated depreciation of £1,907,000 (1998 £1,772,000). Property and reservoirs includes an amount of £481,000 (1998 £2,942,000) and plant and equipment includes an amount of £186,000 (1998 £3,204,000) relating to assets in the course of construction.

NOTES TO THE HISTORIC COST REGULATORY ACCOUNTS

	Group 1999	Group 1998
	£000	£000
B. Debtors: amounts falling due within one year		
Trade debtors	**3,031**	3,452
Amounts owed by parent and fellow subsidiary undertakings	**5**	65
Other debtors	**427**	281
Prepayments	**1,551**	920
	5,014	4,718

	Group 1999	Group 1998
C. Creditors: amounts falling due within one year		
Bank loans	**1,000**	-
Payments on account	**1,772**	1,759
Trade creditors	**1,163**	2,171
Amounts owed to parent undertaking and fellow subsidiaries	**148**	1,053
Other creditors	**98**	86
Dividends payable	**1,580**	1,603
Dividends payable - minority interests	**23**	23
Net obligations under finance leases	**430**	462
Taxation and social security	**135**	133
Corporation tax	**2,188**	2,234
ACT payable	**265**	265
Accruals and deferred income	**834**	880
	9,636	10,669

NOTES TO THE HISTORIC COST REGULATORY ACCOUNTS

D. Instrument of Appointment

1 Tangible fixed assets attributable to the non-appointed business are not considered to be material, and therefore no separate balance sheet has been provided.

2 Group and Company transactions:

(i) The appointee received interest from Biwater Plc, its ultimate parent undertaking, calculated at market rates amounting to £16,000 (1998 £10,000), in respect of interest received for early payment of group taxation relief.

(ii) The appointee incurred management service charges from Biwater Plc, its ultimate parent undertaking, of £277,000 (1998 £266,000). The appointee received £7,000 (1998 £2,000) for the provision of services to Biwater Plc.

(iii) The appointee purchased from Biwater Industries (Clay Cross) Ltd equipment to the value of £48,000 (1998 £Nil). The appointee received £4,000 (1998 £Nil) for the provision of services to Biwater Industries (Clay Cross) Ltd. The appointee purchased from Biwater Spectrascan (a division of Biwater Industries Ltd) equipment to the value of £72,000 (1998 £19,000). The appointee received £2,000 (1998 £Nil) for the provision of services to Biwater Spectrascan.

(iv) The appointee incurred charges from Biwater Treatment Ltd for construction and design work amounting to £1,138,000 (1998 £5,450,000), and £Nil (1998 £82,000) for the provision of technical consultancy services.

(v) The appointee received £8,000 (1998 £Nil) from Biwater International Ltd for the provision of consultancy services and £7,000 (1998 £Nil) for the provision of other services.

(vi) The appointee received £2,000 (1998 £Nil) from Biwater Industries Ltd (Oldbury) for the provision of services.

(vii) The appointee received £Nil (1998 £12,000) from Biwater Pty for the provision of consultancy services.

(viii) The appointee received £Nil (1998 £3,000) from Biwater Man Lee for the provision of consultancy services.

(ix) The appointee incurred charges from a third party of £147,000 (1998 £168,000) in respect of goods manufactured by Biwater Industries (Clay Cross) Ltd. The appointee does not control whether these goods are sourced from an associated company. The Directors are not aware of any other circumstances where the Company has incurred charges with the Biwater Group via a third party.

3 The appointee was in compliance with paragraph 3.1 of Condition K of its Instrument of Appointment.

4 All transactions with the Group companies are carried out on an arms' length basis. In the opinion of the Directors all transactions required to be disclosed under Condition F have been disclosed.

5 Transactions and loans between Bournemouth and West Hampshire Water Plc, Bournemouth Water Plc, West Hampshire Water Plc and Mill Stream Insurance Ltd have been excluded, as the Regulatory Accounts are presented on a consolidated basis.

E. Cross-Directorships

As at 31 March 1999 the following Directors also held directorships in associated companies that trade:

W K Gardener:	Biwater Plc	
	Biwater Capital Plc	
D F W White:	Biwater Plc	Biwater Overseas Ltd
	Biwater International Ltd	Biwater Treatment Ltd

CONSOLIDATED CURRENT COST PROFIT AND LOSS ACCOUNT

Year ended 31 March 1999		1999			1998		
		Appointed business	**Non-appointed business**	**Total**	Appointed business	Non-appointed business	Total
	Note	**£000**	**£000**	**£000**	£000	£000	£000
Turnover	1	**25,817**	**887**	**26,704**	25,285	548	25,833
Current cost operating costs	2	**(18,592)**	**(714)**	**(19,306)**	(18,387)	(403)	(18,790)
Working capital adjustment		**9**	**-**	**9**	(104)	-	(104)
Current cost operating profit		**7,234**	**173**	**7,407**	6,794	145	6,939
Net interest payable		**(932)**	**12**	**(920)**	*(436)*	3	*(433)*
Financing adjustment		**322**	**-**	**322**	536	-	536
Current cost profit before taxation		***6,624***	***185***	***6,809***	*6,894*	148	*7,042*
Tax on profit on ordinary activities		**(2,234)**	**(58)**	**(2,292)**	(2,186)	(43)	(2,229)
Current cost profit on ordinary activities after taxation		**4,390**	**127**	**4,517**	4,708	105	4,813
Minority interests		**(29)**	**-**	**(29)**	(29)	-	(29)
Current cost profit for the financial year		**4,361**	**127**	**4,488**	4,679	105	4,784
Dividends - non-equity interests		**(2,125)**	**-**	**(2,125)**	(2,125)	-	(2,125)
- equity interests		**(970)**	**(64)**	**(1,034)**	(780)	(52)	(832)
Current cost profit retained for the year		**1,266**	**63**	**1,329**	1,774	53	1,827

CONSOLIDATED CURRENT COST BALANCE SHEET

At 31 March 1999	Note	1999	1998
		£000	£000
Tangible fixed assets	3	**406,550**	394,989
Third party contributions since 1 April 1990		**(9,752)**	(8,742)
Working capital	4	**1,763**	(468)
Net operating assets		**398,561**	385,779
Debtors due after one year		**274**	265
Non-trade creditors due within one year		**(5,925)**	(4,779)
Creditors due after one year		**(15,554)**	(12,843)
Net assets employed		**377,356**	368,422
Capital and reserves			
Called up share capital		**47,483**	47,483
Profit and loss account		**11,822**	10,493
Current cost reserve	5	**317,581**	309,967
Minority interests		**470**	479
		377,356	368,422

Due to the immateriality of amounts involved, a separate balance sheet for the non-appointed business has not been prepared.

CONSOLIDATED CURRENT COST STATEMENT OF CASHFLOWS

Year ended 31 March 1999	1999		1998	
	£000	£000	£000	£000
Net cash inflow from operating activities		**11,804**		12,186
Returns on investments and the servicing of finance				
Interest received	**116**		278	
Interest paid - finance lease rentals	**(519)**		(695)	
Interest paid - other	**(351)**		(218)	
Dividends paid on non-equity shares	**(2,125)**		(2,125)	
Dividends paid to minority interests	**(29)**		(34)	
		(2,908)		(2,794)
Taxation		**(2,347)**		(2,801)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	**(8,708)**		(9,408)	
Infrastructure renewals expenditure	**(1,725)**		(1,628)	
Contributions received	**831**		722	
Sale of tangible fixed assets	**125**		34	
		(9,477)		(10,280)
Acquisitions and disposals				
Purchase of shares in subsidiary undertakings		**(9)**		(82)
Equity dividends paid		**(1,057)**		(292)
Management of liquid resources				
(Increase)/decrease in short term deposits		**(78)**		2,328
Financing				
Net finance lease capital raised	**306**		1,266	
Finance lease capital repaid	**(627)**		(392)	
Bank loan raised	**4,000**		3,000	
Repayment of mortgage loan	**-**		(2,000)	
		3,679		1,874
(Decrease)/increase in cash		**(393)**		139

The Statement of Cashflows should be read in conjunction with the Notes to the Statement of Cashflows on pages 46 and 47. For the reconciliation of current cost operating profit to net cashflow from operating activities see Note 6 to the Current Cost Accounts.

CURRENT COST ACCOUNTING POLICIES

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

The accounting policies used are the same as those adopted in the statutory accounts as detailed on page 29, except as set out below.

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

In 1993 an Asset Management Plan (AMP) survey of existing assets as at 31 March 1993 was undertaken. The adjustment to asset values, as a result of this exercise, was included within the tangible fixed asset note. In the intervening years between AMP surveys, values are restated to take account of changes in the general level of inflation, as measured by changes in RPI, and any other significant changes in asset records identified during the year.

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

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

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

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

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

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

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

NOTES TO THE CURRENT COST ACCOUNTS

	1999	1998
	Water Services	Water Services
	£000	*£000*
1. Analysis of turnover		
Unmeasured supplies	**14,223**	14,576
Measured supplies	**7,856**	7,331
Other sources	**3,738**	3,378
	25,817	25,285

2. Analysis of operating costs	**Service analysis 1999**			**Business analysis 1999**		
	Resources and *treatment*	**Distri-bution**	**Water supply *total***	**Customer services**	**Scientific services**	**Cost of regulation**
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Direct costs						
Employment costs	**868**	**1,584**	**2,452**			
Power	**371**	**683**	**1,054**			
Hire and contracted services	**1,090**	**643**	**1,733**			
Materials and consumables	**270**	**480**	**750**			
Service charges	**689**	**-**	**689**			
Other direct costs	**118**	**274**	**392**			
Total direct costs	**3,406**	**3,664**	**7,070**	**891**	**302**	**362**
General and support expenditure	**638**	**1,313**	**1,951**	**463**	**88**	**51**
Functional expenditure	**4,044**	**4,977**	**9,021**	**1,354**	**390**	**413**
Total business analysis			**2,157**			
Rates			**1,642**			
Doubtful debts			**34**			
Service for third parties			**294**			
Total operating expenditure			**13,148**			
Capital costs						
Infrastructure renewals expenditure	**-**	**1,725**	**1,725**			
Movement in infrastructure renewals	**-**	**(628)**	**(628)**			
Current cost depreciation	**2,571**	**1,051**	**3,622**			
Current cost depreciation - business activities			**383**			
Loss on disposal of assets			**342**			
Total operating costs			**18,592**			

NOTES TO THE CURRENT COST ACCOUNTS

	1999				
3. Tangible fixed assets	**Specialised operational properties**	**Non-specialised operational properties**	**Infra-structure assets**	**Other tangible assets**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Gross replacement cost					
1 April 1998	103,640	6,895	322,646	33,477	466,658
RPI adjustment	2,125	142	6,615	687	9,569
Additions	4,468	-	2,249	1,218	7,935
Disposals	(2,831)	-	-	(333)	(3,164)
31 March 1999	107,402	7,037	331,510	35,049	480,998
Depreciation					
1 April 1998	46,369	811	-	24,489	71,669
RPI adjustment	951	17	-	503	1,471
Charge for the year	2,327	86	-	1,592	4,005
Disposals	(2,369)	-	-	(328)	(2,697)
31 March 1999	47,278	914	-	26,256	74,448
Net book amount					
31 March 1999	60,124	6,123	331,510	8,793	406,550
1 April 1998	57,271	6,084	322,646	8,988	394,989

NOTES TO THE CURRENT COST ACCOUNTS

	1999	1998
	£000	£000
4. Working capital		
Stocks	153	82
Trade debtors	3,031	3,452
Working cash balances	*307*	*622*
Trade creditors	(1,163)	(2,171)
Infrastructure renewals prepayment	1,159	531
Accruals	(337)	(627)
Payments on account	(1,772)	(1,759)
Tax and social security	(135)	(133)
Group trade creditors (net)	(143)	(988)
Other debtors	427	281
Other creditors	(98)	(86)
Prepayments	334	328
	1,763	(468)
5. Movement on current cost reserve		
Opening balance	309,967	297,624
Fixed asset adjustment - appointed	8,098	13,035
Fixed asset adjustment - non-appointed	26	9
Working capital adjustment	(9)	104
Financing adjustment	(322)	(536)
Grants and third party contributions adjustment	(179)	(269)
Closing balance	317,581	309,967
6. Reconciliation of current cost operating profit to net cashflow from operating activities		
Current cost operating profit - appointed business	7,234	6,794
Current cost operating profit - non-appointed business	173	145
Current cost depreciation	4,031	3,914
Current cost loss on sale of assets	342	(11)
(Increase)/decrease in stocks	(71)	277
Increase in debtors	(303)	(364)
Decrease in creditors	(1,318)	(301)
Working capital adjustment	(9)	104
Infrastructure renewals expenditure	1,725	1,628
Net cash inflow from operating activities	11,804	12,186

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

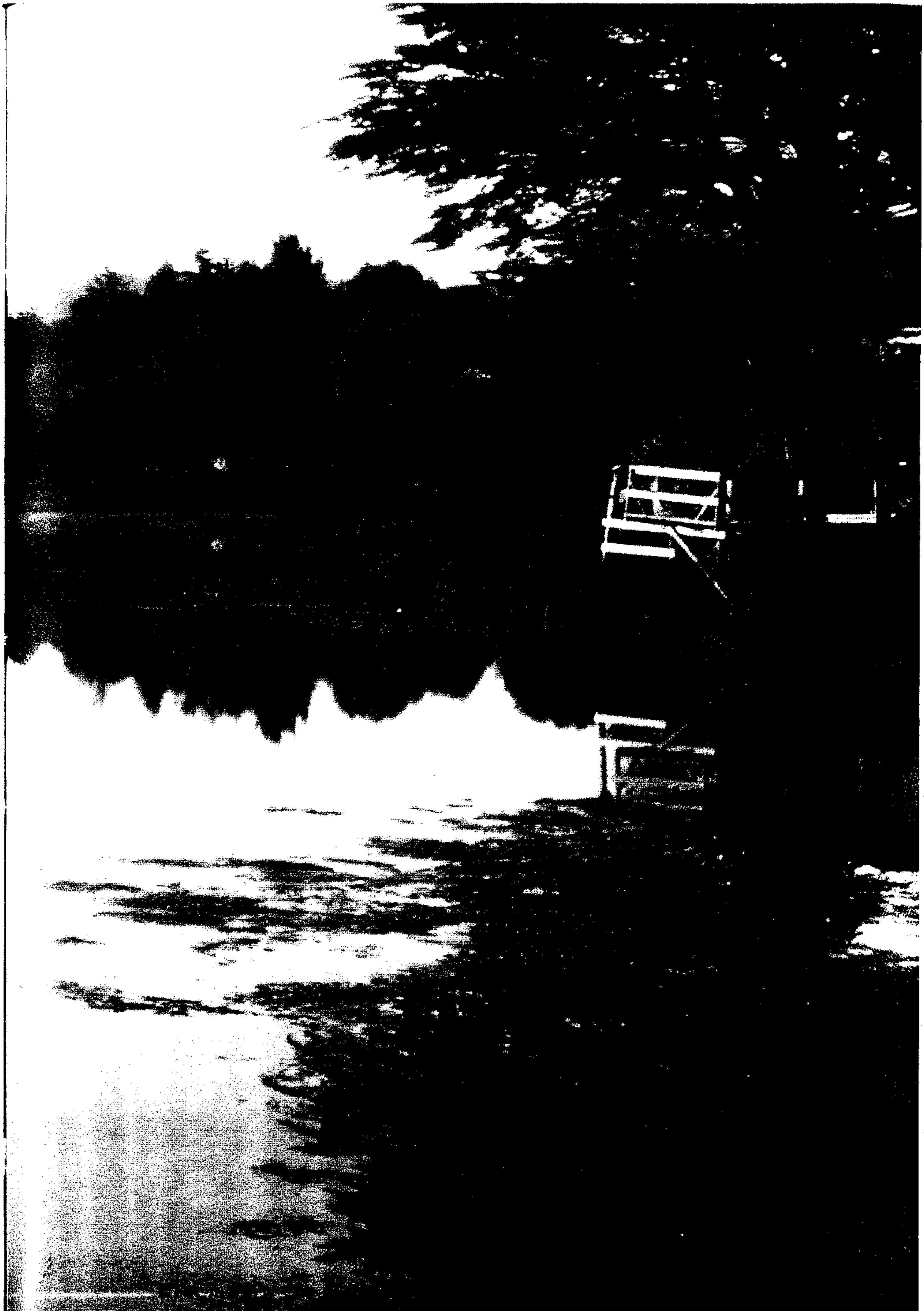
Years to 31 March	1995	1996	1997	1998	**1999**
	£000	£000	£000	£000	**£000**
(All figures are in 1999 prices)					
Turnover	25,767	26,124	26,281	26,069	**25,817**
Current cost operating costs	(17,734)	(17,293)	(19,816)	(18,957)	**(18,592)**
Working capital adjustment	(194)	(77)	(80)	(107)	**9**
Current cost operating profit	7,839	8,754	6,385	7,005	**7,234**
Net interest	(769)	(384)	(565)	(450)	**(932)**
Financing adjustment	571	373	382	553	**322**
Current cost profit before taxation	7,641	8,743	6,202	7,108	**6,624**
Taxation	(2,532)	(3,091)	(2,939)	(2,254)	**(2,234)**
Current cost profit on ordinary activities	5,109	5,652	3,263	4,854	**4,390**
Dividends (including minority interests)	(2,456)	(2,719)	(2,304)	(3,025)	**(3,124)**
Current cost profit retained	2,653	2,933	959	1,829	**1,266**

CURRENT COST BALANCE SHEET FOR THE PAST FIVE YEARS

At 31 March	1995	1996	1997	1998	1999
	£000	£000	£000	£000	£000
(All figures are in 1999 prices)					
Tangible fixed assets	387,324	394,143	396,676	403,283	**406,550**
Third party contributions since April 1990	(5,918)	(7,268)	(8,185)	(8,926)	**(9,752)**
Working capital	2,913	3,158	3,163	(478)	**1,763**
Net operating assets	384,319	390,033	391,654	393,879	**398,561**
Debtors due after one year	-	-	280	271	**274**
Non-trade creditors	(10,449)	(8,496)	(8,258)	(4,879)	**(5,925)**
Creditors due after one year	(6,589)	(8,300)	(9,500)	(13,113)	**(15,554)**
Net assets employed	367,281	373,237	374,176	376,158	**377,356**
Capital and reserves					
Called up share capital	52,849	51,424	50,142	48,480	**47,483**
Profit and loss account	5,602	8,362	9,151	10,713	**11,822**
Current cost reserve	307,698	312,606	314,291	316,476	**317,581**
Minority interests	1,132	845	592	489	**470**
	367,281	373,237	374,176	376,158	**377,356**

Financial Calendar

Ordinary Dividend	*13 August 1999*
Record Date for Preference Share Dividend	*6 September 1999*
Annual General Meeting	*1 October 1999*
Preference Share Dividend	*1 October 1999*
Announcement of Interim Results	*November 1999*



Biwater

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