Annual Report & Accounts
2007 - 2008

www.biwater.com

Biwater

Biwater Plc

Biwater Plc provides the full spectrum of water and wastewater treatment worldwide. Biwater's expertise includes:

- **Water and Wastewater Treatment**
- **Membrane Technology and Desalination**
- **Consultancy and Water Asset Management**
- **Infrastructure Ownership, Investment & Operation**
- **Package Plants and Products**
- **Leisure**

Established in 1968, Biwater currently operates as a group of companies in over 30 countries, sharing the specialist knowledge and international experience that provides millions of people around the world with clean, safe drinking water and wastewater services.

Biwater's mission statement is:

> *"To maintain a world class reputation in all our business activities, founded on the highest standards of customer service, ethics and environmental care."*

Contents

Company Information

Board of Directors	A E White CBE, DL, C.Sci, FCIWEM (Chairman) D F W White FIPD (Deputy Chairman) D L Magor BSc (Hons) FCMA M Anderson BSc, MIWEM, MBIM B J Armstrong BSc, C.Eng, FIMechE, FCIWEM M Studholme B.Eng (Hons), C.Eng, MIMechE M R A Duffy FCA P M Wainwright B.Eng, ACA N M Reynolds BSc (Hons), CEng, CEnv, MICE R E Kottler BSc, FICE, MCIOB D Rubie C A White BSc (Hons) † J J Jones BSc, MBA † † Non Executive Director
Company Secretary	M R A Duffy, FCA
Auditors	PricewaterhouseCoopers LLP
Principal Bankers	HSBC Bank Plc
Registered Office	Biwater House Station Approach Dorking Surrey RH4 1TZ Telephone: + 44 (0) 1306 740740 Facsimile: + 44 (0) 1306 885233 Internet: www.biwater.com
Registered in England and Wales	Company Number: 00929686

Chairman's Statement

I am pleased to report that we have had another profitable 12 months in our 40th anniversary year. We are continuing to enhance upon this heritage, with design led solutions being delivered by Biwater in new countries, new territories and new ventures. We continue to be a differentiated design and innovation led company- doing traditional things in a modern way, offering a vertically integrated end to end capability to design, construct, finance, own and operate the means to treat and supply water. This expertise in providing solutions to meet higher water quality, environmental standards and greater efficiency, has provided us with growth in an uncertain global macro-economic climate.

Group Operating Profit has increased to £16.8m in 2008 (including a profit on partial sale of shares in our subsidiary Cascal of £4.2m), with a strong order book and further exciting opportunities in the ever expanding water sector in all of the territories in which we operate.

This success has been achieved by driving the business strategy in two key areas- regionalisation and a move to financed projects. Firstly, regionalisation of our businesses has brought a welcome emphasis on the key drivers of the business, with each region being represented on the main board. Secondly, a move to concentrate on contracts in which we bring financial as well as technical solutions has yielded much success in the form of BOOT (Build Own Operate Transfer) and ECA (Export Credit Agency) financed projects.

In international Engineering Services regionalisation is geographical- into UK, Africa, Europe, Asia, and Americas divisions. Whilst centralised controls ensure consistency and conformity to group-wide contracting and operating standards, regionalisation has driven greater accountability and ownership, further enhanced through autonomous management teams. This strategy has been successful with international orders already having been recently received in Sri Lanka, Algeria, Abu Dhabi and the Dominican Republic.

In UK Engineering Services - Biwater Treatment has enjoyed significant growth in its position as a supplier of first choice to many of the leading UK water utilities, whilst Farrer Consulting has expanded profitably with new offices in 4 new locations (Basingstoke, Solihull, Edinburgh and Hamilton) providing leading edge strategic water infrastructure and environmental asset management to both our UK clients and our international operations. In addition, a new business has been created, BiProduct Recovery, to complete the delineation of the UK business between UK contracting (Biwater Treatment), Asset Management Services (Farrer) and Waste recovery (BiProduct Recovery).

In Cascal - Regionalisation has been the key enabler to the most significant corporate event of the year within the Biwater Group- the Initial Public Offering (IPO) and full listing on the New York Stock Exchange of Cascal in January 2008. This was completed in some of the most challenging equity markets for many years and its execution is testimony to the quality of the underlying Cascal business and its management team. The float generated a profit to the Group of £4.2m, raising £77m ($152m) and leaving Biwater with a controlling 58.5% stake in the business.

With new equity finance and committed financing facilities, Cascal's business continues to expand with a strong pipeline of future opportunities. Robust organic growth has been supplemented by further acquisitions in China, Chile and South Africa, contributing to the stable and geographically diverse platform of our regulated operations around the world. We are proud of the fact that Cascal delivers water to over 3.6m end customers, with a successful track record of improving operational performance and efficiencies both in customer service delivery and in containment of energy costs. In the UK, we continue to be at the leading edge of efficiency and have been ranked 2nd out of the UK's 22 water supply companies for overall performance by the UK regulatory body, OFWAT- achieving the highest efficiency bands for operating costs and capital maintenance activity.

In June 2006, we purchased the remaining 50% of Cascal for £26m followed, in January 2008, by the dilution of 41.5% of our shareholding in Cascal through the IPO, which raised £77m.

With respect to the purchase of the remaining 50% of shares in Cascal, UK accounting standards require us to restate the assets and liabilities of Cascal at acquisition to "fair value". This has led to a fair value adjustment reflected in these accounts which uplifts the net book value of the net assets (and liabilities) of Cascal from £34m to £100m principally due to an uplift in valuation of fixed assets. In addition (due primarily to the exceptionally successful acquisition of our remaining 50% of shares from Nuon in June 2006 for £26m) our total cost of acquisition of 100% of Cascal of £81m was significantly lower than this fair value of £100m. This has resulted in negative goodwill of £19m. These adjustments are detailed in notes 24 and 25 to the accounts.

The calculation of the Profit on Sale of the subsequent dilution of the 41.5% stake in Cascal is calculated with reference to these significantly increased net asset values, resulting in a profit on sale (after transaction costs of £16.8m) of £4.2m. This is detailed in note 25 to the accounts.

For illustrative purposes only, we have prepared an unaudited proforma balance sheet which reflects Cascal as an "investment". This has been prepared by removing the Cascal balance sheet from the Biwater Group's consolidated balance sheet as at 31 March 2008 and replacing it with a valuation of Cascal shares based on $12 per share - their initial listing price and closing NYSE price as at 31 March 2008:

	Group Statutory Accounts	Unaudited Pro Forma
	£m	£m
Tangible and other fixed assets	247.2	31.5
58% holding in Cascal as an investment @ $12 per share	-	107.9
Cash at bank less overdrafts	38.0	13.4
Other net current assets/(liabilities)	3.7	(0.1)
Long term bank loans	(91.5)	-
Provisions for liabilities and charges and other long term creditors	(34.6)	(10.3)
Deficit on group pension scheme	(19.4)	(19.4)
Net assets (pre minority interest)	143.4	123.0
Minority interests	(71.4)	(0.3)
Net assets (post minority interest)	**72.0**	**122.7**
Share capital	30.0	30.0
Profit and loss account and other reserves	42.0	42.0
Proforma revaluation reserve (being the increase in value attributable to Cascal as an investment at $12 per share over Cascal's net asset value under UK GAAP at an exchange rate of $1.9875:£)	-	50.7
Net equity shareholder's funds	**72.0**	**122.7**

The above unaudited proforma balance sheet provides an alternative view of the value of the Cascal shares within the balance sheet of Biwater.

I would like to thank all our staff worldwide in making the business what it is today, for their tireless efforts and determination over our past 40 years. On behalf of the board, I would also like to thank all of our stakeholders for their support.

Adrian E White
Chairman
6 October 2008

Business Review

Revenue, Operating Costs and Operating Profit

The Group is pleased to report profit on ordinary activities before interest and taxation of £20.2m (2007: £13.2m) and a profit on ordinary activities before taxation of £8.4m (2007: £5.2m). Profit on ordinary activities before interest and taxation of £20.2m includes the profit relating to the listing of Cascal shares on the New York Stock Exchange in January 2008 of £4.2m. Taxes at £(5.3)m (2007: £(2.4)m) are, for the UK, lower than the underlying UK rate - primarily reflecting the tax free gain achieved on the partial sale of our Cascal shares. Profit transferred to reserves in 2008 was £1.6m (2007: £2.7m).

Outlook

Our business is water- we do not operate outside of this area. Whilst no business is immune from the recent turbulence in the macro economic climate, we are well placed to maintain our leading position in a sector that continues to grow to meet the essential needs of an ever growing world population.

We believe that global market conditions will remain strong in the water sector generally and in particular for Biwater - allowing us to bid at acceptable terms and conditions in our Water Delivery Engineering Solutions businesses, whilst selecting the best concessions and lease contracts in our Asset Based Water Concession business (Cascal):

- **Water Delivery Engineering Solutions:** we believe that global warming, significant population growth in areas of inadequate water supply, the "target 10" United Nations objectives (the aim being to halve the proportion of people without sustainable access to safe drinking water and basic sanitation by 2015), and increased availability of funding for water projects will all drive increased worldwide investment in waste and potable water, in particular in developing countries. Biwater has few competitors able to offer the full range of water and wastewater services.

- **Cascal's Asset Based Water Concession business:** we have continued to see the trend, which commenced in the 1990s, of a growing number of governments moving towards the outsourcing of water services in an effort to meet more stringent water quality and environmental standards, control costs, respond to increased demand and improve service quality. As a result, the private sector's role in the provision of water and wastewater services is expected to continue to increase, with increased global population served by water services of approximately 632 m in 2006 growing to approximately 1.15 billion in 2015 (source: Pinsent Masons Water Yearbook 2006-2007). We believe this growth in private-sector involvement will create significant business opportunities for both Cascal and the wider Biwater group.

Strategy

Biwater's business of total capability in water is **Water Delivery Engineering Solutions** (design through to construction and construction finance), and through **Asset Based Water Concessions** (O&M contracts, asset ownership and concessions through Cascal):

- Our **Water Delivery Engineering Solutions** strategy **in the UK** seeks to maintain and build upon our pre-existing long term Water Frameworks within the current five year regulatory cycle (known as AMP4) at reliable margins, whilst preparing for the next regulatory cycle (known as AMP5) and expanding significantly our Farrer consultancy services business, and through BiProduct Recovery Limited specialising in the recovery and recycling of organic wastes.

- Our **Water Delivery Engineering Solutions** strategy **worldwide** is driven by an engineering and financial solutions led philosophy with design capabilities based in the UK (in Heywood and Dorking), and internationally (in Malaysia, France, USA and Turkey) and a strong Reverse Osmosis centre of excellence in California (Biwater AEWT Inc). We target projects which are financed (whether commercial financing or export credit agency (ECA) financing) and which offer us the flexibility to engineer financial and technical solutions and the additional opportunity to enter into an O&M contract over a period of time. In this way we seek clear visibility and security of cash flows.

- Our strategy at Cascal is to provide water services and concessions to populations ranging from 100,000 to 1,000,000 that require efficiency improvements, continuing to build upon our successful track record of improving operating efficiencies. We target businesses generating revenue of over $5m per annum and having a project term of at least 10 years. We effect this through concessions and lease/management contracts.

In the past year, the Group has driven this strategy in two key areas- firstly, regionalisation of its businesses and, secondly, a move to financed projects.

Regionalisation has allowed us to seize growth opportunities when they present themselves and has taken place through a number of initiatives, not least of which has been the implementation of one board with representatives from Cascal and each of our regions- the UK, Africa, Europe, Asia, Americas.

Financed projects are a driver in all areas of our international engineering services business with construction costs being financed by parties other than the end customer. These financed projects form two generic sub-groups: BOOT (Build Own Operate Transfer)/PFI financed contracts or ECA (Export Credit Agency) financed projects.

- BOOT/PFI projects allow Biwater the opportunity to participate in the whole lifecycle of a water project- from construction of a plant to its operations and maintenance. An example of this PFI type of contract is the Oued Sept 100ML per day desalination contract in Algeria for which we were announced preferred bidder on 7 April 2008. Biwater will provide water to the local water authority of the region of Tipaza- we will construct the plant, and manage the operations and maintenance of the project for a period of 25 years, whilst holding an equity interest in the Special Purpose Vehicle that will own and operate the facility. This is similar, but not identical, to the Cascal model, which seeks to own pre built plants and operate water concessions and which has a strong emphasis on interfacing with government regulatory bodies (such as OFWAT in the UK) and billing and maintaining a relationship all the way to the end customer.

- ECA financed projects are projects predominantly financed by Export Credit Agencies (such as Exim in the USA, ECGD in the UK, and Sinosure in China). This structure provides greater stability to the project and ensures that counterpart risk for projects in non-OECD territories can often be represented by OECD government backed debt. Examples of ECA projects include our projects in the Dominican Republic and the recently signed contract in Negombo, Sri Lanka.

Key Events in 2007/8

Initial Public Offering of Cascal

On 29 January 2008, Cascal successfully completed its IPO on the New York Stock Exchange raising $152m through the sale of 12.7 million shares at $12 per share. Cascal issued 8.7million new shares and Biwater sold 4.0 million of its existing shares in Cascal. Following the IPO, Biwater continues to have a controlling interest of 58.5% in Cascal, which at a listing price of $12 would be valued at $214m.

Acquisitions

Whilst growing organically in the Water Delivery Solutions and Cascal businesses, we have also grown the business through acquisitions:

- In May 2007, Cascal acquired 73.4% of the equity in Siza Water Company (Proprietary) Limited, a company providing water and wastewater services to approximately 50,000 people in the Dolphin Coast region of South Africa, for £1.3m ($2.6m). Siza Water commenced operations in 1999 and serves the coastal town of Ballito and its surroundings. Ballito is approximately 40 kilometres north of Durban and is a fast growing residential and holiday destination. Siza Water, together with Cascal's current concession in South Africa, Silulumanzi, enhances our position as one of the major players in this market.

- On 29 April 2008, Cascal acquired a 49% stake in an equity joint venture in Yancheng City, China for £14.4m ($28.7m). The new joint venture company, Yancheng China Water Company, which partners Cascal with the Municipality of Yancheng, formally commenced operations on 1 May 2008 for a period of 30 years. In addition to a number of industrial and commercial enterprises, the Yancheng China Water Company provides potable water services to a residential population of approximately 600,000.

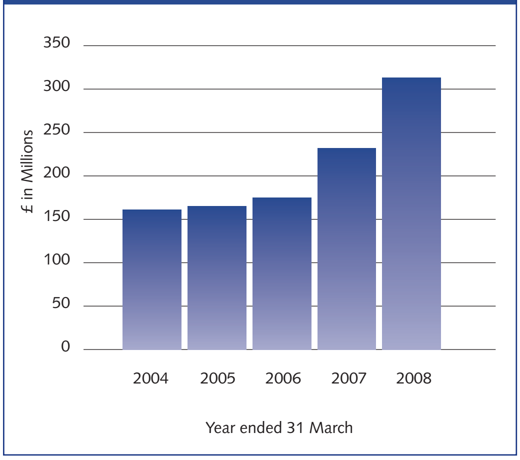
- On 30 June 2008, Cascal announced that it had acquired 100 percent of the Servicomunal and Servilampa companies for £ 9.6m ($19.0m) and £0.8m ($1.6m) respectively. These are located immediately to the north of Santiago, Chile and operate perpetually held, regulated water and wastewater concessions which will be progressively combined with Cascal's existing operations to provide greater efficiencies. With a combined 23,000 connections, the Servicomunal and Servilampa companies serve a population of approximately 100,000, mainly in the municipality of Colina. The newly acquired businesses provide an opportunity for Cascal to combine operationally its Santiago-based businesses, with shared management, accounting systems, payroll, billing and repair crews. These new acquisitions increase our project footprint in a region that we consider to have excellent growth potential.

- On 23 July 2008, China Water Company, a subsidiary of Cascal, acquired 51% of an equity joint venture in Zhumadian City, China for £9m ($18m). The new joint venture company, Zhumadian China Water Company, which is partnered by the Zhumadian Bangye Water Group, has formally commenced operations, having received its business license from the Zhumadian Municipal Government on 19 June 2008. In the first 18 months, the new company will invest an estimated £12.8m ($25m) to complete the construction of an additional 26 million gallons per day water treatment plant and the associated infrastructure, representing a total investment of £21m ($42m). This will enable the company to increase the treatment capacity and improve the quality and efficiency of services to the rapidly increasing residential, industrial and commercial customers of Zhumadian, representing a population of approximately 400,000.

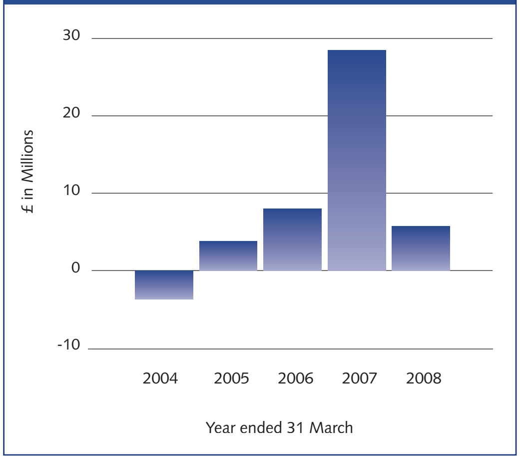
Trading Performance

Five year summary

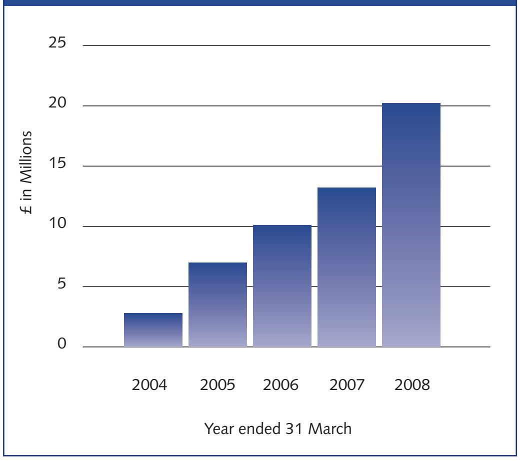
Net Turnover



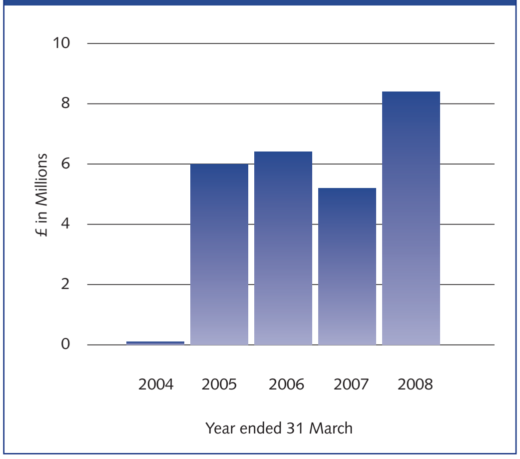
Operational Cash Flow



Operating Profit



Profit before tax



From continuing operations, 59% of revenue was earned within the UK (2007:60%) (largely from Biwater Treatment and Bournemouth and West Hampshire Water Company Ltd), 18% within Africa (2007: 17%), 9% in the Americas (2007: 8%) and 7% in the Far East (2007: 7%). The remaining 7% was generated within Europe and the Middle East (2007: 8%).

Water Delivery Engineering Solutions- Revenue, Operating Costs and Operating profit

UK contracts with key UK water clients (including Thames Water, Severn Trent, Anglian, Scottish Water and Northern Ireland Water) continue to perform well generating an overall increase in turnover in the UK by 27% to £132.5m. This growth in turnover is primarily derived from the increase in activity generated from these major UK water company customers. Significant levels of work outstanding at 31 March 2008 give a high degree of visibility over the turnover for the next year.

International contracts continue to progress well. On the African continent, in Ghana, the £30m turnkey design and construct contract for a water treatment plant is well under way with profits coming on stream in the year to March

2009. In Abuja, Nigeria the contract continues to advance steadily, and is expected to complete in the year to March 2009. The €89m Omdurman contract in Sudan is also progressing well and is expected to be at least 50% through the build programme by 31 March 2009. Our latest contract success is in Negombo, Sri Lanka, for the construction of a water treatment plant which is due to commence imminently. Africa continues to maintain a strong forward order book with new orders expected across the region.

Our Beida contracts in Libya continue to perform well, with completion of all the works expected in the year to March 2010. We are also continuing to work on a number of financed based projects in North Africa, Francophone Africa and Eastern Europe. An example of this is Biwater being named as preferred bidder for a £55m seawater reverse osmosis plant located in Tipaza, Algeria. We are currently in the final stages of agreeing financial close on this project with an anticipated start on site during the year ended 31 March 2009.

Within the Americas region we have continued to strengthen our order book. In particular, in the Dominican Republic we have been awarded two extension contracts totalling £67m. Both contracts are expected to become fully effective during the coming financial year. Also within the Dominican Republic, we have been awarded preferential status in a financed BOOT project (build, own, operate and transfer) for water distribution to the city of Bani and the surrounding populated areas in the State of Peravia. It is estimated that the value of this EPC contract will be approximately £80m. Work has also begun on the design and build of a water treatment plant and pipeline for the Panama City Canal Authority valued at £22m.

Cascal - Revenue, Operating Costs and Operating profit

Cascal's business has a secure turnover profile arising from its regulated income stream and the fact that water is a utility and an essential product. Cascal therefore continues to see a high degree of revenue predictability with 75% of revenue generated from rates that are reviewed every five years on projects that span 25 to 30 years.

Turnover for the year was £72.8m (2007: £61.5m) of which Bournemouth and West Hampshire Water contributed £47.7m (66%), (2007: £39.5m (64%)) and South Africa generating £10.9m (15%), (2007: £6.9m (11%)). Going forward, this weighting towards Bournemouth and West Hampshire Water will change as Cascal anticipates continued strong international growth both organically in its existing businesses, and through acquisition.

The increase in total revenue generated in 2007/08 from continuing operations of £11.3m is mainly in the UK (£7.2m) which can be attributed to additional revenue from Pre-Heat Limited operations following the acquisition in February 2007 and in China (£3.6m), from our first 4 projects since the acquisition of China Water in November 2006.

Cash Flow

The statement of cash flows on page 23 of the report and accounts discloses an overall net cash inflow of £12.3m (2007: £20.4m). Net cash inflow from operating activities was £5.7m (2007: £28.5m).

Capital additions of £15.0m (2007: £19.2m) largely relate to infrastructure and plant investment in Cascal.

Cash received in the year from the IPO of Cascal shares on the New York Stock Exchange amounted to £62.1m after expenses of the flotation.

The funds raised from the IPO have enabled Cascal to repay debt (£36.3m) and to invest in the future growth of the business by capitalising on opportunities in the global water market including the recent announcement of purchases of two operations in China (Zhumadian and Yancheng) and Chile (Servicomunal and Servilampa). The IPO has also provided the Biwater Group with additional working capital to invest in the UK and international business as well as to make a special contribution of £10m (on 1 April 2008) to the main section of the Group's pension scheme.

Net Finance Costs

The 2008 results show net interest payable of £11.8m (2007: £8.0m). The comparative results only included nine months of Cascal's interest payable, representing the period that Cascal was accounted for on a consolidated basis.

Pension Scheme

In April 2003, the Group established new pension arrangements for the UK employees of Biwater. Prior to 1 April 2003, the employees of Biwater Plc, Biwater International Ltd and Biwater Treatment Ltd participated in a funded scheme known as the Biwater Retirement and Security Scheme (BRASS), which comprised a "main" section containing the bulk of the membership and a separate "water" section for certain UK employees of Bournemouth and West Hampshire Water and Cascal Services Ltd (subsidiaries of Cascal). Membership of the "main" section scheme was closed to employees with effect from April 2003. The separate "water" section was closed to new members in June 2003.

We are continuing to reduce our pension deficit. The FRS17 pension deficit as at March 2008 of £19.4m (2007:£31.6m) has benefited from the fact that we have continued to make deficit payments in the year. In addition, on 1 April 2008, a special payment of £10m was made to the "main" section, further reducing the deficit.

Environmental Matters

The environment is central to the group's business. All water sources and extractions are regulated worldwide by various agencies with varying requirements regarding the environmental impact. We have, over the years, established impact reviews to determine if our operations are sustainable and if they have an unacceptable impact on wildlife species. To date these studies either show no unacceptable impact or are inconclusive in our operations of water assets within the business.

A significant amount of energy is expended in pumping water. Modernisation programmes are in place which have improved reliability and safety, but unavoidably increase the use of power. Where possible, new technology is deployed to improve efficiency and mitigate increased power usage, and equipment is monitored to ensure effective performance. Additionally, the group continues to explore ways in which it can increase power usage from renewable sources.

Bournemouth and West Hampshire Water measures and records its carbon footprint in its operational activities, water production and distribution, transport, and the use of energy in its offices. An environmental cost benefit analysis is carried out to satisfy the company that any proposals take into account the impact on the wider community.

The group encourages all of its subsidiaries to take into account their impact on the environment, reduce and recycle waste, use energy wisely and avoid unnecessary travel where electronic communication and video conferencing can be successfully deployed.

Social and Community

The group is committed to contributing to the communities in which it serves and supports local activities in different ways. Local charities are supported against clear criteria and staff take part in charitable work, including fundraising for WaterAid (an international charity aimed at enabling the world's poorest people to gain safe water and sanitation).

Principal Risks and Uncertainties

The management of the business and the execution of the Group's strategy are subject to a number of risks. Strategies are in place to mitigate these risks. This includes having plans to deal with emergencies or loss of key assets. The significant risk areas within the business are:

Contract performance/ client and economic security

There is a possibility that in securing new work, the Group accepts risks that are insufficiently understood or evaluated, with ensuing financial loss. We mitigate this risk by a range of internal review procedures that enable the contract terms to be subjected to appropriate scrutiny and manageable risk to be reduced.

Close attention is paid to monitoring contract performance and delivering to client milestones in accordance with the Group commitment to each project. The Group's contract control system allows a systematic, regular and robust review to be undertaken and highlights contractual, financial and operational risks and opportunities.

Foreign currency risk

Certain of Cascal's operations are in countries which are US $ or locally denominated. Whilst revenues and costs are matched in territory by the underlying currency, the Group has a policy not to hedge the underlying profitability of these businesses. Consequently the results and financial position can be affected by changes in exchange rates, predominantly, by the movement in the US$:£ exchange rate. The remaining parts of Biwater's business also undertake a significant amount of business in US dollars (or currencies tracking the US dollar). The Group seeks to mitigate this risk by ensuring that procurement of supplies and the underlying revenue are in the same underlying currency and /or currency needs are funded by settlement of US dollar denominated debtors or taking hedging to cover anticipated currency flows on a project by project basis.

Interest rate risk

The Group has credit facilities agreed with its Bankers with interest rates linked to the UK base lending rate. To ensure adequate working capital, the Group maintains cash deposits in some territories to securitise bonding requirements and places cash surplus to operational requirements on deposit. These deposits and credit facilities are affected by any movement in rates of interest generally. To enhance the interest capacity of the Group, processes have been put into place to ensure that cash balances held by subsidiary companies are kept as low as operationally possible and avoid exposure to currency movements, where possible.

Cascal benefits from a £65m long-dated 3.084% loan from Artesian Finance Plc with capital additionally increasing at RPI and repayable in 2033. This RPI linkage acts as a partial hedge against the RPI tariff basis of the UK regulator.

Retirement benefits

The Group operates a defined benefits scheme which was closed to new members in 2003. When in deficit, the fund is reported as an unsecured creditor of the Group. The risk is that the scheme's assets do not match its liabilities. The scheme's assets comprise largely of equities and bonds whose value is directly affected by the performance of the stock market. The valuation of the scheme's liabilities is directly affected by a number of factors, including discount rates, the rate of inflation, the level of salary increases and longevity of scheme members. Should the assumptions which derive the valuation of the assets and liabilities be inaccurate, a material difference between the scheme assets and liabilities could persist.

Monitoring the business

The directors have developed a three year rolling planning cycle as part of its on-going review process. These plans identify the needs of the business including resources and technical capabilities together with key customer known or anticipated deliverables.

A number of systems are in place to monitor the financial and operational performance of the Group:

- An annual budget setting process
- Monthly management accounts and variance reporting
- Monthly performance indicators
- Compliance reviews of Company procedures
- Rolling forecasts of contractual performance, cash management and financial data.

These operate within strategic objectives which include:

Competency/Policy	Strategy
Contract controls	Facilitate and standardise ‘best practice’ policies and procedures across the Group
Proposal and bid management	Follow business excellence model using ISO 9001 with risk management methodology
Continuous improvement in service levels, quality and health and safety	Commitment to bench mark against ‘best practice’
IT systems	Monitor, control and deployment of resources to enhance and secure competitive advantage
HR policies	Clear lines of communication, appraisal, ethical codes and common core practices within the Group
Development of technical, commercial and professional resources	Continuous competency training and career planning

Key performance indicators (KPI's)

The board monitors progress of the Group's strategy using KPIs measuring past performance and to provide information for future planning. These include:

Financial:
Revenue, operating profit and cash flow – these indicate the volume of work done in the period, its profitability and the efficiency with which operating profits have been translated into cash.

Commercial:
Commercial Summaries – Contract by contract reviews by region of operational performance against bid and forecast outturn, project exposure and contingent risk analysis, financing and cash management.

Order book:
Order intake and secure workload

Going concern

After due consideration, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason we adopt the going concern basis in preparing the accounts.

AE White
Executive Chairman

P M Wainwright
Finance Director

6 October 2008

Directors' Report

The directors submit their report and the financial statements for the year ended 31 March 2008.

Principal activities

The principal activities of the Group are the provision of services to the water industry worldwide. Further details of the nature of business of the principal Group undertakings are given on page 54. The Group operates out of a number of branches and subsidiaries worldwide in order to bid for and manage its contracts.

Financial review

The Group result for the year was a profit transferred to reserves of £1.6m (2007: £2.7m).

A more detailed business review of the results is to be found in the Business Review.

There has been no interim dividend (2007: £Nil) and no final dividend is proposed (2007: £Nil).

Post Balance Sheet Events

Material post balance sheet events are reported in note 32 to the accounts.

Derivatives and other financial instruments

The Group holds cash and short-term deposits to fund the Group's operations and has various other financial instruments such as trade debtors and trade creditors arising directly from its operations. The accounting policy for financial instruments is given on page 28.

Employee involvement

The Group publishes an in-house newspaper and in addition "BIPOD", a video news update, which are both used for informing employees of matters which are of interest to them. A review of the Group's financial position is included annually and there are regular features on different aspects of the Group to help to develop employees' awareness of the market realities of the business. Good employee communication has been given a high priority in order to involve employees in the affairs of the business.

The welfare of employees and anyone else who might be affected by the group's activities is taken very seriously. Staff health and safety committees meet regularly to consult on individual and company concerns, and promote high standards and best practice on each site.

A code of ethics applies to all employees. It is designed to promote honest and ethical conduct. Our whistleblowing policy provides for the reporting of alleged violations of the Code of Conduct and alleged irregularities of a financial nature by our employees or other stakeholders without fear of reprisal against the individual that reports the violation or irregularity.

Policy on employment of disabled persons

The Group 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.

Payments to suppliers

The Group has a variety of payment terms with its suppliers. Payment terms are agreed at the commencement of business with each supplier and it is the policy of the Group that payment is made in accordance with those terms.
The average number of days taken to pay creditors by the Group was 58 days (2007: 58 days).

Charitable and political donations

The Company and its subsidiary undertakings made donations for charitable purposes during the year of £82,331 (2007: £60,229) of which £78,887 (2007: £55,425) was in the United Kingdom and £3,444 (2007: £4,804) was made overseas mainly for education, community support and medical purposes. No donations have been made to political parties either inside or outside of the EU (2007: £nil).

Directors and their interests

The names of the present directors are as stated on page 1 of this report. Mr D Rubie was appointed a director on 1 January 2008. All other directors served throughout the year under review.

With the exception of Mr A E White (see note 31), no director has, or has had, a discloseable interest in the shares of any Group company.

During the year, none of the directors had any material interest in any contracts in relation to the Group's business.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution will be proposed at an Extraordinary General Meeting to be held at Biwater House, Dorking that they be reappointed.

By order of the Board

Martin Duffy

M R A Duffy
Secretary
6 October 2008

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group 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 UK 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 Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement as to disclosure of information to the auditors

So far as each director is aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the Company's auditors are unaware and each director has taken all the steps that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors' report to the members of Biwater Plc

We have audited the group and parent company financial statements (the "financial statements") of Biwater Plc for the year ended 31 March 2008 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing. We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, 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 regarding directors' remuneration and other transactions is not disclosed.

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

Independent auditors' report to the members of Biwater Plc continued

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Parent 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 2008 and of the group's profit and cash flows for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Gatwick

6 October 2008

Group Profit and Loss Account
Year ended 31 March 2008

	Note	Year ended 31/3/08 Total £m	Year ended 31/3/07 Total £m
Turnover (including share of joint ventures)			
Continuing operations		**322.4**	250.6
Acquisitions		**2.9**	-
Turnover (including share of joint ventures)	1	**325.3**	250.6
Less: share of turnover of joint ventures		**(12.6)**	(18.5)
Turnover		**312.7**	232.1
Operating profit – continuing operations before exceptional items	2	**14.7**	9.3
Exceptional items	2	**1.4**	-
Operating profit – continuing operations		**16.1**	9.3
Operating profit – acquisitions	2	**0.7**	-
Group operating profit	2	**16.8**	9.3
Share of operating profit in joint ventures and associates		**3.4**	3.9
Profit on ordinary activities before interest and taxation		**20.2**	13.2
Net interest payable			
- Group	4	**(11.9)**	(7.5)
- Share of joint ventures and associates		**0.1**	(0.5)
Total net interest payable		**(11.8)**	(8.0)
Profit on ordinary activities before taxation		**8.4**	5.2
Taxation on profit on ordinary activities	5	**(5.3)**	(2.4)
Profit on ordinary activities after taxation		**3.1**	2.8
Equity minority interest	19	**(1.5)**	(0.1)
Profit for the financial year transferred to reserves	18	**1.6**	2.7

The notes on pages 25 to 53 form part of these financial statements.

Group Balance Sheet 31 March 2008

		31/3/08		31/3/07 Restated	
	Note	£m	£m	£m	£m
Fixed assets					
Intangible assets – positive goodwill	6		**4.0**		19.8
Intangible assets – negative goodwill	6		**(10.6)**		-
Tangible assets – owned	7		**236.8**		157.1
Tangible assets – leased	7		**9.7**		8.6
Investment in joint venture:					
Share of gross assets	9	**4.1**		3.8	
Share of gross liabilities	9	**(2.2)**		(3.1)	
			1.9		0.7
Investment in associates	10		**5.4**		5.0
			247.2		191.2
Current assets					
Stocks	11	**4.2**		4.3	
Debtors	12	**115.5**		132.9	
Cash at bank and in hand	23	**66.1**		42.9	
		185.8		180.1	
Creditors: amounts falling due within one year	13	**(144.1)**		(153.1)	
Net current assets			**41.7**		27.0
Total assets less current liabilities			**288.9**		218.2
Creditors: amounts falling due after more than one year	14		**(100.1)**		(136.6)
Provisions for liabilities and charges	16		**(26.0)**		(18.3)
Net assets excluding pension liabilities			**162.8**		63.3
Deficit on Group pension scheme	29		**(19.4)**		(31.6)
Net assets including pension liabilities			**143.4**		31.7
Capital and reserves					
Called up share capital	17		**30.0**		30.0
Other reserves	18		**12.5**		13.3
Profit and loss account	18		**29.5**		(16.4)
Equity shareholders' funds	18		**72.0**		26.9
Minority interests	19		**71.4**		4.8
			143.4		31.7

Approved by the Board on 6 October 2008 and signed on its behalf by:

A E White, Chairman

P M Wainwright, Director

The notes on pages 25 to 53 form part of these financial statements.

Company Balance Sheet 31 March 2008

	Note	31/3/08 £m	£m	31/3/07 Restated £m	£m
Fixed assets					
Tangible assets - owned	8	**1.3**		1.5	
Tangible assets - leased	8	**0.3**		0.3	
Investments	10	**111.4**		111.4	
			113.0		113.2
Current assets					
Debtors	12	**39.9**		35.7	
Cash at bank and in hand		**10.1**		0.1	
		50.0		35.8	
Creditors: amounts falling due within one year	13	**(40.2)**		(33.4)	
Net current liabilities			**9.8**		2.4
Total assets less current liabilities			**122.8**		115.6
Creditors: amounts falling due after more than one year	14		**(96.5)**		(80.6)
Net Assets			**26.3**		35.0
Capital and reserves					
Called up share capital	17		**30.0**		30.0
Other reserves	18		**3.0**		3.0
Profit and loss account	18		**(6.7)**		2.0
Equity shareholders' funds	18		**26.3**		35.0

Approved by the Board on 6 October 2008 and signed on its behalf by:

A E White, Chairman

P M Wainwright, Director

The notes on pages 25 to 53 form part of these financial statements.

Group Cash Flow Statement
Year ended 31 March 2008

	Note	**Year ended 31/3/08 £m**	Year ended 31/3/07 £m
Net cash inflow from operating activities	20	**5.7**	28.5
Distributions from joint ventures		**1.3**	23.3
Returns on investments and servicing of finance			
Interest received		**2.0**	0.8
Interest paid		**(13.3)**	(7.0)
Net cash outflow from returns on investments and servicing of finance		**(11.3)**	(6.2)
Taxation paid		**(3.3)**	-
Capital expenditure and financial investments			
Purchase of tangible fixed assets		**(15.0)**	(19.2)
Disposal of fixed assets		**0.4**	2.2
Net cash outflow for capital expenditure		**(14.6)**	(17.0)
Acquisitions and disposals			
Net cash received on partial disposal of subsidiary	25	**62.1**	-
Cash acquired with acquisitions	24	**1.6**	37.5
Cash paid on acquisition	24	**(1.4)**	(42.8)
Net cash inflow/(outflow) from acquisitions and disposals		**62.3**	(5.3)
Equity dividends paid		**-**	-
Net cash inflow/(outflow) before financing		**40.1**	23.3
Financing			
Capital element of finance lease repayment	22	**(1.2)**	(1.6)
Minority contribution arising from issue of shares in China Water	19	**1.4**	-
Increase in loans		**8.3**	-
Repayment of borrowings		**(36.3)**	(1.3)
Net cash outflow from financing		**(27.8)**	(2.9)
Increase in net cash	23	**12.3**	20.4

The notes on pages 25 to 53 form part of these financial statements.

Statement of Total Recognised Gains and Losses Year ended 31 March 2008

	Year ended 31/3/08 £m	Year ended 31/3/07 £m
Profit for the financial year	**1.6**	2.7
Retranslation of investment in overseas subsidiaries	**(2.3)**	(5.2)
Retranslation of investment in joint venture and associates	**-**	(2.2)
Actuarial gain on pension scheme (note 29ii)	**12.5**	5.9
Movement on deferred tax relating to pension liability	**(3.5)**	(1.8)
Total recognised gains/(losses) for the financial year	**8.3**	(0.6)

Note of historical cost profits and losses

Profit on ordinary activities before taxation	**8.4**	5.2
Difference between a historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	**(0.4)**	(0.4)
Historical cost profit on ordinary activities before taxation	**8.0**	4.8
Historical cost profit for the year after taxation and minority interests	**1.2**	2.3

The notes on pages 25 to 53 form part of these financial statements.

Accounting Policies

Basis of accounting

The financial statements are prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently unless otherwise stated below, are as follows:

Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of freehold and long leasehold property.

Prior year adjustments – Group

Provisions for deferred tax, deferred consideration and contract losses at 1 April 2007 of £9.0m, £1.6m, and £7.7m respectively have been reclassified from creditors to provisions for liabilities and charges. The directors consider that this reflects more accurately the nature of these balances.

Prior year adjustments - Company

a) Pensions

In the 2006/7 and 2005/6 accounts, the defined benefit liability for the Main Section of the Biwater Retirement and Security Scheme was accounted for in full on the parent company balance sheet. As the Company is unable to identify its share of the underlying assets and liabilities in the scheme, in the current year and the defined benefit pension liability has not been recorded on the balance sheet and the contributions paid by the Company are accounted for as if the scheme was a defined contribution scheme. This represents a change in accounting policy and accordingly, the prior year comparatives have been restated resulting in an increase in net assets of £30.3m at 1 April 2006 and £34.6m at 31 March 2007.

b) Investments in subsidiaries

The directors have changed the accounting policy for investments in subsidiaries in the Company financial statements.

In the financial statements of the Company in prior years, investments in subsidiary undertakings have been stated at directors' valuation. The directors have reconsidered this policy and have decided that a more appropriate policy is to state investments in subsidiary undertakings at cost less any necessary provision for permanent impairment.

The prior year amounts for investments in subsidiaries have been restated as follows;
31 March 2007 restated from £113.2 to £111.4m
31 March 2006 restated from £118.7 to £111.4m.

c) Amounts owed by group undertakings

The Company balance sheets as at 1 April 2006 and 2007 have been restated to provide for intercompany balances which are not considered recoverable. This has resulted in a reduction of £22.6m in amounts owed by group undertakings and the profit and loss account reserve at 1 April 2006 and 2007 respectively. Further, amounts owed by/to group undertakings as at 31 March 2007 have been adjusted to accurately record those amounts due or payable in less than or greater than one year. This has resulted in a reclassification from debtors falling due in less than one year to more than one year of £20.8m and from creditors falling due in less than one year to more than one year of £70.0m.

These changes in accounting policies have no impact on the consolidated results and balance sheet of the Group.

Going concern

After due consideration, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors have adopted the going concern basis in preparing the financial statements.

Basis of consolidation

The Group financial statements include the financial statements of the parent undertaking and its share of all Group undertakings at 31 March 2008. The results of Group undertakings acquired or disposed of are included from the date of acquisition or to the date of sale respectively. When a subsidiary undertaking does not have a co-terminus year-end its results are adjusted to reflect the Group's financial period.

The Group's share of the operating profit and net assets of joint ventures and associated undertakings are included in the profit and loss account and within investments in the balance sheet, respectively, in accordance with FRS9: Associates and Joint Venture Entities.

Discontinued activities

A business is classified as a discontinued operation if it is clearly distinguishable, has a material effect on the nature and focus of the Group's activities, represents a material reduction in the Group's operating facilities and either its sale is completed, or, if a termination, its former activities have ceased permanently prior to the approval of these financial statements. Goodwill previously written off to other reserves is transferred to the profit and loss account on disposal.

Pre-award costs

Costs in respect of prospective contracts are written off to the profit and loss account in the year in which they are incurred. Where contracts are awarded within the financial year, the pre-award costs incurred after it became virtually certain that the contract would be awarded in that year are included in amounts recoverable under contracts.

Group intangibles

In accordance with FRS10, Goodwill and Intangible Assets, goodwill arising on acquisitions is capitalised and amortised over its estimated useful economic life. Goodwill arising on acquisitions prior to 31 March 1996 remains eliminated against other reserves.

Positive goodwill is written off over 20 years or lower.

Negative goodwill is credited to profit and loss in the periods in which the non-monetary assets of the acquired business are depreciated or sold.

Impairment reviews are carried out only if there is an indication of impairment to ensure that goodwill and intangible assets are carried at above their recoverable amounts. Any impairment write-downs are charged to the profit and loss account when they are identified.

Turnover

Turnover comprises the value of contracting work carried out, plant hire, goods manufactured and sold and other services provided externally, excluding VAT, rebates and discounts. For long term contracts revenue is recognised by a Group entity in accordance with the stage of completion of contractual obligations to the client. The stage of completion is usually based on the proportion of costs incurred compared to the total expected costs to complete the contract, where this also represents a right to receive consideration, and provided the outcome of the contract can be assessed with reasonable certainty.

Fixed assets and depreciation

The Group's property portfolio was revalued as at 31 March 2006 by independent professional valuers. The Group's policy is to obtain independent professional valuations on an existing use basis every three years for its property portfolio. The book value of the property portfolio is updated to reflect these valuations.

Revaluation gains are recognised in the statement of total recognised gains and losses and transferred to revaluation reserve within other reserves unless reversing a previous revaluation loss, in which case it is recognised (to the extent that it reverses that loss after adjusting for subsequent depreciation) in the profit and loss. Revaluation losses due to the reduction of economic benefit are taken direct to the profit and loss.

Freehold property is depreciated on a straight-line basis at four per cent per annum and no depreciation is applied to freehold land.

Long leasehold property is amortised on a straight-line basis at a rate of four per cent per annum.

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 capacity 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 capacity of the network.

Properties and service reservoirs are carried at cost and are depreciated over their estimated economic lives of 80 to 100 years.

Plant and equipment are depreciated on a straight-line basis over their estimated lives from 2 to 12 years to a notional residual value.

Fixtures and fittings are carried at cost and are depreciated on a straight-line basis over their estimated lives from 3 to 5 years to a notional residual value.

Interest incurred during the construction phase of new qualifying assets owned and managed is capitalised.

Grants received

Government grants received in respect of capital expenditure, other than on infrastructure assets, are treated as deferred income and included in creditors. Grants in respect of revenue expenditure are taken to the profit and loss account in the year to which they relate.

Leases

Tangible assets purchased 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 lesser of the length of the relevant lease period or over the estimated life of the asset to a notional residual value where appropriate. 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.

Rentals under operating leases are charged to the profit and loss account, as incurred, over the terms of the leases.

Stocks and long-term contracts

Stocks of raw materials, consumables, manufacturing work-in-progress and finished goods are valued at the lower of cost and net realisable value.

Amounts recoverable on contracts, which are included in debtors, are stated at cost plus attributable profit. Long-term contract profit is taken as the work is carried out if the final outcome can be assessed with reasonable certainty.

The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year-end. Turnover and related costs are recorded as contract activity progresses. Full provision is made for losses on all contracts in the year in which such losses are first foreseen.

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 employees in the schemes. Variations from regular cost are spread over the expected remaining service lives of current employees in the schemes. The interest cost and expected return on assets are shown as a net amount of other finance costs or credits.

Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses. The pension cost is assessed in accordance with the advice of independent qualified actuaries. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after net assets on the face of the balance sheet.

For defined contribution schemes, the amount charged to the profit and loss account in respect of pension costs and after post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Taxation

Current tax is provided based on the results for the year.

Deferred taxation is provided using the liability method in respect of all timing differences, which are expected to result in tax liabilities or assets in the foreseeable future. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements. Deferred tax is not recognised on timing differences arising from fixed asset revaluation gains, rolled over gains on the sale of assets and remittable profits of overseas subsidiaries, joint ventures and associated companies, where no commitment has been made to repatriate these earnings. Deferred taxation assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax balances are not discounted.

Research and development

Expenditure on research and development is written off in the year of expenditure, except where there is a clearly defined project. Where the project is clearly defined and on going, the development costs are carried forward, to the extent that their recovery can reasonably be assured, until the project is complete.

Dividends

Dividends are recognised on a paid basis in accordance with FRS 21: Post Balance Sheet Events.

Capitalisation of finance costs

Issue costs associated with raising new finance are deducted from the amount of the loan, and amortised to the profit and loss account over the duration of the loan.

Foreign currencies

Assets, liabilities, profits and losses in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Costs and revenues payable or receivable in foreign currencies and included in forecasts of contract outcome are translated using current exchange rates. Exchange differences on translation of the opening net assets of overseas operations at the rates ruling at the balance sheet date are taken directly to reserves. Exchange differences arising from the translation of long-term foreign currency finance are also taken to reserves. Other exchange differences arising in the ordinary course of business are included in the profit and loss account. Remittances from overseas may be subject to local exchange control regulations.

Financial instruments

The Group applies FRS 25 'Financial Instruments: disclosure and presentation. The Group does not use complex derivative financial instruments. Where it does use financial instruments these are mainly to manage the interest rate risks arising from normal operations and to raise finance for the Group's operations.

Notes to the Financial Statements

1. Segmental reporting

Turnover, profit/ (loss) before tax and net operating assets/ (liabilities) for the Group are analysed by class of business as follows:

	Turnover		Profit/(loss) before taxation		Net operating assets /(liabilities)	
	Year ended 31/3/08 £m	Year ended 31/3/07 £m	**Year ended 31/3/08 £m**	Year ended 31/3/07 £m	**31/3/08 £m**	31/3/07 £m
Contracting & ancillary services	**228.9**	178.1	**9.7**	4.5	**7.8**	1.7
Other service related						
Asset based concessions - Cascal*	**69.9**	43.6	**4.6**	6.1	**203.0**	137.4
Other service related businesses	**11.0**	10.4	**0.8**	0.4	**(13.0)**	(16.6)
Head office	**-**	-	**(10.8)****	(9.2)	**(5.3)**	4.6
	309.8	232.1	**4.3**	1.8	**192.5**	127.1
Joint venture companies	**12.6**	18.5	**3.5**	3.4	**7.2**	2.2
Continuing Operations	**322.4**	250.6	**7.8**	5.2	**199.7**	129.3
Acquisitions – Cascal	**2.9**	-	**0.6**	-	**0.9**	-
	325.3	250.6	**8.4**	5.2	**200.6**	129.3

** The asset based concessions business of Cascal has been disclosed as a separate segment in these financial statements because the directors believe this depicts a more accurate profile of the group. The prior year comparatives have been restated.*

***Includes exceptional items of £1.4m (see note 2).*

The geographical areas in which turnover arose, turnover by destination and net operating assets/(liabilities) by location are as follows:

	Turnover by origin		Turnover by destination		Net operating assets/(liabilities) By location	
	Year ended 31/3/08 £m	Year ended 31/3/07 £m	**Year ended 31/3/08 £m**	Year ended 31/3/07 £m	**31/3/08 £m**	31/3/07 £m
Continuing Operations						
United Kingdom	**181.7**	139.0	**179.2**	132.9	**94.0**	170.0
Europe	**13.6**	7.0	**5.9**	3.2	**59.1**	(50.8)
Far East	**23.1**	15.3	**22.7**	15.3	**28.8**	15.3
Middle East	**8.2**	13.2	**1.0**	1.6	**-**	(0.1)
Africa	**54.4**	39.0	**72.4**	60.3	**(2.6)**	(3.3)
Americas	**28.8**	18.6	**28.6**	18.8	**20.4**	(1.8)
	309.8	232.1	**309.8**	232.1	**199.7**	129.3
Acquisitions						
Africa	**2.9**	-	**2.9**	-	**0.9**	-
	312.7	232.1	**312.7**	232.1	**200.6**	129.3

In the opinion of the directors, segmental information relating to profit before tax by geographical area would be seriously prejudicial to the interests of the Group and has not therefore been provided.

Net operating assets/(liabilities) used in the above analysis represent non-interest bearing assets and liabilities and can be reconciled to the Group balance sheet as follows:

	Continuing £m	**Acquisitions £m**	**31/3/08 £m**	31/3/07 £m
Net assets per Group balance sheet	**142.5**	**0.9**	**143.4**	31.7
Cash at bank	**(65.0)**	**(1.1)**	**(66.1)**	(42.9)
Overdrafts and short term loans	**31.7**	**0.1**	**31.8**	20.6
Bank loans due after more than one year	**90.5**	**1.0**	**91.5**	119.9
	199.7	**0.9**	**200.6**	129.3

2. Operating profit

Operating profit represents:

	Year Ended 31/3/08				Year Ended 31/3/07
	Continuing £m	**Acquisitions £m**	**Exceptionals £m**	**Total £m**	Total £m
Turnover	**309.8**	**2.9**	**-**	**312.7**	232.1
Changes in stocks of finished goods and manufacturing work-in-progress	**(0.1)**	**-**	**-**	**(0.1)**	(0.9)
Raw materials and consumables	**(146.7)**	**(1.5)**	**-**	**(148.2)**	(90.3)
Sub-contractors	**(28.2)**	**-**	**-**	**(28.2)**	(37.0)
Other external charges	**(53.4)**	**-**	**-**	**(53.4)**	(41.8)
Staff costs	**(55.2)**	**(0.5)**	**-**	**(55.7)**	(44.8)
Depreciation and amortisation	**(14.4)**	**(0.2)**	**-**	**(14.6)**	(8.7)
Loss on sale of fixed assets	**(0.4)**	**-**	**-**	**(0.4)**	-
Rental income	**0.6**	**-**	**-**	**0.6**	0.6
Profit on partial sale of Cascal (see note 25)	**-**	**-**	**4.2**	**4.2**	-
Costs incurred in connection with legal case in Tanzania (see note 28)	**-**	**-**	**(3.7)**	**(3.7)**	-
Profit on early termination of contract see below)	**-**	**-**	**0.9**	**0.9**	-
Exchange differences	**2.7**	**-**	**-**	**2.7**	0.1
	14.7	**0.7**	**1.4**	**16.8**	9.3

On 23 January 2008, Cascal NV agreed to an early termination of its operation and maintenance contract in Mexico. Cascal received a termination fee of £0.6m (MXP 10.5m) and after the costs of termination and receipts for the sale of assets, it recorded a profit on termination of £0.3m (MXP 4.3m).

	Year ended 31/3/08 £m	Year ended 31/3/07 £m
Other external charges include:		
- Fees payable to the company's auditor for the audit of parent company and consolidated accounts	**0.3**	0.3
- Fees payable to the company's auditor for other services:		
- The audit of company's subsidiaries pursuant to legislation	**0.9**	0.3
- Other services pursuant to legislation	**0.2**	-
- Tax services	**1.0**	0.3
- Other services *	**0.5**	0.1
Hire of plant and equipment	**2.9**	2.5
Operating leases:		
- property lease	**0.8**	0.9
- plant and equipment	**0.2**	0.3
- fixtures and fittings	**0.1**	0.1

** Other services comprise work on SEC and other external non-regulatory reporting requirements, audits required by regulatory bodies and other non-audit and non-tax professional advice.*

	Year ended 31/3/08 £m	Year ended 31/3/07 £m
Staff costs (including directors) comprise:		
Wages and salaries	**49.1**	40.0
Social security costs	**4.4**	3.1
Redundancy costs	**-**	0.2
Defined benefit pension costs - current service	**0.6**	0.5
Defined contributions pension costs	**1.6**	1.0
	55.7	44.8

The average number of employees (including directors) during the year was as follows:

	31/3/08 Number	31/3/07 Number
United Kingdom	**1,129**	1,037
Africa	**1,276**	1,063
Far East	**613**	110
Mainland Europe	**135**	54
Americas	**550**	250
	3,703	2,514

3. Directors' emoluments

	Year ended 31/3/08 £000	Year ended 31/3/07 £000
For services as executives:		
Aggregate emoluments	**2,138**	1,465
Annual contributions to money purchase scheme	**235**	220
Total directors' emoluments	**2,373**	1,685

Retirement benefits have been accruing during the year for the following number of directors:

	31/3/08 Number	31/3/07 Number
Defined benefit schemes	**5**	5
Money purchase schemes	**7**	7

Highest Paid Director	**£000**	£000
Aggregate emoluments	**238**	303
Contributions in respect of money purchase scheme	**47**	86
Contributions to non company pension scheme	**135**	-
Accrued defined benefit at end of year	**33**	134

The Group balance sheet as at 31 March 2008 includes a provision for a bonus attributable to the successful floatation of Cascal in January 2008. The apportionment of this bonus between directors and other employees has yet to be finalised and no amounts have therefore been included in directors' emoluments set out above.

There are no other retirement benefits provided in respect of current or past directors.

Notes to the Financial Statements

4. Net interest (payable)/receivable - Group

	Year ended 31/3/08 £m	Year ended 31/3/07 £m
Interest payable:		
Bank loans and overdrafts	**(12.6)**	(6.6)
Finance leases	**(0.5)**	(0.3)
Net cost on pension scheme (see note 29)	**(0.8)**	(1.4)
	(13.9)	(8.3)
Interest receivable:		
Bank deposits	**1.9**	0.7
Other interest	**0.1**	0.1
Net interest payable	**(11.9)**	(7.5)

5. Taxation

	Year ended 31/3/08 £m	Year ended 31/3/07 £m
UK Corporation tax @ 30% (2007: 30%)		
Current year	**(1.3)**	(0.7)
Prior year	**0.4**	-
Overseas tax		
Current year	**(2.8)**	(0.1)
Prior year	**(0.4)**	-
Share of joint venture and associates tax	**(0.6)**	(0.8)
Total current tax	**(4.7)**	(1.6)
Deferred tax:		
Origination and reversal of timing differences	**(0.1)**	(0.3)
Adjustment in respect of prior years	**(0.1)**	-
Pension cost charges in excess of pension cost relief	**(0.5)**	(0.3)
Rate changes	**0.5**	-
Losses	**(0.4)**	-
Share of joint venture and associates:		
Pension cost charges in excess of pension cost relief	**-**	(0.2)
Total deferred tax	**(0.6)**	(0.8)
Total tax charge for the year	**(5.3)**	(2.4)

The tax for the year is less than (2007: equivalent to) the standard rate of corporation tax in the UK (30%). The differences are explained below:

Profit on ordinary activities before tax	**8.4**	5.2
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2007: 30%)	**(2.5)**	(1.6)
Effects of:		
Expenses disallowed for tax purposes	**(3.7)**	0.2
Adjustment in respect of accelerated capital allowances	**0.9**	0.3
Difference in respect of pension	**0.7**	0.3
Non taxable gain on Cascal sale	**1.2**	-
Adjustment in respect of unutilised tax losses	**(1.9)**	(0.8)
Adjustment in respect of utilised tax losses	**0.4**	-
Difference in respect of foreign tax rates	**(0.1)**	(0.2)
Adjustment in respect of joint venture and associates	**-**	0.2
Other movements	**0.3**	-
Total current tax	**(4.7)**	(1.6)

Factors that may affect future tax charges:

The standard rate of corporation tax in the UK changed to 28% with effect from 1 April 2008.

6. Intangible assets

	Positive Goodwill £m	Negative Goodwill £m	Water rights and other £m	Total £m
Cost/valuation:				
Balance at 1 April 2007	5.1	-	15.3	**20.4**
Fair value adjustment (note 24)	(0.2)	(19.1)	(16.6)	**(35.9)**
Acquisition (note 24)	-	(0.4)	-	**(0.4)**
Disposals (note 25)	-	7.3	-	**7.3**
Other movements	-	-	1.3	**1.3**
Balance at 31 March 2008	**4.9**	**(12.2)**	-	**(7.3)**
Accumulated amortisation:				
Balance at 1 April 2007	0.6	-	-	**0.6**
Current year's charge/(credit)	0.3	(1.6)	-	**(1.3)**
Balance at 31 March 2008	**0.9**	**(1.6)**	**-**	**(0.7)**
Net book value				
31 March 2008	**4.0**	**(10.6)**	**-**	**(6.6)**
31 March 2007	4.5	-	15.3	19.8

Positive goodwill at 31 March 2008 includes £2.3m which arose on the acquisition of AEWT, £2.4m on the acquisition of Pre-Heat and £0.1m on the acquisition of China Water in previous years. Goodwill is written off over 20 years or lower and reviewed annually for impairment or more frequently if there is an indication that impairment may have occurred.

Negative goodwill of £19.1m arose in respect of the purchase of 50% of Cascal BV from Nuon in June 2006 (see note 24) of which £7.3m was disposed of following the Cascal IPO in January 2008 (see note 25). The useful economic lives of the assets acquired to which the negative goodwill relates is in excess of 20 years. However, the directors have taken the decision to cap the useful economic life of this negative goodwill to 20 years. Negative goodwill also includes £0.4m relating to Siza Water.

Perpetual water rights comprise water concessions, extraction and interconnection rights. Perpetual rights are regarded as having an infinite economic life and are therefore not amortised. These rights last in perpetuity and continue to be used.

Notes to the Financial Statements

7. Tangible assets – Group Owned:

	Freehold land Properties and service Reservoir £m	Infra-structure assets £m	Long leasehold property £m	Plant & equipment £m	Fixtures & fittings £m	Total £m
Cost/valuation:						
Balance at 1 April 2007	34.7	69.3	5.2	57.4	5.4	**172.0**
Additions	1.3	7.0	-	5.5	1.5	**15.3**
Fair value adjustment (note 24)	24.1	40.4	-	12.7	0.4	**77.6**
Acquisitions (note 24)	-	6.6	-	0.3	-	**6.9**
Revaluation adjustment	(0.8)	-	-	-	-	**(0.8)**
Disposals	-	-	-	(0.5)	(0.3)	**(0.8)**
Exchange adjustment	(0.1)	(1.8)	0.3	(0.1)	0.2	**(1.5)**
Reclassification *	6.3	17.2	-	28.4	3.8	**55.7**
Balance at 31 March 2008	**65.5**	**138.7**	**5.5**	**103.7**	**11.0**	**324.4**
Accumulated depreciation:						
Balance at 1 April 2007	0.9	1.8	0.3	9.2	2.7	**14.9**
Current year's charge	1.2	2.9	0.4	9.1	1.6	**15.2**
Acquisitions (note 24)	-	0.9	-	0.1	-	**1.0**
Disposals	-	-	-	(0.4)	(0.2)	**(0.6)**
Exchange adjustment	0.2	0.4	-	0.6	0.2	**1.4**
Reclassification *	6.3	17.2	-	28.4	3.8	**55.7**
Balance at 31 March 2008	**8.6**	**23.2**	**0.7**	**47.0**	**8.1**	**87.6**
Net book value:						
31 March 2008	**56.9**	**115.5**	**4.8**	**56.7**	**2.9**	**236.8**
31 March 2007	33.8	67.5	4.9	48.2	2.7	157.1

The Group's freehold properties were revalued as at 31 March 2006 by independent professional valuers, Richard Ellis and Mills Fitchet, on an existing use basis. The valuations were undertaken in accordance with the appraisal and valuation manual of the Royal Institute of Chartered Surveyors in the United Kingdom.

No deferred tax is provided on timing differences arising from the revaluation of fixed assets unless by the balance sheet date a binding agreement to sell the asset has been entered into and it is unlikely that any gain will be rolled over.

The properties, including those at valuation, had an original cost of £4.6m (2007: £4.6m) and the aggregate depreciation based on historical cost would have been £3.3m (2007: £2.9m).

Freehold land, included in freehold properties, amounting to £4.9m (2007: £4.7m) has not been depreciated.

Included in additions during the year is an amount of £0.3m (2007: £0.1m) which was capitalised in respect of interest incurred during construction. Interest rates incurred are at rates applicable to the country in which the asset is financed. The net book value of fixed assets include accumulated capitalised interest of £2.5m (2007: £2.2m) in respect of interest incurred during the construction phase of new qualifying assets.

7. Leased assets - Group continued

	Freehold property £m	Infra-structure assets £m	Plant & equipment £m	Fixtures & fittings £m	Total £m
Cost/valuation:					
Balance at 1 April 2007	1.3	1.6	5.8	-	**8.7**
Additions	-	1.1	1.3	-	**2.4**
Disposals	(0.4)	(0.3)	-	-	**(0.7)**
Reclassification *	0.2	-	4.2	0.2	**4.6**
Balance at 31 March 2008	**1.1**	**2.4**	**11.3**	**0.2**	**15.0**
Accumulated depreciation:					
Balance at 1 April 2007	-	-	0.1	-	**0.1**
Current year's charge	-	0.1	0.5	0.1	**0.7**
Disposals	-	-	(0.1)	-	**(0.1)**
Reclassification *	0.2	0.3	4.1	-	**4.6**
Balance at 31 March 2008	**0.2**	**0.4**	**4.6**	**0.1**	**5.3**
Net book value					
31 March 2008	0.9	2.0	6.7	0.1	**9.7**
31 March 2007	**1.3**	**1.6**	**5.7**	**-**	**8.6**

**Cascal assets acquired in 2006/7 were included at net book value in the 2006/7 accounts. These assets have been restated at gross fair value and accumulated depreciation in the current year.*

8. Tangible assets - Company

	Freehold & long leasehold property £m	Plant & equipment £m	Fixtures & fittings £m	Total Owned Assets £m	Plant & Equipment – Leased £m
Cost/valuation:					
Balance at 1 April 2007	1.8	0.2	0.1	**2.1**	**0.3**
Additions	-	-	0.2	**0.2**	**-**
Disposals	-	(0.1)	-	**(0.1)**	**-**
Balance at 31 March 2008	**1.8**	**0.1**	**0.3**	**2.2**	**0.3**
Accumulated depreciation:					
Balance at 1 April 2007	0.3	0.2	0.1	**0.6**	**-**
Current year's charge	0.4	-	-	**0.4**	**-**
Disposals	-	(0.1)	-	**(0.1)**	**-**
Balance at 31 March 2008	**0.7**	**0.1**	**0.1**	**0.9**	**-**
Net book value:					
31 March 2008	**1.1**	**-**	**0.2**	**1.3**	**0.3**
31 March 2007	1.5	-	-	1.5	0.3

9. Investment in joint ventures

	31/3/08 £m	31/3/07 £m
Share of assets:		
Share of current assets	**4.1**	3.8
Share of liabilities:		
Liabilities due within one year or less	**(2.2)**	(3.1)
	1.9	0.7
As at 1 April 2007	**0.7**	
Share of retained profits	**1.2**	
As at 31 March 2008	**1.9**	

The investment in joint venture comprises 50% of the net assets of Nagua.

10. Investments held as fixed assets

	Group Associated undertakings £m	Company Restated Subsidiary undertakings £m
Cost:		
Balance 1 April 2007 and at 31 March 2008	**3.6**	**111.4**
Share of profits retained:		
Balance at 1 April 2007	**1.4**	**-**
Share of profit in year	**1.8**	**-**
Distributions	**(1.4)**	**-**
Balance at 31 March 2008	**1.8**	**-**
Net book value:		
31 March 2008	**5.4**	**111.4**
31 March 2007	5.0	111.4

Biwater Holdings Sdn Bhd, Malaysia holds a 26% investment in REI Water Consortium Sdn Bhd. The share of operating profits for the year ended 31 March 2008 was £0.1m (2007: £0.2m loss) against which overseas tax of £Nil (2007: £0.1m) was credited.

The share of operating profits of Cascal NV associates in Indonesia for the year to 31 March 2008 was £2.2m (2007: £1.7m), against which interest of £Nil (2007: £0.1m) and overseas taxes of £0.5m (2007: £0.5m) were charged.

A list of principal Group undertakings and their activities is given on page 54.

Notes to the Financial Statements

11. Stocks

	Group 31/3/08 £m	Group 31/3/07 £m
Raw materials and consumables	**4.2**	4.3
	4.2	4.3

12. Debtors

	Group		Company Restated	
	31/3/08 £m	31/3/07 £m	**31/3/08 £m**	31/3/07 £m
Trade debtors	**55.2**	50.9	**-**	-
Amounts owed by group undertakings	**-**	-	**10.6**	**4.7**
Amounts owed by joint ventures	**2.3**	3.2	**-**	-
Amounts recoverable on contracts (see below)	**39.6**	46.8	**-**	-
Other debtors	**7.8**	24.3	**0.5**	3.0
Prepayments and accrued income	**6.4**	3.0	**0.2**	0.3
Corporation tax	**2.1**	1.8	**6.5**	6.9
Overseas tax	**0.2**	0.1	**-**	-
Deferred tax (note 16)	**1.9**	2.8	**-**	-
	115.5	132.9	**17.8**	14.9

Amounts recoverable on contracts are shown after the deduction of progress receipts of £875.9m (2007: £675.2m) and receivables of £33.4m (2007: £24.7m), the latter of which is included in trade debtors. Where, on a contract-by-contract basis, progress receipts exceed amounts recoverable on contracts, the excess is shown under creditors (notes 13 and 14) as payments on account.

Debtors: amounts falling due after more than one year (included within debtors above)

	Group		Company Restated	
	31/3/08 £m	31/3/07 £m	**31/3/08 £m**	31/3/07 £m
Amounts owed by group undertakings	**-**	-	**22.1**	20.8
Promissory notes	**1.3**	2.5	**-**	-
Other debtors	**1.5**	1.2	**-**	-
	2.8	3.7	**22.1**	20.8

Notes to the Financial Statements

13. Creditors: amounts falling due within one year

	Group		Company	
	31/3/08	31/3/07 Restated	**31/3/08**	31/3/07 Restated
	£m	£m	**£m**	£m
Bank overdrafts	**28.1**	17.2	**33.2**	23.5
Bank loans (see note 15)	**3.7**	3.4	**-**	-
Payments on account	**22.9**	18.8	**-**	-
Trade creditors	**38.3**	54.2	**1.8**	1.0
Amounts owed to group undertakings	**-**	-	**1.8**	3.0
Amounts owed to joint ventures	**4.5**	4.0	**-**	3.9
Finance leases (Note 15)	**2.2**	1.2	**0.2**	0.2
Taxation and social security	**1.8**	1.1	**-**	-
Corporation Tax	**1.3**	-	**-**	-
Overseas tax	**2.8**	0.9	**0.1**	0.1
Other creditors	**8.6**	14.8	**0.7**	0.4
Accruals and deferred income	**29.6**	37.2	**2.4**	1.2
Pension fund accrual	**0.3**	0.3	**-**	0.1
	144.1	153.1	**40.2**	33.4

The Group has a £9m on demand multicurrency overdraft facility with HSBC. In line with the terms of the overdraft facility, this reduces to £5m and £Nil in November 2008 and December 2008 respectively. In addition, the Group has a £25m on demand loan facility with HSBC. Both these facilities have, as security, a fixed and floating charge over the assets and shares of the key subsidiaries of the Group (but, in the Cascal group, a pledge over only the shares of Cascal NV) and have interest charged at rates based on a margin over bank base rates. A number of our other international subsidiaries have working capital or project related financing with differing levels of security being provided within those specific entities or project specific cash flows respectively.

14. Creditors: amounts falling due after more than one year

	Group		Company	
	31/3/08	31/3/07 Restated	**31/3/08**	31/3/07 Restated
	£m	£m	**£m**	£m
Payable within one to two years:				
Bank loans (note 15)	**10.6**	13.0	**-**	-
Finance leases (note 15)	**1.2**	0.7	**-**	-
Deferred income	**-**	9.6	**-**	-
Payments on account	**2.7**	1.8	**-**	-
	14.5	25.1	**-**	-
Payable within two to five years:				
Bank loans (note 15)	**6.0**	34.3	**-**	-
Finance leases (note 15)	**2.2**	1.8	**-**	-
	8.2	36.1	**-**	-
Payable after five years:				
Bank loans (note 15)	**74.9**	72.6	**-**	-
Finance leases (note 15)	**2.1**	2.8	**-**	-
Other	**0.4**	-	**-**	-
Amounts owed to group undertakings	**-**	-	**96.5**	80.6
	77.4	75.4	**96.5**	80.6
Total creditors falling due after more than one year	**100.1**	136.6	**96.5**	80.6

15. Bank loans are repayable as follows

	Group		Company	
	31/3/08	31/3/07	**31/3/08**	31/3/07
	£m	£m	**£m**	£m
Within one year	**3.7**	3.4	**-**	-
Payable within one to two years:	**10.6**	13.0	**-**	-
Payable within two to five years:	**6.0**	34.3	**-**	-
Payable after five years:	**74.9**	72.6	**-**	-
	95.2	123.3	**-**	-
Less included in creditors amounts falling due within one year	**(3.7)**	(3.4)	**-**	-
Amounts falling due after more than one year	**91.5**	119.9	**-**	-

International Finance Corporation advanced a $16.8m secured term loan to Aquas de Panama S.A. in April 2002 (designated 'A loan' for $6.45m maturing in 2012 and 'B loan' for B $10.35m maturing in 2010) for the design, construction and operation of the Laguna Alta bulk water treatment plant in Panama and this facility was secured on those assets. The loan is repayable in variable half yearly instalments. Interest is charged at LIBOR plus 4% on the 'A loan' and LIBOR plus 3.75% on the 'B loan'. The outstanding balance as at 31 March 2008 was $8.6m (2007: $10.8m).

On 20 April 2005 Bournemouth and West Hampshire Water plc (BWHW), a wholly owned subsidiary undertaking of Cascal, took out a £65m index linked long dated loan from Artesian Finance plc. The loan is due for repayment on 30 September 2033. The interest is fixed at 3.084% for the duration of the loan and interest is payable every six months on 30 September and 31 March. The principal amount of the loan increases by the Retail Price Index (RPI) each year. The indexation is charged to the profit and loss account as a financial expense. The loan is subject to a covenant relating to the percentage of net debt to regulated capital value and restricts dividend payment in the event that this is breached.

BWHW is the lessee under two lease arrangements whose terms extend for one and two years after 31 March 2007 respectively. Repayments of principal and interest are made at semi annual intervals with interest calculated at the six month LIBOR rate prevailing at the time of payment. BWHW is also party to a 20 year capital lease of which £4.9m was outstanding at 31 March 2008 (2007: £5.4m). Repayment of principal and interest are made annually and commenced in January 1998. Interest is based on the three month variable rate of LIBOR.

Cascal borrowed £38m from the Royal Bank of Scotland in June 2006. The original loan consisted of two tranches, the first for £28m drawn by BWHW (and subordinated to the Artesian loan and existing lease finance within BWHW) on which interest was payable at a rate of LIBOR plus 1.5% increasing to 2% during the second year, and then to 2.5% until maturity in 2009. The second tranche, drawn by Cascal Services Ltd for £10m, bears interest for the first year at LIBOR plus 2%, increasing to 2.75% for the next 9 months and then to 3.5% until maturity in June 2008. In June 2007, the liability for the first tranche was transferred to Cascal Services Ltd on the same terms as the second tranche with a repayment date of June 2008. These amounts were repaid in full from the proceeds of Cascal's initial public placing in January 2008.

The Greater Nelspruit Utility Company (GNUC) has two loans from the Development Bank of Southern Africa, the aggregate amount of which at 31 March 2008 was 59.7m Rand (2007: 71.4m Rand). The loans were arranged to finance the infrastructure development over 20 years. Both loans bear interest at a fixed rate of 13.06% per annum, and interest is payable quarterly in arrears. The first loan is repayable in 60 consecutive quarterly instalments, which commenced in December 2005, following a five year grace period. The final payment is due in September 2020. The second loan is also repayable in sixty quarterly instalments beginning March 2009, also at the end of a five year grace period. The final payment under the loan is due in March 2022. The loans are secured on GNUC's "A" preference shares.

Siza Water Company (Propriety) Ltd has a bank loan outstanding of ZAR 15.9m as at 31 March 2008. The loan bears interest at a fixed rate of 12.61% per annum. Quarterly capital repayments of ZAR 0.7m commenced on 6 February 2008 and end on 6 November 2017. The loan is secured by a guarantee of 17.7m Rand from another financial institution.

A number of loans have been advanced to Cascal's Chilean subsidiaries by the Banco BICE:

January 2004 loan facility UF 258,339. Interest 6.49% fixed per annum, repayable in equal monthly instalments until maturity January 2013. Loan secured on accounts receivables. At 31 March 2008 the outstanding principal balance was UF 164,289 (2007: UF 190,648).

November 2002, loan of UF 114,075 at 6.5% fixed per annum, repayable in equal monthly instalments maturing June 2011. The loan is cross guaranteed by another Chilean Company. At 31 March 2008 the outstanding principal balance was UF 51,096 (2007: UF 64,167).

Loan to Chilean Investment holding company for UF 87,635. Interest is at a variable rate, currently 5.19% which is payable semi annually. Principal is repaid in equal instalments, maturing in December 2008. The loan is secured by a letter of credit for $1.1m. As at 31 March 2008 the outstanding principal balance was UF 14,406 (2007: UF 29,212).

The Chilean Investment Company also has a fixed interest loan from Aquas y Ecologia, drawn in June 2001 for UF 18,788 with interest at 7.24% per annum. As at 31 March 2008 the outstanding principal balance was UF 4,175 (2007: UF 6,263) with the final payment due in June 2009. The loan is secured on the investment in the wastewater subsidiary in Northern Chile.

Aguas Santiago in Chile has unsecured obligations with developers because of reimbursement of funds for a total of UF 15,342 at an average interest rate of 4.04% with a due date of October 2020.

The Indonesian joint venture, PT Adhya Tirta Batam, has a term loan from NISP Bank to finance the construction of phase II of the Duriangkang water treatment plant (completed 2003). IDR 19,000 m was drawn down in April 2004 at 13-18% interest per annum for a period of 5 years. Security is assigned to certain fixed and current assets of the company. As at 31 March 2008 the principal balance outstanding was IDR 5,277m (2007: IDR 8,444m).

On 2 November 2007 Cascal agreed a US$ 30m credit facility with HSBC Bank plc. Of this $ 20m is a revolving loan facility together with a $10m guarantee facility. Following the Cascal initial public offering in February 2008 the revolving credit facility bears interest at a rate based on one, two, three or six monthly US $ LIBOR plus a margin that increases in multiple steps beginning from 0.8% per annum if the ratio is greater than 3.5:1. As at 31 March 2008 Cascal NV had drawn down $ 16.5m of the $ 20m available under the revolving credit facility. The balance of $ 3.5m was drawn down on 18 April 2008. The terms of the facility ends on 31 March 2010.

Obligations under finance lease contracts

	Group		Company	
	31/3/08	31/3/07	**31/3/08**	31/3/07
	£m	£m	**£m**	£m
Within one year	**2.2**	1.2	**0.2**	0.2
Payable within one to two years:	**1.2**	0.7	**-**	-
Payable within two to five years:	**2.2**	1.8	**-**	-
Payable after five years	**2.1**	2.8	**-**	-
	7.7	6.5	**0.2**	0.2
Less included in creditors amounts falling due within one year	**(2.2)**	(1.2)	**(0.2)**	(0.2)
Amount falling due after more than one year	**5.5**	5.3	**-**	-

16. Provisions for liabilities and charges

	Group			
	Deferred Tax £m	Deferred Consideration £m	Contract Losses £m	**Total 31/3/08 £m**
Balance at 1 April 2007 as previously stated	-	-	-	**-**
Reclassified from creditors	9.0	1.6	7.7	**18.3**
Balance at 1 April 2007 as restated	9.0	1.6	7.7	**18.3**
Acquisitions	11.6	-	-	**11.6**
(Credited)/charged to profit and loss account	(0.2)	-	0.3	**0.1**
Utilised during the year	(3.9)	(0.2)	-	**(4.1)**
Exchange	-	0.1	-	**0.1**
Balance at 31 March 2008	16.5	1.5	8.0	**26.0**

Deferred consideration relates to the acquisition of AEWT £0.8m (2007: £0.8m) and Pre-Heat £0.7m (2007: £0.8m). The deferred consideration for AEWT and Pre-Heat is expected to be settled within one year and is dependent on the underlying economic activity within each respective business.

Contract losses relate to foreseen losses that have been identified and are expected to unwind over the next 1 to 4 years.

	Group	
	31/3/08 £m	31/3/07 £m
Deferred tax (liability) / asset		
At 1 April 2007	**7.4**	17.2
Acquired - Siza (see note 24)	**(0.6)**	-
- Cascal (see note 24)	**(11.0)**	(9.1)
- Pension deficit	**-**	1.9
Charged to profit and loss account	**(0.6)**	(0.8)
Charged to statement of total recognised gains and losses	**(3.5)**	(1.8)
Utilised in the period	**1.2**	-
At 31 March 2008	**(7.1)**	7.4
Deferred tax – Joint Venture		
At 1 April - share of joint venture deferred tax	**-**	(4.3)
Transferred on acquisition	**-**	4.1
Amount charged to profit and loss account	**-**	0.2
At 31 March share of joint venture deferred tax	**-**	-

No deferred tax has been recognised in respect of brought forward tax losses of £12.2m (2007: £4.5m) nor in respect of properties previously revalued that are not expected to be sold in the foreseeable future.

The deferred tax (liability)/asset comprises:

	Group	
	31/3/08 £m	31/3/07 £m
Depreciation in excess of capital allowances	**(9.9)**	1.2
Other timing differences	**(4.7)**	(7.4)
Deferred tax liability excluding that relating to pension fund deficit	**(14.6)**	(6.2)
Comprising of:		
Deferred tax liability (see note 16)	**(16.5)**	(9.0)
Deferred tax asset (see note 12)	**1.9**	2.8
Net deferred tax liability	**(14.6)**	(6.2)
Deferred tax asset relating to pension fund deficit (note 29)	**7.5**	13.6
	(7.1)	7.4

17. Called up share capital

	Group		Company	
	31/3/08 £m	31/3/07 £m	**31/3/08 £m**	31/3/07 £m
Attributable to equity interests:				
Authorised, allotted and fully paid				
120 m ordinary shares of 25 pence each	**30.0**	30.0	**30.0**	30.0
	30.0	30.0	**30.0**	30.0

18. Combined statement of movements in equity shareholders' funds and statement of movements on reserves

	Share capital £m	**Other Reserves £m**	**Profit and loss account £m**	**Total 2008 £m**	Total 2007 £m
Group:					
Balance brought forward	30.0	13.3	(16.4)	**26.9**	27.5
Profit for the year	-	-	1.6	**1.6**	2.7
Actuarial gain (net of deferred tax)	-	-	9.0	**9.0**	4.1
Removal of Cascal's net result as an associate	-	-	37.6	**37.6**	-
Retranslation of investments in overseas subsidiaries and joint venture	-	-	(2.3)	**(2.3)**	(7.4)
Adjustments to prior year revaluation	-	(0.8)	-	**(0.8)**	-
Balance carried forward	**30.0**	**12.5**	**29.5**	**72.0**	**26.9**

18. Combined statement of movements in equity shareholders' funds and statement of movements on reserves continued

	Share capital £m	Other Reserves £m	Profit and loss account £m	Total 2008 £m	Total 2007 £m
Company:					
Balance brought forward as previously stated	30.0	3.0	(1.3)	**31.7**	27.5
Prior year adjustments – see accounting policies - revaluation of investments	-	-	(1.8)	**(1.8)**	(2.9)
-provision for inter company balances	-	-	(22.6)	**(22.6)**	(22.6)
- removal of pension deficit from company balance sheet	-	-	27.7	**27.7**	34.6
Balance brought forward as restated	30.0	3.0	2.0	**35.0**	36.6
Loss for the year	-	-	(14.2)	**(14.2)**	(1.9)
Dividend received	-	-	-	**-**	0.7
Retranslation of investments in overseas subsidiaries and joint venture	-	-	5.5	**5.5**	(0.4)
Balance carried forward	**30.0**	**3.0**	**(6.7)**	**26.3**	35.0

The profit and loss account of the holding Company is not presented as permitted by Section 230 of the Companies Act 1985.

19. Minority interests

	Group 2008 £m	Group 2007 £m
Equity:		
Balance at 1 April	**4.8**	-
Arising on partial sale of Cascal	**63.1**	-
Issue of shares in China Water attributable to minority	**1.4**	-
Transfer on acquisition	**0.5**	4.6
Charged to profit and loss in the year	**1.5**	0.1
Exchange	**0.1**	0.1
Balance at 31 March	**71.4**	4.8
Being:		
Minority share of net assets of Group undertakings	**71.4**	4.8

Notes to the Financial Statements

20. Reconciliation of Group operating profit to net cash inflow from operating activities

	Year ended 31/3/08			Year ended 31/3/07
	Continuing £m	**Acquisitions £m**	**Total £m**	£m
Group operating profit	**16.1**	**0.7**	**16.8**	9.3
Non cash movements:				
- Depreciation	**15.7**	**0.2**	**15.9**	8.1
- Amortisation	**(1.3)**	**-**	**(1.3)**	0.6
- Pension scheme finance charge	**0.9**	**-**	**0.9**	-
- Profit on partial disposal of Cascal	**(4.2)**	**-**	**(4.2)**	-
- Profit on early termination of contract	**(0.9)**	**-**	**(0.9)**	-
- Loss/(profit) on disposal of fixed assets	**0.4**	**-**	**0.4**	(0.2)
- Exchange movements	**(0.2)**	**-**	**(0.2)**	1.8
- Current service cost	**0.6**	**-**	**0.6**	0.5
Decrease in stocks	**0.2**	**-**	**0.2**	0.1
Decrease in debtors	**16.8**	**-**	**16.8**	5.3
(Decrease)/increase in creditors	**(31.7)**	**(0.2)**	**(31.9)**	9.7
Contributions to the pension fund	**(7.4)**	**-**	**(7.4)**	(6.7)
Net cash inflow from operating activities	**5.0**	**0.7**	**5.7**	28.5

21. Reconciliation of net cash flow to movement in net debt

	31/3/08 £m	31/3/07 £m
Movement in net cash	**10.6**	20.4
Movement in bank loans	**28.0**	1.3
Movement in finance lease obligations	**(1.2)**	1.6
Changes in net debt resulting from cash flows	**37.4**	23.3
Exchange & other non cash differences	**0.2**	(0.5)
Cash acquired on Siza acquisition (note 24)	**1.6**	(123.3)
Net debt brought forward	**(104.1)**	(3.6)
Net debt carried forward	**(64.9)**	(104.1)

22. Analysis of changes in net cash/(debt)

	1/4/07 £m	**Movement in loans £m**	**Other cash flows £m**	**Exchange & other movements £m**	**Acquisitions £m**	**Non-cash movements £m**	**31/3/08 £m**
Cash	42.9	**-**	**21.6**	**-**	**1.6**	**-**	**66.1**
Short term overdrafts	(17.2)	**-**	**(11.0)**	**0.1**	**-**	**-**	**(28.1)**
	25.7	**-**	**10.6**	**0.1**	**1.6**	**-**	**38.0**
Debt due in one year	(3.4)	**3.4**	**-**	**-**	**-**	**(3.7)**	**(3.7)**
Debt due after one year	(119.9)	**24.6**	**-**	**0.1**	**-**	**3.7**	**(91.5)**
Finance lease obligations due within one year	(1.2)	**1.2**	**-**	**(2.4)**	**-**	**0.2**	**(2.2)**
Finance leases due after one year	(5.3)	**-**	**-**	**-**	**-**	**(0.2)**	**(5.5)**
	(104.1)	**29.2**	**10.6**	**(2.2)**	**1.6**	**-**	**(64.9)**

23. Analysis of net debt as shown in the balance sheet and note 22

	2008 **£m**	2007 £m	**Change in year** **£m**
Cash at bank and in hand *	**66.1**	42.9	**23.2**
Short term overdrafts	**(28.1)**	(17.2)	**(10.9)**
Net cash	**38.0**	25.7	**12.3**
Loans	**(95.2)**	(123.3)	**28.1**
Finance lease obligations	**(7.7)**	(6.5)	**(1.2)**
Net debt	**(64.9)**	(104.1)	**39.2**

** Cash at 31 March 2008 includes £10m deposited into an escrow account. This amount was paid into the Biwater Retirement and Security Scheme on 1 April 2008 as a special contribution.*

24. Acquisition

a) Cascal

On 26 June 2006, Biwater Plc purchased the 50% of Cascal B.V. that it did not already own for £23.4m ($43.2m) cash consideration from n.v. Nuon.

In the Group financial statements for the year ended 31 March 2007, the fair values attributed to the assets and liabilities of Cascal BV acquired in June 2006 were regarded as provisional because the alignment of Cascal's assets to Group policy had yet to be completed and its China Water acquisition had yet to be fully valued.

The fair values have now been finalised and further fair value adjustments have been identified and are recorded in the Group financial statements for the year ended 31 March 2008. The principal fair value adjustments recorded are as follows:

	Book Value **£m**	**Fair value Adjustments** **£m**	**Final Fair Value** **£m**
Fixed assets – owned	**115.7**	**77.6**	**193.3**
Fixed assets - leased	**8.0**	**-**	**8.0**
Intangibles	**1.4**	**(1.4)**	**-**
Associates	**3.2**	**-**	**3.2**
Extraction rights	**6.2**	**(6.2)**	**-**
Stocks	**0.5**	**-**	**0.5**
Debtors	**37.2**	**(0.2)**	**37.0**
Cash at bank and in hand	**29.5**	**-**	**29.5**
Creditors – short term	**(22.4)**	**(0.3)**	**(22.7)**
Long term loans and provisions	**(116.9)**	**(1.2)**	**(118.1)**
Lease commitments	**(6.4)**	**-**	**(6.4)**
Deferred tax	**(8.7)**	**(11.0)**	**(19.7)**
Deferred income	**(8.3)**	**8.2**	**(0.1)**
Pension liabilities	**(4.6)**	**-**	**(4.6)**
Net assets	**34.4**	**65.5**	**99.9**
Negative goodwill			**(19.1)**
Original investment in 2000			**(54.8)**
Consideration			**26.0**
Discharged by:			
Cash			**23.4**
Expenses incurred			**2.6**
			26.0

The principal fair value adjustments have been recorded in respect of the following:

Fixed assets have been revalued to reflect the true economic value of infrastructure assets and service reservoirs. Intangible assets and extraction rights have been restricted by negative goodwill.

Deferred income has been reclassified to remove the liability generated from infrastructure contributions received from developers which are not refundable.

In the 2006/7 accounts, provisional fair value adjustments were booked to increase water rights by £9.0m and deferred tax by £0.4m respectively, resulting in positive goodwill of £0.2m. These accounting entries have been reversed in the current year and the final fair values reflected as above.

Deferred tax liability has increased due to the impact of other fair value adjustments, primarily deferred income.

b) Siza Water
On 3 May 2007, Cascal acquired a total of 73% of the shares in the Siza Water Company (Proprietary) Limited for £1.4m (USD 2.9m). Siza Water provides water and wastewater services to the inhabitants of Ballito, a town close to Durban in South Africa, under a concession contract with Ilembe District Council.

	Book Value £m	Fair value Adjustments £m	Final Fair Value £m
Fixed assets	5.5	0.4	5.9
Stocks	0.1	-	0.1
Debtors	0.5	-	0.5
Cash at bank and in hand	1.6	-	1.6
Creditors	(6.8)	1.0	(5.8)
Minority interests	-	(0.5)	(0.5)
Net assets	0.9	0.9	1.8
Negative goodwill			(0.4)
Consideration			1.4
Discharged by:			
Cash			1.4
Professional fees			-
			1.4

Fixed assets and creditors have been valued in accordance with the Group's accounting policies which result in an increase of £0.4m and £1.0m respectively. Minority interests have been adjusted to reflect the 27% interest held by the minority.

Siza Water contributed turnover of £2.9m and profit before tax of £0.6m to the Group for the period from 3 May 2007 to 31 March 2008. If the acquisition had occurred on 1 April 2007, the company would have contributed £3.7m to turnover and £0.6m net profits.

c) China Water
On 15 November 2006, Cascal acquired a total of 87% of the shares in the China Water Company Limited from Thames Water, Sime Darby (Hong Kong) and two minority shareholders for £12.6m cash consideration. The 2007 financial statements contained provisional amounts in respect of fair value adjustments. Final fair value adjustments remain unchanged.

d) Pre-Heat
On 1 February 2007, Bournemouth and West Hampshire Water (a subsidiary of Cascal) acquired 100% of the shares of Pre-Heat Limited for total consideration of £4.3m. The 2007 financial statements contained provisional amounts in respect of fair value adjustments. Final fair value adjustments remain unchanged.

25. Disposals

On 29 January 2008, Cascal listed 12,697,464 of its shares on the New York Stock Exchange by way of an Initial Public Offering (IPO). The listed shares comprised 8,716,664 newly issued shares and 3,980,800 shares previously owned by Biwater. Following the IPO, Biwater retained a 58.47% holding in Cascal.

The profit arising on the transaction included in the consolidated accounts of the Biwater Group is shown below:

	£m
Proceeds, net of commissions	71.3
Less proceeds attributable to minorities	(18.0)
Less share of net assets disposed (41.53%)	(45.0)
Less write back of portion of negative goodwill (see note 6)	7.3
Less IPO expenses	(11.4)
Profit on disposal	**4.2**

Cascal continues to be treated as a subsidiary of the Biwater Group and its results are consolidated into the group financial statements. The 41.53% minority interest in Cascal is shown within 'minority interests' on the Group balance sheet.

A reconciliation of the IPO proceeds to the group cash flow statement is shown below:

	£m
Proceeds, net of commission	71.3
IPO expenses	(11.4)
Net proceeds	59.9
Unpaid expenses as at 31 March 2008	2.2
Proceeds per Group cash flow	62.1

IPO expenses paid or payable after the balance sheet date of £2.2m are included in 'creditors due within one year'.

26. Capital commitments

	31/3/08 £m	31/3/07 £m
Authorised and contracted - Group (Company: 2008 £Nil, 2007 £Nil)	**0.3**	0.5

27. Annual commitment under operating leases

	31/3/08 £m	31/3/07 £m
Group		
Operating leases which expire within one year:		
- property leases	**-**	-
- plant and equipment	**0.6**	-
Operating leases which expire between two and five years:		
- property leases	**-**	-
- plant and equipment	**0.8**	0.5
Group and Company		
Operating leases which expire after five years:		
- property leases	**0.7**	0.7
- plant and equipment	**1.4**	0.3

28. Contingent liabilities

Legal proceedings have been underway in the Dominican Republic since September 2007 against a subsidiary of Biwater relating to a contractual dispute. The Courts of the First Instance and Second Instance have found against Biwater and awarded damages of $9m.The Company has appealed this judgement and has made an application to the Supreme Court for an annulment of the judgement and for suspension of execution. The directors, following legal advice, consider that the likelihood of the claim against Biwater being upheld is highly unlikely and have therefore not made any provision in this regard.

Biwater Gauff (Tanzania) Limited was successful in the case against the Government of Tanzania which it took to the International Center for the Settlement of Investment Disputes (ICSID). The tribunal decided that the Government of Tanzania had committed a number of violations under the Bilateral Investment Treaty between the UK and Tanzania and cumulatively this represented an expropriation of Biwater Gauff (Tanzania) Limited's investment in City Water Services Limited. No damages are payable or receivable and each party will bear their own legal costs. Full provision has been made at 31 March 2008 against any balances due and legal costs payable in relation to this claim. Therefore as a result there is no contingent liability in this respect at 31 March 2008. Legal costs incurred during the year of £1.9m relating to this case and a write off of a debtor balance no longer deemed recoverable of £1.8m are disclosed as exceptional items.

Other contingent liabilities:

Group

a) under indemnities and guarantees to banks and underwriters for contract bonds in the normal course of business amounting to £83.6m (2007: £56.4m).

b) under claims made against the Group in the normal course of business arising from disputes on long-term contracts and in respect of contractual claims for liquidated damages. Consideration has been given by the directors to all claims and full provision has been made against any likely liability.

Biwater Plc

a) under indemnities and guarantees to banks and underwriters for contract bonds in the normal course of business by Group undertakings amounting to £19.7m (2007: £16.1m).

b) under guarantees by the Company in respect of Group undertakings and undertakings in which the Group has a participating interest amounting to £41.2 m (2007: £41.2m).

c) under guarantees of certain of the Group's drawn finance facilities amounting to approximately £0.8m (2007: £Nil).

29. Pension Costs

(i) Accounting for Pension Costs

Group

In April 2003, the Group established new defined contribution pension arrangements for the employees of Biwater Plc. The assets of this defined contribution scheme are held separately from those of the Group in an independently administered fund. Contributions, which vary depending on each member's age, to the defined contribution scheme are charged in the profit and loss account in the period in which they are made.

Prior to 1 April 2003 the employees of Biwater Plc, Biwater International Ltd and Biwater Treatment Ltd participated in a funded defined benefit scheme known as the Biwater Retirement and Security Scheme (BRASS), which comprised a 'main' section with the bulk of the membership and a separate section known as the 'water' section for certain employees of Bournemouth and West Hampshire Water Plc – a subsidiary of Cascal B.V. Membership of the main section scheme was closed to employees with effect from April 2003. The separate section for certain water company employees was closed to new members in June 2003.

The latest actuarial valuation, performed by an independent, external actuary, of both sections of BRASS was made at 31 March 2005 using the attained age method. The principal assumption adopted in both of the valuations was that the return on investment pre-retirement would be 7.15% p.a. and post-retirement would be 5.35% p.a. The asset valuation assumption was market value.

29. Pension Costs continued

On this basis, at the valuation date, the actuarial value of the assets of the main section of BRASS was £56 m which was sufficient to cover 59.8 per cent of the value of benefits that had accrued to members. Group cash contributions to this section of the scheme, net of expenses, and cost of death in service lump sum benefits equated to 19.4% of pensionable salaries. With effect from 1 April 2003, each participating employer paid age-related contributions in respect of members of the defined contribution schemes together with the above-mentioned contributions in respect of the final salary sections.

At the valuation date, the actuarial value of the assets of the water company section of BRASS was £42.5 m, which was sufficient to cover 84.2 per cent of the value of benefits that had accrued to members after allowing for expected future increases in earnings. With effect from October 2004, employer contributions were increased to 30.0% of pensionable salary.

Pension Protection Fund levies are being met by the employers.

The alternative minimum funding requirement (MFR) valuation basis was assessed as required by the Pensions Act 1995 as part of the triennial BRASS valuation. The MFR funding level was 73.1% in the case of the main section and 99.7% in the case of the water company section

The next triennial valuation on a scheme specific basis of BRASS by the actuary to the pension trustees is being carried out as at 29 January 2008, but has yet to be completed. The Group is expecting a reduced assessment of benefit.

Company
In the entity accounts, the contributions paid by the company to the Main Section of BRASS are accounted as if the scheme were a defined contribution scheme, as the company is unable to identify its share of the underlying assets and liabilities of the scheme. The cost of contribution to the group scheme amounts to £2.7m (2007: £2.7m). There are no accruals or prepayments held on the Company balance sheet in respect of pensions as at 31 March 2008 or 31 March 2007.

(ii) FRS 17 Retirement Benefits

The full actuarial valuation of 31 March 2005 has been updated at 31 March 2008 to take account of the requirements of FRS 17 in order to assess the valuation of BRASS as at 31 March 2008. Scheme assets are stated at their market values at 31 March 2008.

a) Main section

The financial assumptions used to calculate scheme liabilities under FRS 17 are:

				Main Section	
	2008	2007	2006	2005	2004
	%	%	%	%	%
Price inflation	**3.45**	3.15	3.0	2.9	3.0
Rate of increase of salaries	**4.45**	3.15	3.0	2.9	3.0
Rate of increase for pensions in payment post April 1997	**3.65**	3.15	3.0	2.9	3.0
Rate of interest applied to discount liabilities	**6.70**	5.25	4.9	5.4	5.5

The fair value of the assets held and the expected rates of return (weighted averages) were:

	Expected rate of return 31/3/08	**Value at 31/3/08 £m**	Expected rate of return 31/3/07	Value at 31/3/07 £m	Expected rate of return 31/3/06	Value at 31/3/06 £m	Expected rate of return 31/3/05	Value at 31/3/05 £m	Expected rate of return 31/3/04	Value at 31/3/04 £m
Equities & property	**7.45%**	**39.9**	7.50%	42.2	7.20%	38.2	7.70%	29.8	7.75%	23.7
Corporate bonds	**6.85%**	**24.5**	5.35%	25.3	4.9%	25.4	5.40%	23.0	5.5%	21.7
Cash	**5.25%**	**2.9**	5.25%	2.0	4.50%	0.2	4.75%	0.2	4.0%	3.2
		67.3		69.5		63.8		53.0		48.6

Notes to the Financial Statements

29. (ii) FRS 17 Retirement Benefits continued

	31/3/08 £m	31/3/07 £m	31/3/06 £m	31/3/05 £m	31/3/04 £m
Total market value of assets	**67.3**	69.5	63.8	53.0	48.6
Present value of Scheme liabilities	**(94.2)**	(109.1)	(113.2)	(96.3)	(92.3)
Deficit in the Scheme	**(26.9)**	(39.6)	(49.4)	(43.3)	(43.7)
Related deferred tax credit	**7.5**	11.9	14.8	13.0	13.1
Net pension liability	**(19.4)**	(27.7)	(34.6)	(30.3)	(30.6)

The amounts required to be disclosed by FRS 17 in respect of the performance statements were:

Analysis of amounts charged to operating profit

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Current service cost	**-**	-	-	-	0.1
Past service cost	**-**	-	0.1	-	-
Total charged to the profit and loss account	**-**	-	0.1	-	0.1

Analysis of amounts credited to other finance income

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Expected return on pension scheme assets	**4.7**	4.1	3.5	3.1	2.6
Interest on pension scheme liabilities	**(5.6)**	(5.5)	(5.1)	(5.0)	(4.6)
Net return (note 4)	**(0.9)**	(1.4)	(1.6)	(1.9)	(2.0)

Analysis of the amounts recognised in the statement of total recognised gains and losses

Actual return less expected return of schemes' assets	**(7.9)**	(0.3)	7.4	1.8	5.8
Experience gains and (losses) arising on schemes' liabilities	**(0.9)**	(0.7)	(1.6)	(0.1)	(0.5)
Changes in the assumptions underlying the present value of schemes' liabilities	**16.4**	6.4	(12.7)	(1.5)	(4.6)
Actuarial gain/(loss) recognised in the statement of total recognised gains and losses	**7.6**	5.4	(6.9)	0.2	0.7

History of experience gains and losses

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Difference on the actual and expected return on scheme assets:					
Amount £m	**(7.9)**	(0.3)	7.4	1.8	5.8
Percentage of scheme assets	**12%**	0%	12%	3%	12%
Experience gains and (losses) on scheme liabilities:					
Amount £m	**(0.9)**	(0.7)	(1.6)	(0.1)	(0.5)
Percentage of scheme liabilities	**(1%)**	(1%)	(1%)	(0%)	(1%)
Total amount recognised in statement of recognised gains and losses:					
Amount £m	**7.6**	5.4	(6.9)	0.2	0.7
Percentage of scheme liabilities	**8%**	5%	(6%)	0%	1%

Notes to the Financial Statements

29. (ii) FRS 17 Retirement Benefits continued

b) Water Section

The financial assumptions used to calculate scheme liabilities under FRS 17 are:

	Water Section				
	2008	2007	2006	2005	2004
	%	%	%	%	%
Price inflation	**3.45**	3.15	3.0	2.9	2.75
Rate of increase of salaries	**4.95**	4.65	4.5	4.4	4.25
Rate of increase for pensions in payment post April 1997	**3.45**	3.15	3.0	2.9	2.75
Rate of interest applied to discount liabilities	**6.70**	5.25	4.9	5.4	5.50

The fair value of the assets held and the expected rates of return (weighted averages) were:

	Expected rate of return 31/3/08	**Value at 31/3/08 £m**	Expected rate of return 31/3/07	Value at 31/3/07 £m	Expected rate of return 31/3/06	Value at 31/3/06 £m	Expected rate of return 31/3/05	Value at 31/3/05 £m	Expected rate of return 31/3/04	Value at 31/3/04 £m
Equities & property	**7.45%**	**23.1**	7.50%	22.8	7.20%	10.5	7.70%	8.3	7.75%	6.7
Corporate bonds	**6.85%**	**11.2**	5.35%	11.6	4.90%	5.8	5.40%	5.3	5.5%	4.7
Index linked gilts	**4.45%**	**18.1**	4.50%	17.0	4.20%	8.1	4.70%	7.3	4.75%	7.0
Cash	**5.25%**	**2.0**	5.25%	3.1	4.50%	0.6	4.75%	0.3	4.00%	1.1
		54.4		54.5		25.0		21.2		19.5

	31/3/08 £m (100%)	31/3/07 £m (100%)	31/3/06 £m (50%)	31/3/05 £m (50%)	31/3/04 £m (50%)
Total market value of assets	**54.4**	54.5	25.0	21.2	19.5
Present value of Scheme liabilities	**(54.4)**	(60.1)	(30.4)	(27.4)	(26.1)
Deficit in the Scheme	**-**	(5.6)	(5.4)	(6.2)	(6.6)
Related deferred tax credit	**-**	1.7	1.6	1.9	2.0
Net pension liability	**-**	(3.9)	(3.8)	(4.3)	(4.6)

The Water Section relates to certain employees of Cascal Services Limited and Bournemouth and West Hampshire Water Plc – subsidiaries of Cascal N.V. The pension liability reflects Biwater Group's 50% share as a Joint Venture until 31 March 2006. Following acquisition of the remaining 50% share in June 2006, Biwater Group now report 100% of the liability.

Analysis of amounts charged to operating profit

	2008 £m (100%)	2007 £m (100%)	2006 £m (50%)	2005 £m (50%)	2004 £m (50%)
Current service cost	**0.6**	0.5	0.3	0.3	0.4
Past service cost	**-**	-	-	-	0.2
Total charge in the profit and loss account	**0.6**	0.5	0.3	0.3	0.6

Analysis of amounts credited to finance income

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Expected return on scheme assets	**3.2**	2.6	1.4	1.1	2.1
Interest on pension scheme liabilities	**(3.1)**	(2.6)	(1.5)	(1.4)	(2.6)
Net return (note 4)	**0.1**	-	(0.1)	(0.3)	(0.5)

29. (ii) FRS 17 Retirement Benefits continued

Analysis of the amounts recognised in the statement of total recognised gains and losses

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Actual return less expected return of schemes' assets	**(2.0)**	0.7	2.6	0.9	2.8
Experience gains and (losses) arising on schemes' liabilities	**(0.2)**	(0.2)	1.6	0.1	(0.5)
Changes in the assumptions underlying the present value of schemes' liabilities	**7.1**	0.6	(4.1)	(0.8)	(1.3)
Actuarial gain/(loss) recognised in the statement of total recognised gains and losses	**4.9**	1.1	0.1	0.2	1.0

History of experience gains and losses

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Difference on the actual and expected return on scheme assets					
Amount £m	**(2.0)**	0.7	2.6	0.9	2.8
Percentage of scheme assets	**4%**	1%	10%	4%	7%
Experience gains and (losses) on scheme liabilities:					
Amount £m	**(0.2)**	(0.2)	1.6	0.1	(0.5)
Percentage of scheme liabilities	**(0%)**	(0%)	5%	0%	(1%)
Total amount recognised in statement of recognised gains and losses:					
Amount £m	**4.9**	1.1	0.1	0.2	1.0
Percentage of scheme liabilities	**9%**	2%	0%	1%	2%

c) Summary of movement in deficit during the year

	Main Section 2008 £m	Water Section 2008 £m	Total 2008 £m	Main Section 2007 £m	Water Section 2007 £m	Total 2007 £m
Deficit in the schemes at the beginning of the year	**(39.6)**	**(5.6)**	**(45.2)**	(49.4)	(5.4)*	(54.8)
Deficit of scheme on acquisition	**-**	**-**	**-**	-	(6.5)	(6.5)
Current service cost	**-**	**(0.6)**	**(0.6)**	-	(0.5)	(0.5)
Contributions	**6.0**	**1.2**	**7.2**	5.8	0.9**	6.7
Other finance cost	**(0.9)**	**0.1**	**(0.8)**	(1.4)	-	(1.4)
Actuarial gain	**7.6**	**4.9**	**12.5**	5.4	0.5	5.9
Deficit in the schemes at the end of the year before deferred tax	**(26.9)**	**-**	**(26.9)**	(39.6)	(5.6)	(45.2)
Related deferred tax credit	**7.5**	**-**	**7.5**	11.9	1.7	13.6
Net deficit included in Group balance sheet	**(19.4)**	**-**	**(19.4)**	(27.7)	(3.9)	(31.6)

* *The deficit of the Water Section as at 1 April 2006 represents 50% of the net pension deficit as at that date.*

** *The Water Section is in relation to certain employees of Cascal Services Limited and Bournemouth & West Hampshire Water Plc – subsidiaries of Cascal BV. The pension liability reflects Biwater Group's 50% share as a joint venture until 31 March 2006. Following acquisition of the remaining 50% share in June 2006, the Group now reports 100% of the liability.*

Notes to the Financial Statements

30. Related party transactions

Mr A E White was a director of the Company during the year. His salary during the year totalled £250,000 (2007: £250,000) together with out of pocket expenses, including travel, of £81,964 (2007: £32,270). At 31 March 2008, the outstanding balance receivable from Mr A E White in respect of travel advances totalled £5,939 (2007: £11,186). In addition, a group company paid The World Suites for the benefit of the use of assets owned by Mr A E White £33,922 for accommodation and subsistence costs for employees, advisers and business partners, and £853 to Denbies Wine Estate for accommodation costs for employees and charitable gifts.

The Biwater group had the following transactions with the Cascal group in the two month period from the IPO listing in January 2008 to the year end:

Cascal paid for the use of office space and related services in Biwater's Dorking head office along with charges for shared services for human resources, payroll, IT support and public relations. The total charge for these services in the period was £0.1m.

Biwater International Limited's Panama branch provided operation and maintenance services to Cascal's subsidiary Aguas de Panama SA amounting to £1.8m in the period, of which £0.6m was outstanding at year end.

Cascal charged £2.6m in relation to Biwater's share of the expenses relating to the IPO listing, which was outstanding at year end.

As at 31 March 2008, the group had outstanding amounts payable to Cascal NV and its subsidiaries amounting to £3.2m.

As at 31 March 2008, the group had outstanding amounts receivable from Cascal NV and its subsidiaries of £0.9m.

31. Controlling interests

The ultimate controlling party of the Biwater Group is Mr A E White. The interests of Mr A E White, including the interests of his family which are held in trust, in the share capital of the Company were as follows:

	31/3/08 Number	31/3/07 Number
25p ordinary shares	**84,000,000**	84,000,000

32. Post Balance Sheet events

On 29 April 2008, Cascal NV acquired a 49% stake in an equity joint venture in Yancheng City in China. The new company, Yancheng China Water Company, provides water services to a population of approximately 600,000.

On 30 June 2008, Cascal NV acquired 100% of the Servicomunal and Servilampa water companies located to the north of Santiago, Chile.

On 23 July 2008, Cascal NV acquired 51% of the equity in Zhumadian China Water Company, a joint venture with Zhumadian Bangye Water Group, providing water services to Zhumadian City in China.

On 28 July 2008, the International Centre for the Settlement of Investment Disputes (ICSID) found in favour, without damages, against the Government of Tanzania for its termination of Biwater Gauff's lease contract.

On 15 September 2008, Cascal NV acquired the remaining 10% of Greater Nelspruit Utility Company from Sivukile Investments (Pty) Limited.

Principal group undertakings

The list below is of principal Group undertakings in order to avoid a statement of excessive length. A full list of Group undertakings and undertakings in which the Group has a participating interest are included in the Company's annual return. All principal Group undertakings are included in the Group consolidation.

The Company holds 100 per cent ordinary share capital in the following principal Group undertakings unless stated otherwise:

Name of Company	Country of registration and place of business	Nature of business
Biwater International Limited	England and Wales	Contracting and management of multi-discipline, multi-site overseas water contracts
Biwater Overseas Limited	England and Wales	Investment holding Company
Biwater Treatment Limited	England and Wales	Contracting and management of multi-discipline, multi-site water contracts in the UK and Europe
Biwater International EEMEA Limited	Cyprus	Water treatment contractors
Biwater AEWT Inc	USA	Contracting and management of multi-discipline, multi-site international water contracts
Biwater USA Inc	USA	Water treatment contractors
Biwater SA	France	Water treatment contractors and distributors of Biwater Industries' products
Biwater IBO GmbH	Germany	Water treatment contractors
Biwater Man Lee Limited	Hong Kong	Water treatment contractors
Biwater Holdings Sdn Bhd	Malaysia	Investment holding Company
Biwater B.V	Netherlands	Investment holding Company
Biwater Nigeria Limited	Nigeria	Water treatment contractors
Biwater (Pty) Limited	South Africa	Water treatment contractors
Biwater (Gauff) Tanzania Limited – 80%	England and Wales	Investment holding Company
Cascal N.V.	Netherlands	Investment holding Company
Biwater Investments Limited	England and Wales	Investment holding Company
BiProduct Recovery Limited	England and Wales	Recycling
Biwater Construction Limited	England and Wales	Contracting and management of multi-discipline, multi-site overseas water contracts
Biwater Contracting B.V.	Netherlands	Contracting and management of multi-discipline, multi-site overseas water contracts

Principal Subsidiary and associate companies of Cascal N.V. are:
(A full listing of Cascal NV subsidiaries and participating interests in joint ventures is included in its consolidated financial statements)

Aguas de Panama SA	Panama	Water concession Company
Biwater Capital Plc	England and Wales	Investment holding Company
Cascal Services Ltd	England and Wales	Investment holding Company
BWS Finance Ltd	England and Wales	Investment holding Company
Bournemouth and West Hampshire Water Plc	England and Wales	Water supply
Cascal (Chile) SA	Chile	Holding Company
Aguas Chacabuco SA	Chile	Water rights and concessions
Aguas Santiago SA	Chile	Water rights and concessions
BAYESA – Biwater Aguas y Ecologia SA	Chile	Sewage concession
Cascal Operations Pty	South Africa	Water and sewage concession
Greater Nelspruit Utility Company – 90%	South Africa	Water and sewage concession
Siza Water Company (Proprietary) Ltd	South Africa	Water and sewage concession
PT Adhya Tirta Batam – 50%	Indonesia	Water concession
Subic Water and Sewerage Co Inc – 30%	Philippines	Water and sewage concession
The China Water Company Ltd - 87%	Cayman Islands	Water and sewage concession

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