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# STATUTORY AND FINANCIAL FRAMEWORK

BW is responsible for approximately 2,000 miles of canals and river navigations in England, Scotland and Wales, together with their associated reservoirs, docks, repair yards and workshops.

## Statutory Basis

The British Waterways Board (BW) is a public corporation, which was established by the Transport Act 1962 to manage the inland waterways, docks and estates, which had previously been the responsibility of the British Transport Commission.

BW is responsible for approximately 2,000 miles of canals and river navigations in England, Scotland and Wales, together with their associated reservoirs, docks, repair yards and workshops.

The Transport Act 1968 classified these waterways into:

- a) The Commercial Waterways, which were to be kept principally available for the commercial carrying of freight and maintained in a suitable condition for use by commercial freight carrying vessels.
- b) The Cruising Waterways, which were to be kept principally available for cruising, fishing and other recreational purposes and maintained for use by vessels constructed or adapted for the carriage of passengers and driven by mechanical power.
- c) The remainder, which have to be dealt with in the most economical manner possible (consistent, in the case of retained waterways, with the requirements of public health and the preservation of amenity and safety),

but subject nevertheless to a duty (contained in the British Waterways Act 1995) to take account of the desirability of protecting them for future use as cruising waterways or for other public recreational use.

Under section 27 of the Transport Act 1962, the government may give directions of a general character to BW as to the exercise of its functions and in February 1999 the government published a Framework Document containing its aims and objectives for BW. Under the terms of the Framework Document, BW is required by the government to operate and maintain its waterways to standards that reflect use and prospects of use and any land drainage requirements. Such standards do not always fully reflect the historic standards for the channel dimensions of Commercial and Cruising Waterways prescribed by the Transport Act 1968.

The government requirement in the Framework Document is expressed to be subject to BW's statutory obligations. Nevertheless the government (Scottish Ministers in respect of waterways in Scotland) have power to make Orders varying the historic standards prescribed in the 1968 Act. Furthermore, the currently prescribed standards may only be enforced in special proceedings under that Act. The government (and Scottish Ministers) have power to intervene in any such enforcement proceedings and to curtail them if they certify to the court they intend to make an Order specifying different statutory standards. This power may be exercised if compliance with the standards being enforced under the proceedings would require the payment of further grant by the government (or Scottish Executive).

The Framework Document also sets out BW's wider relationship with government and responsibilities of the Board and chief executive, as well as setting a framework for BW's relations with users, the Waterways Ombudsman and the Inland Waterways Amenity Advisory Council.

Consistent with its statutory obligations, powers and objectives agreed with government, BW runs its affairs on a commercial basis and promotes the fullest use of the waterways for leisure, recreation and amenity, and freight transport where appropriate.

## Grant

BW receives an annual grant in monthly instalments from the government, which assists it in meeting its statutory obligations. BW's activities in England and Wales are being funded by Defra and in Scotland are being funded by the Scottish Executive.

Conditions for the payment of grant and details of other controls applicable to BW as a public corporation are set out in Financial Memoranda issued by government.

Part of the grant received from government is used for the purchase of vehicles, plant and equipment for maintaining the waterways as economically as possible but on which no return on investment can be obtained. This is treated in the accounts as a capital grant and the income deferred and brought into account in line with the depreciation charges on the assets concerned.

BW is precluded from drawing government grant in advance of need.

## Objective to Avoid Loss and Not Draw Grant in Advance of Need

The above requirement of not drawing grant in advance of need, combined with the statutory responsibility to avoid a loss on revenue account, taking one year with another, leads BW to target to break even on profit and loss account each year.

## Borrowings and Capital Investment

The government sets the maximum amount of grant and any access to loans from the National Loans Fund to fund capital expenditure. BW is not allowed long term borrowings other than from the National Loans Fund. The limit of all BW's borrowings was increased to £35 million under an order of the Secretary of State for the Environment in March 2001 exercising powers contained in the Water Act 1981. The Treasury annually renews guarantees of bank overdraft facilities in order for BW to meet day-to-day fluctuations in receipts and payments.

BW's profit generating capital expenditure can be funded through access to National Loans Fund loans, subject to government limits. In recent years BW has only been permitted to borrow amounts equal to the total of earlier loans due for repayment. Within these limitations, BW has been restructuring its asset portfolio by disposal and reinvestment to improve its ability to achieve its business objectives. In February 1999 the Deputy Prime Minister announced that the government had decided to phase out most of BW's outstanding debt as it matures, thus removing from BW the need to take out new loans to repay existing loans.

BW is also required to obtain government consent for all expenditure projects over £3 million or when there are novel or contentious features or to take an interest in a body corporate in excess of 49%. It is furthermore required to consult Defra or the Scottish Executive at the earliest stage, in the case of major development proposals where the value of any BW investment, including the value of land with planning consent for the proposal, exceeds £3 million.

## Determination of Available Funding

The financial resources available to BW during any year are controlled by the government, which fixes resource and capital expenditure budgets as part of bi-annual Comprehensive Spending Reviews spanning three years. BW manages its expenditure to remain within these budgets and finances the expenditure from its own earned income and annual grant from Defra and the Scottish Executive. The grant received from the government during 2003/04 was £91.1 million of which £0.7 million was allocated specifically for expenditure on operational fixed assets.

## Preparation of Accounts

British Waterways is required to prepare audited Annual Accounts which comply with Companies Act requirements and best commercial accounting practice, although the information to be disclosed is amended and extended by Direction of the Secretary of State for Environment, Food and Rural Affairs as shown on page 94.

Expenditure on repairs and renewals of the basic canal infrastructure is written off to profit and loss account as it is incurred. Investment property is re-valued annually by external valuers.

# BOARD MEMBERS' REPORT

The Board Members present their annual report on the affairs of BW, together with the accounts and auditors' report, for the year ended 31 March 2004.

## Principal Activities

BW's principal activities are set out on page 2.

## Business Review

A detailed review of BW's performance during the year and expected future developments is contained in the 'Chairman's Statement', the 'Chief Executive's Review of Operations' and in the 'Finance Director's Review'.

## Results

The audited accounts for the year ended 31 March 2004 are shown on pages 68 to 93.

The analysis of income and expenditure in the accounts is based on the current use of waterways rather than their Transport Act 1968 classification. This provides a more meaningful presentation but does not affect BW's statutory obligations set out in the Transport Act 1968.

## Board Members

The Board Members who served during the year are shown on page 4. A Register of Interests is maintained by the legal director through whom public inspection can be arranged.

## Statutory Maintenance Obligations

Under its Framework Document, BW is required by the government to maintain its waterways to standards that reflect use and prospects of use. Such standards do not always fully reflect the historic standards prescribed by the Transport Act 1968. The Board consider compliance with the Framework Document requirements to be appropriate, notwithstanding the statutory standards, in the light of the power of the government (and Scottish Ministers) to make Orders varying the statutory prescribed standards and to intervene in any enforcement proceedings. Further details are given under the description of BW's statutory and financial framework on page 54.

## Fixed Assets

Details of movements in fixed assets during the year, including the revaluation of investment properties, are set out in Note 9 to the accounts.

BW does not incorporate revaluations of operational properties in the accounts. Based upon external valuations at 31 December 2003, it is the opinion of the Board Members that the operational property, excluding the canal track, towpaths and reservoirs, has a market value in the region of £49 million (2002: £83 million). A tax liability would not be expected to arise if land and buildings were sold at that value.

## Charitable and Political Contributions

BW has not made any charitable or political contributions.

## Payment Policy

It is BW's policy to agree payment terms with its suppliers at the outset of a transaction, and abide by these terms, subject to satisfactory performance by the supplier and the timely presentation of an accurate invoice. Amounts owed to suppliers are generally settled by the end of the month following receipt of invoice. At the year end, the amount owed to trade suppliers was equivalent to 8 days credit (2003: 24 days).

## Equal Opportunities

BW is committed to equality of opportunity and has policies and procedures in place to ensure continuous improvement. BW fully recognises its legal responsibilities, particularly in respect of race relations, sex and disability discrimination.

## Employees

BW places considerable value on the involvement of its employees and has continued its practice of keeping them informed on matters affecting them as employees and on the various factors affecting its performance. This is achieved through formal and informal meetings allowing the two-way flow of information between management and employees, and a monthly newspaper supplemented by occasional regional information sheets, and employee surveys.

BW has common terms and conditions of employment and single table bargaining with employee representatives through National, Intermediate and Business Unit Forums. Consultation on employment and other related matters takes place at these forums in a spirit of co-operation and open exchange of information and ideas.

All employees are covered by an annual performance and development review process.

## Environment and Heritage

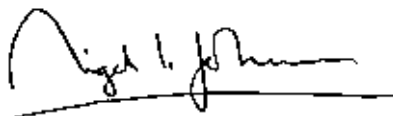
BW has a structured system in place to identify how work should be carried out to protect and conserve heritage and environment. This is guided by our Environmental Code of Practice (ECP) – our environmental management system.

BW's natural and cultural heritage and the requirements to conserve or improve it are described in a range of Conservation Plans, Biodiversity Action Plans, Heritage Principles, Standards and Action Plans. Further information on such plans and strategy is available on request.

## Audit

PricewaterhouseCoopers were appointed as external auditors of BW for the year ended 31 March 2004 by the Secretary of State for Environment, Food and Rural Affairs in accordance with Section 24(2) of the Transport Act 1962.

By order of the Board



Nigel I Johnson  
Legal Director and Secretary to the Board

# CORPORATE GOVERNANCE

Corporate governance is concerned with ensuring that an organisation is acting in accordance with best practice.

This statement by the Board covers the key elements in the application by British Waterways of the principles of corporate governance. The Board has resolved that, save for necessary adaptations consequent upon its actual status as a statutory Public Corporation, it should adhere to and apply the standards of corporate governance applicable to a quoted public limited company.

The applicable standards for the reporting year 2003/04 are those set out in the version of the Combined Code on Corporate Governance published in 1998. In July 2003 the Code was revised and the Board began to implement the standards required by the new version of the Code in 2003/04 even though compliance with it was not required before the reporting year beginning 1 April 2004.

This report, therefore, explains how the Board has addressed the principles of the 1998 Code throughout the reporting year and how it has implemented the revised principles of the 2003 Code during the course of the year. The compliance statement is, however, in respect of the 1998 Code provisions.

## **Board – Operation and Membership**

One of the principal differences between BW and a quoted public limited company relates to the structure of the Board and the appointment of its members.

BW is governed by a Board comprising a Chairman and Vice Chairman and (currently) 9 other non-executive members appointed by the Secretary of State for the Environment, Food and Rural Affairs

and (in respect of two members) Scottish Ministers. Their appointment is fixed for a period of three years and their remuneration is set by the Secretary of State and Scottish Ministers. As such, Sections 1A.5, 1A.6 and 1B of the 1998 Code relating to the appointment, re-election and remuneration of Board Members are not applicable to BW.

The Board meets regularly (six times during the year) and brings an independent judgement to its oversight of financial, strategic, performance and organisational issues. Reporting to the Board are Executive Directors who have delegated responsibility for operations and management and for the development of business strategy and policies, subject to approval by the Board. Biographical details of the Board Members and Executive Directors can be found on pages 4 and 5.

All the Non-Executive Board Members are independent from management and the majority are free from any business or other relationship which could materially interfere with the exercise of their independent judgement. On specific issues where there may be a potential conflict of interest, Members declare their interests and withdraw from the meeting. This is noted in the minutes.

The Chairman has ensured that the Board Members have been provided with appropriate and timely information and that their enquiries have been properly met. Board papers are distributed a week in advance of the relevant meeting to allow the Members fully to prepare for meetings, and minutes of Committee meetings are circulated to all Members.

The Board is kept informed of developments within the business through regular presentations by management. All Executive Directors are normally present during Board meetings. Board meetings are held at different locations around the business and are preceded by visits and meetings with BW employees and local stakeholders.

During the year the Board introduced a new and rigorous methodology to evaluate its performance. A probing questionnaire on performance of the Board, its Committees and members has been completed (non-attributably) by each Member and a summary of responses prepared by the Secretary to the Board. The summary will be discussed by the Board as a whole with a view to preparing a Board Improvement Plan. The evaluation methodology requires the Board to meet without the Chairman present at least once a year to appraise his performance.

The Board has a schedule of matters specifically reserved to it for decision and has also defined those delegated to Board Committees and the Executive Directors. The Board considers that its exclusively non-executive membership brings a sufficient strength of independence to the Board and has not nominated any one non-executive member to be a senior independent Board Member. The roles of Chairman and Chief Executive are clearly separated and the division of responsibilities is defined in the delegation arrangements, which also provide for all Board Members to have access to the advice and services of the Secretary to the Board, and take independent professional advice at BW's expense after notifying the Chairman.

|                                 | Board    | Audit    | Remuneration |
|---------------------------------|----------|----------|--------------|
| <b>Total number of meetings</b> | <b>6</b> | <b>3</b> | <b>4</b>     |
| Dr George Greener               | 6        | 3*       | 4*           |
| Sir Peter Soulsby               | 6        | 2        | 4            |
| Helen Gordon                    | 6        | 3        | -            |
| Dr Derek Langslow               | 6        | 3        | -            |
| Dr Campbell Christie            | 5        | -        | 4            |
| Janet Lewis-Jones               | 5        | -        | -**          |
| Prof George Fleming             | 6        | 2        | -            |
| Ian Darling                     | 6        | -        | 4            |
| Adeeba Malik                    | 5        | 2        | -            |
| Susan Achmatowicz               | 6        | -**      | -            |
| Terry Tricker                   | 5        | -        | 3            |

## Attendance

Details of attendance at the principal Board and Committee meetings in 2003/04.

\* Dr George Greener is not a member of the Audit Committee and ceased to be a member of the Remuneration Committee during the year but attends their meetings by invitation.

\*\* Janet Lewis-Jones and Susan Achmatowicz joined the Remuneration and Audit Committees respectively during the reporting year, but after the last meetings of those committees in the year.

The Secretary ensures that new Board Members receive appropriate training on appointment that includes an information pack and an induction session. The Secretary may only be removed with the approval of the Board.

The Board has introduced a methodology for determining appropriate levels of control of subsidiaries, joint ventures and associated undertakings of BW. The methodology provides a risk profile that is used as a guide to the appointment of directors and the appropriate level of management reporting.

## Audit Committee

The Board's Audit Committee comprises five non-executive Board Members. Details of the current Members are given on page 4. Towards the end of the year Sir Peter Soulsby stood down from the committee and Susan Achmatowicz joined it. The Committee has written terms of reference that are available on our website, and meets at least three times a year to review the internal audit plan, progress against that plan, and summary findings of the internal and external auditors. In addition to reviewing the financial results and accounting policies, the Committee monitors the effectiveness of risk management and internal control systems for the Board. By invitation the Chairman attends the meetings, together with the Chief Executive and the Head of Audit and, when appropriate, Executive Directors and the external auditors. The Committee also meets the external auditors without Executive Directors present. A similar session is being introduced with the Head of Audit.

The Audit Committee oversees the nature and amount of non-audit work undertaken by PricewaterhouseCoopers LLP each year to ensure that the external auditors independence is safeguarded. In 2003 the Committee adopted a new policy regarding external auditor independence and the provision of non-audit services by the external auditors. All non-audit services above £12,000 to be performed by the external auditors are required to be approved by the Audit Committee. The Board's policy is for a presumption that non-audit work will be put out to competitive tender. Details of the external auditors' fees are given in note 4 on page 76. The Committee reviews the effectiveness of the external auditors annually and will be extending that to cover internal audit.

## Nominations Committee

The Board has established a Nominations Committee and terms of reference are available on our website. It comprises six Non-Executive Board Members details of which are given on page 4. It will provide support and advice to the Board Chairman when consulted by Ministers on the appointment of persons to the Board and review the Board composition (its mix of skills, experiences and characteristics) from time to time and make reports or recommendations to the Chairman for Ministers. It will also cover succession planning.

## Remuneration Committee

The Remuneration Committee, comprising five Non-Executive Board Members (details of whom are given on pages 4 and 62), has as its main task consideration annually of the performance of the Executive Directors and determination of their remuneration levels. During the year George Greener stood down from the Committee (although he still attends by invitation) and Janet Lewis-Jones joined the Committee. Revised terms of reference for the Remuneration Committee have been agreed and are also available on the BW website. Further details of the work of the Committee are given in the Director's Remuneration Report on pages 62 to 65.

## Pensions Trustees

A subsidiary, British Waterways Pension Trustees Limited, the trustee of the Pension Fund, is responsible for its own governance. The trustee directors, who meet twice yearly, are four members of the Board, the Chief Executive, three employee representatives and a representative elected by current pensioners. Fund management is overseen by an Investment Sub-Committee and is delegated to external professional investment managers. Responsibility for the management and administration of the Fund is vested in a Committee of Management. Ongoing day to day supervision of the administration of the Fund is carried out by the Pensions Manager and staff, under an administration agreement between British Waterways Pension Trustees Limited and BW.

## Relations with Shareholders

Unlike a listed company, BW does not have shareholders so that Sections 1C and 2 of the 1998 Code do not apply. The Board is responsible to the Secretary of State for the Environment, Food and Rural Affairs and Scottish Ministers and maintains an ongoing dialogue at all levels within government. The Board holds an Annual Meeting at which it communicates the key business results and plan for the future to the main user groups, its partners and individual users.

BW has established an advisory Group, the British Waterways Scotland Group (BWSG) to support the development of the business in Scotland within the new devolved political environment. The BWSG is a non-statutory group working to support BW's Board and its executive directors. It has a counselling, consultative and influencing function externally and internally, rather than a decision-making role and has an open remit to bring to the Board and/or the Executive Directors for consideration any issue of concern to a majority of the members. Further information on the BWSG, including details of recent changes to the external appointments, is given in the Scotland Director's Review on page 41.

In addition, under its Openness and Accountability programme, the Board is putting in place new arrangements for a National Consultative Council through which stakeholder organisations will have direct access to Board Members and senior management to raise significant issues of concern or common interest. This will incorporate and supplement the successful national user group meetings.

## Internal Control

The Board has maintained procedures necessary to comply with the requirements of the 1998 Code relating to internal control and the September 1999 Guidance for Directors on the internal control requirements of the Combined Code (the Turnbull Report).

The Board Members acknowledge their ultimate responsibility for BW's system of internal control and for reviewing its effectiveness. These internal controls are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

## Risk Identification and Management

There is an ongoing process for identifying, evaluating and managing the significant risks faced by BW. The Board regularly reviews this process.

Risks are identified in each business unit plan and are reviewed by the Executive Directors and the Board. The key risks are subject to regular review by the Executive Directors to identify new and changing risks. The results are incorporated into the Chief Executive's operating report to the Board. The Board also considers specific reports on key risks, including the statutory arrears and safety backlog. Each Director annually completes a letter of assurance outlining how risk management and the control environment has provided reasonable assurance of effective and efficient operations throughout the period. The Chief Executive considers this with each Director during the annual corporate governance review and a statement is given to the Audit Committee summarising the significant risks, controls and required action points.

This is supplemented by ongoing risk assessments at each business unit jointly by management and internal audit.

## Control Environment

There is a clear organisation structure with delegated responsibilities and authorities. The Board is committed to achieving high standards from its people. A code of conduct and ethics statement, which includes a whistleblowing procedure, is supported by high recruitment standards, an appraisal process and a policy of unlocking the potential of staff. The key control processes are documented and available on-line throughout BW.

## Information and Communication

The Executive Directors submit a rolling three-year Business Plan, detailed annual budgets and key performance indicators on its strategic priorities to the Board for approval. The plan describes the implementation of the Board's long-term strategic vision and is supported by individual business unit plans that apply consistent economic and financial assumptions. Monthly operational reports and financial summaries together with regular forecasts are produced for each business unit and reviewed by the Executive. Progress against the key performance indicators is supplied on a quarterly basis to the Executive for review. Detailed reports and projections are presented to each Board meeting.

## Monitoring

During the year the Audit Committee:

- reviews the internal and external audit plans
- considers reports from management, internal and external audit on the system of risk management, internal control and any significant control weaknesses
- discusses with management the actions and progress in dealing with identified problem areas

The Chairman of the Audit Committee reports the outcome of the Audit Committee meetings and any significant internal control issues to the Board. The Board receives the minutes of all Audit Committee meetings.

### **Board Members' Responsibilities in Respect of the Group Accounts**

The Board Members are required to prepare group accounts for each financial year which comply with the Accounts Direction issued by the Secretary of State for the Environment, Food and Rural Affairs in respect of BW (see pages 94 and 95).

In preparing those accounts, Board Members are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts
- prepare the group accounts on the going concern basis unless it is inappropriate to presume that the organisation will continue in business.

The Board Members confirm that the group accounts comply with the above requirements.

Board Members are responsible for ensuring that proper accounting records are kept and that these disclose with reasonable accuracy, at any time, the financial position of BW and enable them to ensure that the accounts comply with the Direction.

They are also responsible for safeguarding the assets of BW and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

### **Compliance with the Combined Code**

The Board considers it has complied throughout the financial year and up to the date of approval of the annual report and accounts with the 1998 Combined Code, except for those matters discussed in this report or those that cannot be applied to BW. Furthermore, it has during the year put in place systems and processes necessary for compliance with the 2003 revision of the Combined Code.

BW is additionally subject to public sector controls, government monitoring and approval, Parliamentary scrutiny and external reviews.

### **Going Concern**

The funding arrangements of BW differ from those of a public limited company. BW receives an annual grant from government to assist it in meeting its statutory obligations, as referred to in the Statutory and Financial Framework on page 54. The grant available for the year ending 31 March 2005 has been notified as £68.0 million. It is anticipated that grant will continue at levels sufficient to enable BW to continue in operational existence for the foreseeable future.

# DIRECTORS' REMUNERATION REPORT

## The BW Board

Board Members' appointments are determined by the Secretary of State for Environment, Food and Rural Affairs or (in the case of two Board Members) Scottish Ministers and are for a fixed term with the option for this to be extended by a further term. The contracts are terminable upon notice not exceeding six months. The Secretary of State or Scottish Ministers as appropriate, determines Board Members' emoluments.

No Board Member receives a benefit in kind.

The Chairman's pension entitlement is calculated by analogy to the British Waterways (1990) Pension Fund. The increase in the provision required for the year is calculated by a qualified actuary using the discount rates consistent with those required under FRS17 as shown in note 8 to the Annual Accounts.

There were no contracts or transactions in which the Board Members had a disclosable interest.

Details of Board Members' fees are shown in the table on page 64.

Reporting to the Board, but not Board Members, are Executive Directors who have responsibility for management and for the development of business strategy and policies, subject to approval and general oversight by the Board.

## The Remuneration Committee

The Board has established a Remuneration Committee responsible for determining and reviewing the terms of employment and remuneration for Executive Directors. The remuneration principles established for this senior group of employees provides the framework for, and is consistent with, remuneration policy throughout the business. The Committee comprises five Board Members and is chaired by the Board's Vice Chairman. During the year George Greener stepped down from the Committee in the light of the new guidance contained in the 2003 revision of the Combined Code on Corporate Governance. He nevertheless attends meetings of the Committee by invitation. Janet Lewis-Jones joined the Committee at the end of the year. At the end of 2003/04 the Committee members were:

Sir Peter Soulsby, Chairman  
Dr Campbell Christie  
Ian Darling  
Janet Lewis-Jones  
Terry Tricker

The Chief Executive and Personnel Director attend the Committee by invitation to present recommendations and provide technical support but have no input into decisions affecting their own remuneration.

In determining appropriate remuneration levels, the Committee commissions specialist independent advice, surveys conducted by external consulting firms and remuneration information on comparable organisations. All Executive Director roles are fully evaluated by Towers Perrin Remuneration Consultants

(TPRC) with responsibility levels assessed and compared with organisations of similar size in the public and private sectors. TPRC recommend that the closest match of responsibility, liability and risk are to be found in the private sector.

In 2003/04 the Committee commissioned TPRC to update their work on Executive Director roles and to undertake an evaluation of the General Manager roles created in the organisational restructure of the business.

The Committee operate to a Remuneration Policy designed specifically to reflect BW's business requirements taking account of the specialist independent advice received. The Executive Directors have agreed with the recommendation to publicly disclose their remuneration. Full details are included in the table on page 65.

## Remuneration Policy

The Remuneration Committee's overriding objective is to ensure that BW's remuneration policy and remuneration packages are sufficient to attract, retain and motivate a high quality team of Executive Directors to deliver the business strategy where growth is the fundamental requirement for a sustainable business. Based on the information and recommendations provided by TPRC the Committee had agreed that BW should match base salaries to market median levels with a proportion of variable pay in the form of annual bonus. TPRC also recommend that, unlike the private sector, a Long-Term Incentive Plan is not applicable at this

stage in BW's development. A summary of each element of the remuneration package is set out below.

### 1. Basic Salary

Basic salaries are normally reviewed annually on 1 June and increases are determined by reference to comparator information taking into account each Director's contribution during the year. The evaluation by TPRC during 2002 indicated that Executive Director salaries were significantly below the appropriate median market levels. The Remuneration Committee recommended that salaries should be increased towards the market levels in a staged way. Details of basic salary levels for 2003/04 for each Executive Director are shown in the table on page 65.

### 2. Annual Bonus

A maximum total annual bonus of 30% (40% for the Chief Executive) of basic salary may be awarded subject to the achievement of Corporate performance targets measured by income generation and personal performance measured against the achievement of individual targets. Fundamental measures of customer satisfaction and safety are in place and have to be satisfactorily achieved before consideration is given to any bonus payment. The Remuneration Committee requires internal audit and external verification of these non-financial measures. The Remuneration Committee reserves total discretion to award or withhold bonus payments taking account of any mitigating factors.

This level of potential total annual bonus was recommended by the Remuneration Committee to reflect in part the absence of Long-Term Incentive Plan arrangements that normally exist in the private sector. Bonus payments are normally made on 1 June each year. Total bonus payments for each Executive Director are shown in the table on page 65.

### 2.1 Corporate Performance Element

Of the total bonus potential up to 17.5% (20% for the Chief Executive) of basic salary may be awarded for the achievement of income generation targets. In broad terms the achievement of budgeted corporate income would indicate that half Corporate performance bonus would be appropriate with full bonus applicable only where income exceeds budget by a significant proportion. Failure to significantly achieve budget income levels would normally indicate that no corporate bonus is payable. The Committee selected income generation as the overarching target and indicator of business growth, to ensure a clear performance focus within the complex range of objectives that BW is required to achieve, bearing in mind the controls that exist on the quality of income because of the need to breakeven on the P&L Account.

In 2003/04, whilst the income generation targets were exceeded, the remuneration committee decided to exercise its available discretion described under 2 and chose to reduce the corporate bonus from that which could have been awarded.

The Committee decided during 2003/04 that for future years, beginning in 2004/05, the achievement of Economic

Value Created targets would replace income generation as the overarching indication of business growth.

### 2.2 Personal Performance Element

Of the total bonus potential, up to 12.5% (20% for the Chief Executive) of basic salary may be awarded for the achievement of a range of stretching targets set to encourage each Director to achieve performance levels over and above the normal expectations of their role. Targets are directly linked to the achievement of key strategic business activities.

### 3. Benefits

The Executive Directors are entitled to a company car, health insurance and critical illness insurance. Details of the levels of taxable benefit are shown in the table on page 65.

### 4. Pensions

All Executive Directors participate in the BW (1990) Pension Fund which provides a pension on a defined benefit basis and based on basic salary. Executive Directors are required to retire at age 60 rather than 65 as is normal in BW and are compensated for this by the purchase on their behalf by BW of 5 years pension service. Where death in service benefit for an Executive Director is limited by Inland Revenue regulations the shortfall is covered by a separate insurance arrangement and the premium is paid by BW. The Committee has been monitoring the potential impact of changes to pension taxation. Arrangements to compensate for these effects have remained under consideration. Details of accrued pension levels are shown in the table on page 65.

# Directors' Remuneration Report

## 5. Notice Period

Executive Directors are entitled to 12 months notice of termination of contract by BW. Directors are required to give BW six months notice.

## 6. External Appointments for Executive Directors

The Board recognises that Executive Directors may be invited to become Non-Executive Directors of other companies unconnected with BW's activities and that such appointments can broaden their knowledge and experience to the benefit of BW. On the basis that it does not impact upon their executive duties directors are generally allowed to accept one such appointment and retain any resulting fee. In addition Executive Directors may also serve as Non-Executive Directors of joint venture companies. In such circumstances fees are not payable to Executive Directors as activities of this nature are part of the normal responsibilities of the Directors. The disclosable external interests of Executive Directors are set out in Note 22 to the accounts on page 92.

## Summary of Directors

### Remuneration 2003/04

The information provided below in respect of the BW Board complies with the provisions of Schedule 7A of the Companies Act 1985, as required by the Accounts Direction of the Secretary of State. In addition, and with their agreement, BW has chosen to include information on the remuneration of the Executive Directors.

| Date of expiry of<br><b>BW Board</b> | Fees<br>current term | <b>2003/04</b><br><b>Total</b><br>£ | 2002/03<br>Total<br>£ | £       |
|--------------------------------------|----------------------|-------------------------------------|-----------------------|---------|
| George Greener, Chairman             | 9/7/05               | 70,147                              | <b>70,147</b>         | 66,598  |
| Sir Peter Soulsby, Vice Chairman     | 30/9/04              | 14,332                              | <b>14,332</b>         | 13,761  |
| Susan Achmatowicz                    | 9/10/04              | 10,866                              | <b>10,866</b>         | 10,433  |
| Campbell Christie                    | 30/6/04              | 10,866                              | <b>10,866</b>         | 10,433  |
| Ian Darling                          | 3/9/06               | 10,866                              | <b>10,866</b>         | 10,433  |
| George Fleming                       | 9/10/04              | 10,866                              | <b>10,866</b>         | 10,433  |
| Helen Gordon                         | 3/9/06               | 10,866                              | <b>10,866</b>         | 10,433  |
| Derek Langslow                       | 3/9/06               | 10,866                              | <b>10,866</b>         | 10,433  |
| Janet Lewis-Jones                    | 9/10/04              | 10,866                              | <b>10,866</b>         | 10,433  |
| Adeeba Malik                         | 9/10/04              | 10,866                              | <b>10,866</b>         | 10,433  |
| Terry Tricker                        | 9/10/04              | 10,866                              | <b>10,866</b>         | 10,433  |
|                                      |                      | <b>182,273</b>                      | <b>182,273</b>        | 174,256 |

| <b>Executive Directors</b>                            | Salary<br>£    | Bonus<br>£     | Taxable<br>Benefits<br>£ | Termination<br>Payments<br>£ | <b>2003/04<br/>Total<br/>£</b> | 2002/03<br>Total<br>£ |
|---|----------------|----------------|--------------------------|------------------------------|--------------------------------|-----------------------|
| Robin Evans, Chief Executive                          | 164,336        | 33,180         | 9,259                    | -                            | <b>206,775</b>                 | 163,918               |
| David Fletcher, Chief Executive (to 12 December 2002) | -              | -              | -                        | -                            | -                              | 164,125               |
| James Froomberg (from 24 March 2003)                  | 130,179        | -              | 8,052                    | -                            | <b>138,231</b>                 | 2,968                 |
| Nigel Johnson   | 117,676        | 25,200         | 12,050                   | -                            | <b>154,926</b>                 | 139,787               |
| Vincent Moran   | 102,167        | 20,250         | 7,731                    | -                            | <b>130,148</b>                 | 115,521               |
| Simon Salem   | 93,833         | 16,720         | 10,142                   | -                            | <b>120,695</b>                 | 115,011               |
| William Schlegel (to 30 September 2003)               | 47,563         | 14,250         | 7,023                    | 94,642                       | <b>163,478</b>                 | 128,790               |
| Stewart Sim   | 120,333        | 22,250         | 10,463                   | -                            | <b>153,046</b>                 | 156,229               |
| Mark Smith  | 124,407        | 27,500         | 9,379                    | -                            | <b>161,286</b>                 | 142,600               |
|   | <b>900,494</b> | <b>159,350</b> | <b>74,099</b>            | <b>94,642</b>                | <b>1,228,585</b>               | <b>1,128,949</b>      |

Robin Evans was previously employed by BW as Commercial Director until his appointment as Chief Executive from 12 December 2002

## Accrued Pension

|                            | Accrued<br>Pension at<br>31 March 2004<br>£pa | Accrued<br>lump sum at<br>31 March 2004<br>£ | Increase<br>in accrued<br>pension<br>during the<br>year<br>£ | Increase<br>in accrued<br>lump sum<br>during the<br>year<br>£pa | Transfer value of<br>accrued benefits<br>31 March<br>2004<br>£ | 31 March<br>2003<br>£ | Increase<br>transfer value<br>over the year<br>net of<br>Directors'<br>Contributions<br>£ |
|----------------------------|---|--|--|---|--|-----------------------|---|
| <b>BW Board Member</b>     |   |  |  |   |  |                       |   |
| George Greener             | 5,204   | -  | 1,154  | -   | 91,500   | 61,000                | 26,684  |
| <b>Executive Directors</b> |   |  |  |   |  |                       |   |
| Robin Evans                | 27,644  | -  | 12,323   | -   | 279,047  | 119,651               | 102,286   |
| David Fletcher             | -   | -  | -  | -   | -  | 159,836               | -   |
| James Froomberg            | 3,300   | -  | 3,300  | -   | 30,843   | -                     | 16,412  |
| Nigel Johnson              | 9,571   | -  | 3,593  | -   | 95,214   | 46,200                | 43,599  |
| Vincent Moran              | 13,366  | -  | 3,985  | -   | 124,287  | 67,811                | 51,166  |
| Simon Salem                | 32,803  | 6,135  | 4,528  | 452   | 280,656  | 187,848               | 87,688  |
| William Schlegel           | 34,221  | 15,203                                       | 3,489  | 4,318   | 341,278  | 236,425               | 71,152  |
| Stewart Sim                | 66,101  | 39,325                                       | 7,007  | 1,300   | 1,051,352  | 813,814               | 230,907   |
| Mark Smith                 | 7,650   | -  | 3,449  | -   | 61,814   | 26,379                | 30,020  |

The pension benefit is the increase in transfer value after indexation in accrued pension during the year, less the Board Members' or Executive Directors' own contributions. The accrued annual pension is the amount, on attaining normal pension age, to which the Board Member or Executive Director would be entitled if he had left BW at the year end or is entitled, having retired during the year. The accrued benefits at 31 March 2004 reflect, for members subject to the pension schemes earnings cap, normal Fund benefits based on uncapped earnings restricted, as appropriate, to current Inland Revenue limits. This was not the method adopted for the calculation of the accrued benefits as at 31 March 2003, as shown in the BW's accounts for the year ending 31 March 2003. The increase in the accrued benefits and the increase in the transfer value therefore include an element that represents this change. The transfer values, calculated by reference to GN11 published by the Institute of Actuaries, are of the accrued benefits under the scheme at the dates stated not including any additional voluntary contributions.

Signed on behalf of the Board

**Nigel I Johnson**

Legal Director and Secretary to the Board

# INDEPENDENT AUDITOR'S REPORT TO THE SECRETARY OF STATE FOR ENVIRONMENT, FOOD AND RURAL AFFAIRS

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes (note 1 to 24), which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out in the statement of accounting policies.

## Respective Responsibilities of Board Members and Auditors

The Board Members' responsibilities for preparing the Annual Report and the Financial Statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Board Members' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for British Waterways Board's members as a body in accordance with the provisions of the Transport Act 1962 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 whether the financial statements are properly prepared in accordance with the provisions of the Transport Act 1962, and any directions issued by the Secretary of State for the Department for Environment, Food and Rural Affairs. We also report to you if, in our opinion, the Board Members' Report is not consistent with the financial statements, if British Waterways Board has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law, or the Accounts Direction, regarding Board Members' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Board Members' Report, the Directors' Remuneration Report, the Chairman's Statement, the operating and Financial Review, and the Corporate Governance Statement.

We also, at the request of the Board Members, review whether the Corporate Governance Statement reflects British Waterways Board's compliance with the seven provisions of the Combined Code for our review, and we report if it does not. We are not required to consider whether the Board Members' statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of British Waterways

Board's corporate governance procedures, or its risk and control procedures.

The maintenance and integrity of British Waterways Board's website is the responsibility of the Board Members; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Basis of Audit Opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board Members in the preparation of the financial statements, and of whether the accounting policies are appropriate to British Waterways Board'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, and in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- The financial statements give a true and fair view of the state of affairs of British Waterways Board and the group at 31 March 2004 and of its loss and cash flows of the group for the year then ended and have been properly prepared in accordance with the Directions of the Secretary of State for Environment, Food and Rural Affairs;
- In all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered  
Auditors  
Southwark Towers  
32 London Bridge Street  
London  
SE1 9SY

June 2004

# Consolidated Profit and Loss Account as at 31 March 2004

|  |      | Continuing Operations |                         | Total            |                  |
|--|------|-----------------------|-------------------------|------------------|------------------|
|  | Note | 2003/04               | Acquisitions<br>2003/04 | 2003/04          | 2002/03          |
|  |      | £000                  | £000                    | £000             | £000             |
| Group turnover including joint ventures                                |      | 102,432               | 494                     | 102,926          | 109,626          |
| Less: joint ventures   |      | (319)                 | -                       | (319)            | -                |
| Turnover   | 2    | 102,113               | 494                     | 102,607          | 109,626          |
| Government grant   | 3    | 94,770                | -                       | 94,770           | 81,970           |
| <b>Total revenue</b>   |      | <b>196,883</b>        | <b>494</b>              | <b>197,377</b>   | <b>191,596</b>   |
| Major repairs and renovations  |      | (65,613)              | -                       | (65,613)         | (83,560)         |
| Staff costs  |      | (60,596)              | (106)                   | (60,702)         | (57,165)         |
| Other operating charges  |      | (68,723)              | (309)                   | (69,032)         | (65,973)         |
| Depreciation   |      | (5,981)               | (90)                    | (6,071)          | (6,200)          |
| Own work capitalised or charged to major works                         |      | 263                   | -                       | 263              | 1,852            |
| <b>Total expenditure</b>   | 2    | <b>(200,650)</b>      | <b>(505)</b>            | <b>(201,155)</b> | <b>(211,046)</b> |
| <b>Operating loss</b>  | 4    | <b>(3,767)</b>        | <b>(11)</b>             | <b>(3,778)</b>   | <b>(19,450)</b>  |
| Share of operating profits and losses of associates and joint ventures |      | (946)                 | -                       | (946)            | 1,059            |
| Profit on sale of investment properties                                |      | 4,892                 | 2,678                   | 7,570            | 3,771            |
| Exceptional costs of business reorganisation                           |      | (5,402)               | -                       | (5,402)          | -                |
| <b>Loss for the financial year before interest</b>                     |      | <b>(5,223)</b>        | <b>2,667</b>            | <b>(2,556)</b>   | <b>(14,620)</b>  |
| Interest receivable  |      |                       |                         | 5,269            | 3,592            |
| Interest payable   | 5    |                       |                         | (4,532)          | (3,626)          |
| <b>Loss for the financial year before taxation</b>                     |      |                       |                         | <b>(1,819)</b>   | <b>(14,654)</b>  |
| Taxation credit  | 6    |                       |                         | 346              | 4,362            |
| <b>Loss for the financial year after taxation</b>                      |      |                       |                         | <b>(1,473)</b>   | <b>(10,292)</b>  |
| Transfer to realised capital reserve                                   | 17   |                       |                         | (3,352)          | (8,775)          |
| <b>Loss transferred to reserves</b>                                    | 18   |                       |                         | <b>(4,825)</b>   | <b>(19,067)</b>  |

## Statement of Consolidated Total Recognised Gains & Losses

|  | Note | 2003/04        | 2002/03         |
|--|------|----------------|-----------------|
|  |      | £000           | £000            |
| <b>Loss for the financial year after taxation</b>  |      | <b>(1,473)</b> | <b>(10,292)</b> |
| Net increase in revaluation reserve resulting from transfers between investment and operational properties | 17   | 22,907         | -               |
| Unrealised surplus on revaluation of investment properties   | 17   | 24,552         | 21,300          |
| Corporation tax charge on capital gains  | 6    | (1,182)        | (1,881)         |
| <b>Total gains recognised since last Annual Report</b>   |      | <b>44,804</b>  | <b>9,127</b>    |

## Note of Consolidated Historical Cost Profits & Losses

|   | Note | 2003 /04       | 2002/03         |
|---|------|----------------|-----------------|
|   |      | £000           | £000            |
| <b>Loss for the financial year after taxation</b>             |      | <b>(1,473)</b> | <b>(10,292)</b> |
| Realisation of property revaluation gains of previous years   | 17   | 7,601          | 7,981           |
| Corporation tax charge on capital gains                       | 6    | (1,182)        | (1,881)         |
| <b>Historical cost profit / (loss) for the financial year</b> |      | <b>4,946</b>   | <b>(4,192)</b>  |

# Balance Sheets

## as at 31 March 2004

|   | Note | 2004<br>£000 | Group<br>2003<br>£000 | 2004<br>£000 | BW<br>2003<br>£000 |
|---|------|--------------|-----------------------|--------------|--------------------|
| <b>Fixed assets</b>                                     |      |              |                       |              |                    |
| Intangible assets - Goodwill                            | 23   | 3,109        | -                     | -            | -                  |
| Tangible assets   | 9    | 489,606      | 391,600               | 488,404      | 387,688            |
| Investments in joint ventures:                          |      |              |                       |              |                    |
| Share of gross assets                                   |      | 3,389        | 738                   |              |                    |
| Share of gross liabilities                              |      | (671)        | (451)                 |              |                    |
| Goodwill  |      | (87)         | (30)                  |              |                    |
|   |      | 2,631        | 257                   |              |                    |
| Investments in associates                               |      | 6,627        | 4,594                 |              |                    |
| Other investments                                       |      | 148          | 148                   | 21,176       | 7,367              |
| Total investments                                       | 10   | 9,406        | 4,999                 | 21,176       | 7,367              |
|   |      | 502,121      | 396,599               | 509,580      | 395,055            |
| <b>Current assets</b>                                   |      |              |                       |              |                    |
| Stocks  | 11   | 939          | 1,048                 | 449          | 1,048              |
| <b>Debtors</b>  |      |              |                       |              |                    |
| Trade debtors   |      | 13,504       | 20,263                | 13,203       | 20,262             |
| Other debtors   | 12   | 25,812       | 29,488                | 25,435       | 29,481             |
| Prepayments and accrued income                          |      | 18,490       | 17,438                | 18,315       | 17,438             |
|   |      | 57,806       | 67,189                | 56,953       | 67,181             |
| Cash at bank and in hand                                | 13   | 21,116       | 22,692                | 20,333       | 22,616             |
|   |      | 79,861       | 90,929                | 77,735       | 90,845             |
| Less:   |      |              |                       |              |                    |
| Creditors: Amounts falling due within one year          | 14a  | 71,060       | 69,502                | 75,637       | 71,898             |
| <b>Net current assets</b>                               |      | 8,801        | 21,427                | 2,098        | 18,947             |
| <b>Total assets less current liabilities</b>            |      | 510,922      | 418,026               | 511,678      | 414,002            |
| Creditors: Amounts falling due after more than one year | 14b  | (66,349)     | (16,949)              | (66,260)     | (16,871)           |
| Provisions for liabilities and charges                  | 15   | (12,484)     | (13,021)              | (12,717)     | (9,221)            |
| Deferred capital grant                                  | 16   | (13,344)     | (14,130)              | (13,344)     | (14,130)           |
|   |      | 418,745      | 373,926               | 419,357      | 373,780            |
| <b>Financed by</b>                                      |      |              |                       |              |                    |
| <b>Reserves</b>   |      |              |                       |              |                    |
| Investment property revaluation reserve                 | 17   | 259,345      | 219,484               | 259,339      | 219,481            |
| Realised capital reserve                                | 17   | 137,742      | 127,970               | 137,742      | 127,970            |
| Unrealised capital reserve                              | 17   | 4,100        | 4,100                 | 4,100        | 4,100              |
| Capital contribution                                    | 17   | 3,450        | 3,450                 | 3,450        | 3,450              |
| Other reserves  | 17   | 21           | 10                    | -            | -                  |
| Profit and loss account                                 | 18   | (649)        | 4,176                 | (10)         | 4,043              |
|   |      | 404,009      | 359,190               | 404,621      | 359,044            |
| <b>Debt</b>   |      |              |                       |              |                    |
| Due to National Loans                                   | 19   | 14,736       | 14,736                | 14,736       | 14,736             |
|   |      | 418,745      | 373,926               | 419,357      | 373,780            |

G.P. Greener  
Chairman  
23 June 2004

R Evans  
Chief Executive

# Consolidated Cash Flow Statement year to 31 March 2004

Reconciliation of operating loss to net cash inflow from operating activities

|  | £000    | Group<br>2003/04<br>£000 | £000     | BW<br>2002/03<br>£000 |
|--|---------|--------------------------|----------|-----------------------|
| Operating loss   | (3,778) |                          | (19,450) |                       |
| Business re-organisation costs                               | (5,402) |                          | -        |                       |
|  |         | (9,180)                  |          | (19,450)              |
| Items not involving the flow of cash                         |         |                          |          |                       |
| Depreciation   | 6,071   |                          | 6,200    |                       |
| Profit on sale of operational fixed assets                   | 32      |                          | (3)      |                       |
| Write down in value of fixed assets                          | 463     |                          | 1,215    |                       |
| Release of deferred capital grant                            | (1,480) |                          | (2,153)  |                       |
|  |         | 5,086                    |          | 5,259                 |
|  |         | (4,094)                  |          | (14,191)              |
| Decrease / (increase) in stocks                              | 109     |                          | (489)    |                       |
| Decrease / (increase) in debtors                             | 8,627   |                          | (25,831) |                       |
| Increase in creditors  | 28,829  |                          | 12,402   |                       |
|  |         | 37,550                   |          | (13,918)              |
| Decrease in provisions                                       |         | (1,896)                  |          | (1,147)               |
| <b>Net cash inflow / (outflow) from operating activities</b> |         | <b>31,560</b>            |          | <b>(29,256)</b>       |

## CASH FLOW STATEMENT

|  | Note | £000     | 2003/04<br>£000 | £000     | 2002/03<br>£000 |
|--|------|----------|-----------------|----------|-----------------|
| <b>Net cash outflow from operating activities</b>                        |      |          | <b>31,560</b>   |          | <b>(29,256)</b> |
| <b>Returns from servicing of finance</b>                                 |      |          |                 |          |                 |
| Interest received  |      | 3,564    |                 | 4,265    |                 |
| Interest paid  |      | (3,452)  |                 | (2,636)  |                 |
| <b>Net cash inflow from servicing of finance</b>                         |      |          | <b>112</b>      |          | <b>1,629</b>    |
| <b>Capital expenditure and financial investment</b>                      |      |          |                 |          |                 |
| Payments to acquire fixed assets   |      | (49,687) |                 | (24,683) |                 |
| Receipts from sale of fixed assets                                       |      | 19,711   |                 | 13,765   |                 |
| Receipts from sale of other property rights                              |      | -        |                 | 29,926   |                 |
| <b>Net cash inflow from capital expenditure and financial investment</b> |      |          | <b>(29,976)</b> | 19,008   |                 |
| <b>Acquisitions</b>  |      |          |                 |          |                 |
| Investments in joint ventures and associated undertakings                | 10   | (405)    |                 | (141)    |                 |
| Purchase of subsidiaries   | 10   | (3,567)  |                 | (112)    |                 |
| <b>Net cash outflow from acquisitions</b>                                |      |          | <b>(3,972)</b>  | (253)    |                 |
| <b>Net cash outflow before financing</b>                                 |      |          | <b>(2,276)</b>  |          | <b>(8,872)</b>  |
| <b>Financing</b>   |      |          |                 |          |                 |
| Capital grant in respect of fixed assets                                 | 16   | 700      |                 | 4,641    |                 |
| Capital contribution from Defra  |      | -        |                 | 1,600    |                 |
| Repayment of loans to National Loans Fund                                | 19   | -        |                 | (1,600)  |                 |
| <b>Net cash inflow from financing</b>                                    |      |          | <b>700</b>      |          | <b>4,641</b>    |
| <b>Decrease increase in cash</b>   | 13   |          | <b>(1,576)</b>  |          | <b>(4,231)</b>  |

|   | £000    | 2003/04<br>£000 | £000    | 2002/03<br>£000 |
|---|---------|-----------------|---------|-----------------|
| <b>Reconciliation of net cash flow to movement in net funds</b> |         |                 |         |                 |
| Decrease increase in cash in the period                         | (1,576) |                 | (4,231) |                 |
| Repayment of loans to National Loans Fund                       | -       |                 | 1,600   |                 |
| Change in net debt from cash flows during period                |         | (1,576)         |         | (2,631)         |
| Net funds at 1 April  |         | 7,956           |         | 10,587          |
| <b>Net funds at 31 March</b>                                    |         | <b>6,380</b>    |         | <b>7,956</b>    |

# NOTES TO THE ACCOUNTS

## 1. Accounting Policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

### Basis of Accounting

Under Section 24(1)(b) of the Transport Act 1962, BW is required to prepare an annual Statement of Accounts in such form and containing such particulars as the Secretary of State for Environment, Food and Rural Affairs may, with the approval of H.M. Treasury, from time to time direct. A copy of the Accounts Direction, at present in force, is set out on pages 94 to 95.

### Accounting Convention

The accounts are prepared in accordance with the historical cost convention modified by the revaluation of investment properties and generally accepted accounting principles in the United Kingdom, with the following exception, required by the Accounts Direction:

In the balance sheet, National Loans Fund loans from the Secretary of State are grouped with capital and reserves, rather than as creditors falling due after more than one year.

### Consolidation

The BW Group comprises the British Waterways Board (BW) and those subsidiaries incorporated to act solely on behalf of, and for the benefit of, BW. The acquisition method of accounting has been adopted. Under this method, the results of subsidiaries acquired of in the year are included in the consolidated profit and loss account from the date of acquisition. A joint venture is an entity in

which BW has a long-term interest and is jointly controlled by BW and one or more other venturers under a contractual arrangement. The accounts include the relevant percentage of all joint ventures' turnover and operating profit/loss on the face of the profit and loss account and the share of gross assets and gross liabilities on the face of the balance sheet. The notes to the accounts disclose the names of joint ventures, the nature of the business and details of the shares held by BW.

An associate is an entity (other than a subsidiary) in which BW has a participating interest and over whose operating and financial policies. BW exercises a significant influence. The accounts include the relevant percentage of all associates' operating profit/loss on the face of the profit and loss account, as well as the relevant percentage of any item below the operating profit line. The interest in the associates' net assets is shown on the face of the balance sheet.

### Intangible Fixed Assets

Goodwill related to joint ventures and associated undertakings is included in the carrying value of the investment. An impairment review of goodwill is carried out annually by Directors, and any amortisation charged to the profit and loss account.

### Tangible Fixed Assets

#### (a) Operational Assets

Waterways, reservoirs and towpaths were written off in the capital reconstruction on 1 January 1969 resulting from the Transport Act 1968.

Land, buildings, and structures capitalised are:

- (i) Purchases of land and the construction and major improvement of buildings.
- (ii) Additional assets and improvements to existing assets of BW, provided the financial return meets the commercial viability criteria laid down by BW.

All other expenditure on improvements, repairs and renewals is charged to the profit and loss account as it arises.

- (b) Craft, plant and equipment  
All expenditure on additions, improvements and replacements is capitalised.

#### (c) Gross book value

The gross book value of fixed assets other than investment properties is shown at the valuation at 1 January 1969 or at subsequent cost.

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for permanent diminution in value. Depreciation is provided on all tangible fixed assets, other than investment properties and freehold land, at rates calculated to write off the cost or valuation, less estimated residual value (if any), of

# Notes to the Accounts

each asset on a straight-line basis over its expected useful life, as follows:

|                                 |                            |
|---------------------------------|----------------------------|
| Freehold buildings              | 40 years                   |
| Leasehold land and buildings    | Over the term of the lease |
| Plant, machinery and structures | Between 5 and 25 years     |
| Vehicles                        | 5 years                    |

Any differences between physical assets and asset registers identified as a result of the organisation's continuous programme of asset verification are treated as adjustments in the fixed asset statements, in the year in which identified.

## Investment Properties

Investment properties are revalued annually. Surpluses or deficits on individual properties are transferred to the investment revaluation reserve, unless a deficit below historical cost (or its reversal) is expected to be permanent, in which case it is charged (or credited) to the profit and loss account. Depreciation is not provided in respect of freehold investment properties or of leasehold investment properties where the unexpired term of the lease is more than 20 years. The Board Members consider that this departure from the statutory accounting rules is necessary to provide a true and fair view and to comply with Statement of Standard Accounting Practice No. 19.

## Disposal of Investment Properties

BW accounts for disposals of investment properties upon completion of sale. The proceeds in respect of properties sold are used for the funding of capital expenditure of a commercial nature, or such other expenditure as agreed by the Secretary of State for Environment, Food and Rural Affairs.

## Deferred Consideration

Where BW enters into a significant sale of assets or rights with deferred consideration terms, the net present value of the amounts receivable, discounted at the clearing bank base rate ruling at the date of the transaction, is recognised in the profit and loss account. Imputed interest is recognised in the profit and loss account on a receivable basis.

## Deferred Capital Grant

A proportion of the grant-in-aid received from government is allocated by BW for the purchase of plant, equipment and vehicles used for waterway operation and maintenance. The grant concerned is treated as deferred capital grant and released to the profit and loss account over the expected useful lives of the assets concerned.

## Leased Fixed Assets

All current leases are operating leases. Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

## Acquisitions and Goodwill

Acquisitions are accounted for under the acquisition method.

Goodwill arising on acquisitions in the year ended 31 March 1998 and earlier periods was written off to reserves in accordance with the accounting standard then in force. Negative goodwill was shown as an unrealised capital reserve and is credited to realised capital reserves in the periods expected to benefit. As permitted by the current accounting standard the goodwill previously written off to reserves has not been reinstated in the balance sheet. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

Goodwill related to joint ventures and associated undertakings is included in the carrying value of the investment.

## Stocks

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

## Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts and VAT. Contributions to non-statutory works are recognised on an accruals basis after all conditions for their receipt have been met.

## Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Timing differences are differences between BW's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

#### **Pensions**

BW operates a single funded defined benefit scheme for all staff. Pension costs are charged to the profit and loss account so as to spread the cost over the employees' working lives with BW. The regular cost is attributed to individual years using the projected unit method. Variations in pension costs which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either a provision or prepayment in the balance sheet. The assets of the pension fund are in a separate trust to any BW assets.

BW has adopted the transitional arrangements for pension cost disclosure detailed in FRS17 and has therefore included the new disclosures within the notes to the accounts.

Provisions for an unfunded pension entitlement for the Chairman and to cover the present value of the future costs of reduced cost travel benefits are included in the balance sheet. These provisions for unfunded arrangements have been calculated in accordance with FRS17 based on the assumptions set out in note 8 to these accounts.

#### **Finance Costs**

Finance costs of debt are recognised in the profit and loss account over the term of such loans at a constant rate on the carrying amount.

#### **Deferred Income**

BW has received cash dowries to take on the asset maintenance and operational obligations of other public sector organisations. Each dowry is accounted for as deferred income and released to the profit and loss account in line with the net operating expenditure.

#### **Segmental Disclosure**

For the purpose of Statement of Standard Accounting Practice No. 25, BW is, in the opinion of its Board Members, engaged in one class of business.

# Notes to the Accounts

## 2. Segmental Analysis of Continuing Operations

### a) BW Group analysis

| Total<br>2003/04<br>£000          | Operating<br>Revenue<br>£000 | (Loss) / profit<br>Costs<br>£000 | (Loss) / profit<br>transferred to<br>before tax<br>£000 | Net assets<br>(liabilities) at<br>reserves<br>£000 | 31 March       |
|-----------------------------------|------------------------------|----------------------------------|---|--|----------------|
| <b>British Waterways Board</b>    | <b>195,584</b>               | <b>197,148</b>                   | <b>(822)</b>  | <b>(4,315)</b>                                     | <b>419,357</b> |
| <b>Leisure subsidiaries</b>       | <b>1,274</b>                 | <b>3,472</b>                     | <b>(2,198)</b>  | <b>(1,538)</b>                                     | <b>(1,539)</b> |
| <b>Property subsidiaries</b>      | <b>519</b>                   | <b>535</b>                       | <b>2,686</b>  | <b>2,319</b>                                       | <b>2,739</b>   |
| <b>Joint venture undertakings</b> | -                            | -                                | <b>(811)</b>  | <b>(811)</b>                                       | <b>(1,579)</b> |
| <b>Associated undertakings</b>    | -                            | -                                | <b>(674)</b>  | <b>(480)</b>                                       | <b>(233)</b>   |
|                                   | <b>197,377</b>               | <b>201,155</b>                   | <b>(1,819)</b>  | <b>(4,825)</b>                                     | <b>418,745</b> |

2002/03

|                            |         |         |          |          |         |
|----------------------------|---------|---------|----------|----------|---------|
| British Waterways Board    | 191,596 | 211,085 | (15,418) | (19,476) | 373,780 |
| Property subsidiaries      | -       | (39)    | (1)      | 1        | 3       |
| Joint venture undertakings | -       | -       | (587)    | (498)    | (589)   |
| Associated undertakings    | -       | -       | 1,352    | 906      | 732     |
|                            | 191,596 | 211,046 | (14,654) | (19,067) | 373,926 |

### b) Analysis of BW direct income and expenditure (excludes group undertakings)

|   | Multiple use<br>waterways |                 | Leisure use<br>waterways |                 | Not fully<br>navigable<br>waterways |                 | Total           |                 |
|---|---------------------------|-----------------|--------------------------|-----------------|-------------------------------------|-----------------|-----------------|-----------------|
|   | 2003/04<br>£000           | 2002/03<br>£000 | 2003/04<br>£000          | 2002/03<br>£000 | 2003/04<br>£000                     | 2002/03<br>£000 | 2003/04<br>£000 | 2002/03<br>£000 |
| <b>Income from property</b>                     |                           |                 |                          |                 |                                     |                 |                 |                 |
| Rents from investment properties                | <b>5,669</b>              | 6,454           | <b>14,351</b>            | 12,672          | <b>1,346</b>                        | 269             | <b>21,366</b>   | 19,395          |
| Rents from leisure properties                   | <b>335</b>                | 525             | <b>2,273</b>             | 3,264           | <b>61</b>                           | 30              | <b>2,669</b>    | 3,819           |
| Other rents, wayleaves,<br>licences & easements | <b>6,330</b>              | 6,297           | <b>21,077</b>            | 18,186          | <b>1,176</b>                        | 2,176           | <b>28,583</b>   | 26,659          |
|   | <b>12,334</b>             | 13,276          | <b>37,701</b>            | 34,122          | <b>2,583</b>                        | 2,475           | <b>52,618</b>   | 49,873          |
| <b>Income from leisure uses</b>                 |                           |                 |                          |                 |                                     |                 |                 |                 |
| Craft licences and moorings                     | <b>2,177</b>              | 2,064           | <b>11,563</b>            | 12,210          | <b>522</b>                          | 3               | <b>14,262</b>   | 14,277          |
| Retail  | <b>417</b>                | 64              | <b>3,912</b>             | 3,019           | <b>121</b>                          | -               | <b>4,450</b>    | 3,083           |
| Angling   | <b>58</b>                 | 72              | <b>364</b>               | 658             | <b>27</b>                           | 31              | <b>449</b>      | 761             |
|   | <b>2,652</b>              | 2,200           | <b>15,839</b>            | 15,887          | <b>670</b>                          | 34              | <b>19,161</b>   | 18,121          |
| <b>Income from commercial uses</b>              |                           |                 |                          |                 |                                     |                 |                 |                 |
| Water charges                                   | <b>1,454</b>              | 1,420           | <b>2,033</b>             | 2,196           | <b>223</b>                          | 137             | <b>3,710</b>    | 3,753           |
| Tolls and dues                                  | <b>135</b>                | 696             | <b>606</b>               | -               | -                                   | -               | <b>741</b>      | 696             |
|   | <b>1,589</b>              | 2,116           | <b>2,639</b>             | 2,196           | <b>223</b>                          | 137             | <b>4,451</b>    | 4,449           |
| <b>Income from other uses</b>                   |                           |                 |                          |                 |                                     |                 |                 |                 |
| Contributions to non-statutory works            | <b>2,026</b>              | 2,334           | <b>11,500</b>            | 14,150          | <b>777</b>                          | 11,382          | <b>14,303</b>   | 27,866          |
| Other income                                    | <b>1,259</b>              | 2,046           | <b>4,708</b>             | 4,932           | <b>268</b>                          | 444             | <b>6,235</b>    | 7,422           |
| Maintenance agreements                          | <b>279</b>                | 96              | <b>3,740</b>             | 1,778           | <b>107</b>                          | 21              | <b>4,126</b>    | 1,895           |
|   | <b>3,564</b>              | 4,476           | <b>19,948</b>            | 20,860          | <b>1,152</b>                        | 11,847          | <b>24,664</b>   | 37,183          |
| <b>Total direct income</b>                      | <b>20,139</b>             | 22,068          | <b>76,127</b>            | 73,065          | <b>4,628</b>                        | 14,493          | <b>100,894</b>  | 109,626         |
| Government grant                                |                           |                 |                          |                 |                                     |                 | <b>94,770</b>   | 81,970          |
| <b>Total revenue</b>                            | <b>20,139</b>             | 22,068          | <b>76,127</b>            | 73,065          | <b>4,628</b>                        | 14,493          | <b>195,664</b>  | 191,596         |

|  | Multiple use waterways |               | Leisure use waterways |                | Not fully navigable waterways |               | Total          |                |
|--|------------------------|---------------|-----------------------|----------------|-------------------------------|---------------|----------------|----------------|
|  | 2003/04                | 2002/03       | 2003/04               | 2002/03        | 2003/04                       | 2002/03       | 2003/04        | 2002/03        |
|  | £000                   | £000          | £000                  | £000           | £000                          | £000          | £000           | £000           |
| <b>Expenditure</b>                             |                        |               |                       |                |                               |               |                |                |
| Major repairs and renovations                  | 11,930                 | 12,852        | 51,559                | 57,243         | 2,124                         | 13,465        | 65,613         | 83,560         |
| Staff costs                                    | 11,879                 | 13,376        | 45,192                | 37,511         | 2,901                         | 6,278         | 59,972         | 57,165         |
| Other operating charges                        | 11,388                 | 14,231        | 49,999                | 47,747         | 4,292                         | 3,945         | 65,679         | 65,923         |
| Depreciation                                   | 1,414                  | 1,455         | 4,294                 | 4,274          | 259                           | 471           | 5,967          | 6,200          |
| Own work capitalised or charged to major works | (49)                   | (717)         | (201)                 | (1,037)        | (13)                          | (98)          | (263)          | (1,852)        |
| <b>Total expenditure</b>                       | <b>36,562</b>          | <b>41,197</b> | <b>150,843</b>        | <b>145,738</b> | <b>9,563</b>                  | <b>24,061</b> | <b>196,968</b> | <b>210,996</b> |
| Waterway lengths                               | 360 miles              |               | 1,563 miles           |                | 128 miles                     |               | 2,051 miles    |                |

The following waterways have been categorised as multiple use waterways:

|                          |                    |                       |
|--------------------------|--------------------|-----------------------|
| Aire & Calder Navigation | New Junction Canal | Tees Navigation       |
| Caledonian Canal         | River Ouse         | South Tees Navigation |
| Crinan Canal             | River Ouse         | Weaver Navigation     |
| Gloucester & Sharpness   | River Severn       |                       |

The following waterways have been categorised as not fully navigable waterways:

|                                 |                   |               |
|---------------------------------|-------------------|---------------|
| Cromford Canal                  | Montgomery Canal  | Swansea Canal |
| Grantham Canal                  | Pocklington Canal |               |
| Manchester, Bolton & Bury Canal | St. Helens Canal  |               |

All other waterways have been categorised as leisure waterways.

The categorisation of waterways used in this analysis does not affect British Waterways' obligations set out in the 1968 Transport Act.

The majority of income and expenditure, including major repairs and renovations, can be directly attributed to waterway categories. Remaining income and expenditure is apportioned between waterway categories in the above analysis.

# Notes to the Accounts

## 3. Grants Receivable from Central Government

|   | 2003/04<br>£000 | 2002/03<br>£000 |
|---|-----------------|-----------------|
| <b>Grant receivable from Defra</b>  |                 |                 |
| Grant received in year  | 76,590          | 71,580          |
| Accrued grant at 31 March   | 4,800           | -               |
|   | <b>81,390</b>   | 71,580          |
| Allocated to deferred capital grant   | (700)           | (4,400)         |
| Deferred capital grant released to profit and loss account  | 1,434           | 2,153           |
|   | <b>82,124</b>   | 69,333          |
| <b>Grant receivable from Scottish Executive</b>   |                 |                 |
| Grant received in year  | 14,534          | 9,459           |
| Accrued grant at 1 April  | (4,351)         | -               |
| Accrued grant at 31 March   | 2,417           | 4,351           |
|   | <b>12,600</b>   | 13,810          |
| Allocated to deferred capital grant   | -               | (1,173)         |
| Deferred capital grant released to profit and loss account  | 46              | -               |
|   | <b>12,646</b>   | 12,637          |
| <b>Total revenue grant accrued during the year</b>  | <b>94,770</b>   | <b>81,970</b>   |
| Grant received on 1 April, for expenditure incurred but not paid before 31 March, is accrued in these accounts. |                 |                 |

## 4. Consolidated Operating Loss

|  | 2003/04<br>£000 | 2002/03<br>£000 |
|--|-----------------|-----------------|
| This is stated after charging                      |                 |                 |
| Depreciation of tangible fixed assets              | 6,071           | 6,200           |
| Profit on sale of operational fixed assets         | 32              | (3)             |
| Rents on leased properties                         | 1,531           | 868             |
| Auditors' Remuneration - audit services            | 187             | 114             |
| - non audit services                               | 22              | 12              |
| Board Members emoluments (Note 7)                  | 183             | 169             |
| Inland Waterways Amenity Advisory Council expenses | 168             | 132             |
| The audit fee for BW was £169,000 (2002: £110,000) |                 |                 |

## 5. Consolidated Interest Payable

|   | 2003/04<br>£000 | 2002/03<br>£000 |
|---|-----------------|-----------------|
| Interest payable on sums wholly repayable within five years:            |                 |                 |
| Interest on loans from Defra under Section 19 of the Transport Act 1962 | 1,082           | 1,067           |
| Unwinding of discount   | 1,925           | 1,091           |
| Other short-term interest   | 919             | 744             |
|   | <b>3,926</b>    | 2,902           |
| Interest payable on all other loans:                                    |                 |                 |
| Interest on loans from Defra under Section 19 of the Transport Act 1962 | 606             | 724             |
| <b>Total interest payable</b>   | <b>4,532</b>    | <b>3,626</b>    |

## 6. Consolidated Taxation

The total tax charged / (credited) to profit and loss account and capital reserves is as follows:

### a) Charged / (credited) to profit and loss account:

|   | 2003/04<br>£000 | 2002/03<br>£000 |
|---|-----------------|-----------------|
| <b>Current tax</b>  |                 |                 |
| Credit for current year losses available for carry back   | -               | (7,070)         |
| UK Corporation tax on profits for the period  | 1,238           | 1,505           |
| Adjustments in respect of prior years   | (435)           | 510             |
|   | <b>803</b>      | <b>(5,055)</b>  |
| Share of joint ventures and associates' current tax, including adjustments<br>in respect of prior years | (195)           | -               |
| <b>Total current tax</b>  | <b>608</b>      | <b>(5,055)</b>  |
| <b>Deferred tax</b>   |                 |                 |
| Origination and reversal of timing differences  | (1,588)         | 693             |
| Adjustments in respect of prior years   | 634             | -               |
| <b>Total deferred tax</b>   | <b>(954)</b>    | <b>693</b>      |
| <b>Taxation credit on loss for the financial year</b>   | <b>(346)</b>    | <b>(4,362)</b>  |

### b) Charged / (credited) to reserves:

|  | 2003/04<br>£000 | 2002/03<br>£000 |
|--|-----------------|-----------------|
| Provision required for capital gains in the current year | 1,788           | 2,432           |
| Adjustments in respect of prior years                    | (606)           | (551)           |
| <b>Total current tax</b>                                 | <b>1,182</b>    | <b>1,881</b>    |

### c) Factors affecting current tax charge

The provision charged (2003: credited) to the profit and loss account for the current year is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:

|   | 2003/04<br>£000 | 2002/03<br>£000 |
|---|-----------------|-----------------|
| Loss for the financial year before taxation           | (1,819)         | (14,654)        |
| Corporation taxation at 30%                           | (546)           | (4,396)         |
| <b>Effects of:</b>                                    |                 |                 |
| Expenses not deductible for tax purposes              | 571             | 498             |
| Depreciation in excess of capital allowances          | (221)           | (99)            |
| Other short term timing differences                   | 1,682           | (1,684)         |
| Losses arising in the year                            | 127             | (12)            |
| Losses arising in the year not recognised             | 90              | -               |
| Tax basis and indexation on asset disposal            | (372)           | 128             |
| Adjustments in respect of prior years                 | (435)           | 510             |
| Appropriation of stock to investment property         | 34              | -               |
| Joint ventures and associates prior years adjustments | (12)            | -               |
| Non taxable gain on disposal to ISIS                  | (310)           | -               |
|   | <b>1,154</b>    | <b>(659)</b>    |
| <b>Charge / (credit) for corporation tax</b>          | <b>608</b>      | <b>(5,055)</b>  |

# Notes to the Accounts

## 7. BW Board Members' Emoluments

### Basic remuneration

|                                  | Fees<br>£000 | 2003 /04<br>Total<br>£000 | 2002/03<br>Total<br>£000 |
|----------------------------------|--------------|---------------------------|--------------------------|
| George Greener, Chairman         | 70           | <b>70</b>                 | 67                       |
| Sir Peter Soulsby, Vice Chairman | 14           | <b>14</b>                 | 14                       |
| Susan Achmatowicz                | 11           | <b>11</b>                 | 10                       |
| Campbell Christie                | 11           | <b>11</b>                 | 10                       |
| Ian Darling                      | 11           | <b>11</b>                 | 10                       |
| George Fleming                   | 11           | <b>11</b>                 | 10                       |
| Helen Gordon                     | 11           | <b>11</b>                 | 10                       |
| Derek Langslow                   | 11           | <b>11</b>                 | 10                       |
| Janet Lewis-Jones                | 11           | <b>11</b>                 | 10                       |
| Adeeba Malik                     | 11           | <b>11</b>                 | 10                       |
| Terry Tricker                    | 11           | <b>11</b>                 | 10                       |
|                                  | 183          | <b>183</b>                | 171                      |

The Board Members' appointment and remuneration is determined by the Secretary of State for Environment, Food and Rural Affairs. No Board Member receives a benefit in kind. Further details in relation to Board Members' remuneration can be found in the Directors Remuneration Report on pages 62 to 65.

The Chairman's pension entitlement is calculated by analogy to the British Waterways (1990) Pension Fund. The increase in the provision required for the year is calculated by a qualified actuary using the discount rates consistent with those required under FRS17 as shown in note 8 to these accounts.

The Chairman, George Greener, had accrued entitlements under this defined benefit arrangement as follows:

|  | £pa   |
|--|-------|
| Accrued pension at 1 April 2003            | 2,871 |
| Indexed on accrued pension at 1 April 2003 | 49    |
| Accrued pension during the year            | 1,019 |
| Accrued pension at 31 March 2004           | 3,939 |

Transfer value of increase after indexation is £20,300

The Chairman contributed £3,816 to the scheme during the year.

## 8. Employee Costs

a) The average number of persons (excluding Board Members) employed during the year was:

|                      | 2003/04<br>Number | 2002/03<br>Number |
|----------------------|-------------------|-------------------|
| Total employed       | 2,255             | 2,191             |
| Full-time equivalent | 2,214             | 2,147             |

b) Total employment costs (excluding Board Members' emoluments stated in Note 7 to these Accounts) were:

|                               | 2003/04<br>£000 | 2002/03<br>£000 |
|-------------------------------|-----------------|-----------------|
| Wages and salaries            | 50,698          | 47,722          |
| Social security costs         | 4,081           | 3,506           |
| Pension costs                 | 5,923           | 5,937           |
| <b>Total employment costs</b> | <b>60,702</b>   | <b>57,165</b>   |

There were no prepaid or outstanding pension contributions at 31 March 2004 (2003: £5,500,000 prepaid).

c) Senior employee emoluments

The number of senior employees whose emoluments, including the taxable value of benefits-in-kind, but excluding employer's pension contributions and payments on leaving service, were within the following ranges:

| £                 | 2003/04<br>Number | 2002/03<br>Number |
|-------------------|-------------------|-------------------|
| 50,000 - 60,000   | 40                | 21                |
| 60,001 - 70,000   | 17                | 8                 |
| 70,001 - 80,000   | 6                 | 2                 |
| 80,001 - 90,000   | 2                 | 1                 |
| 90,001 - 100,000  | 2                 | 3                 |
| 100,001 - 110,000 | 3                 | 1                 |
| 120,001 - 130,000 | 1                 | 3                 |
| 130,001 - 140,000 | 3                 | 1                 |
| 140,001 - 150,000 | -                 | 1                 |
| 150,001 - 160,000 | 2                 | 1                 |
| 160,001 - 170,000 | 1                 | 2                 |
| 200,001 - 210,000 | 1                 | -                 |

d) Pension scheme

BW operates a single funded defined benefit pension scheme for all staff. Contributions to the Scheme are determined with the advice of independent professionally qualified actuaries on the basis of a triennial valuation using the projected unit method.

The most recent valuation was conducted as at 31 March 2001 using the following main financial assumptions:

|  |       |
|--|-------|
| Rate of return on existing assets      | 5.0%  |
| Rate of return on future contributions | 6.25% |
| Rate of salary and wage increases      | 4.0%  |
| Rate of pension increases              | 2.5%  |

The cost and balance sheet movements have been assessed in accordance with actuarial advice. The market value of the Scheme's assets (excluding members' additional voluntary contributions) at 31 March 2001 amounted to £200.5 million and the value placed upon the benefits that had accrued to members, after allowing for the effect of future increases in their earnings, was £203.4 million. The Scheme was therefore 99% funded on an ongoing basis. On the solvency basis prescribed by the statutory Minimum Funding Requirement, the Scheme's assets were 115% of accrued liabilities.

# Notes to the accounts

The employer contribution rate was reviewed by the Scheme actuary as part of the valuation, and the recommended rate remained stable at 16% of pensionable pay. This included an allowance of 0.8% towards administrative expenses, 1% towards the cost of extra benefits under the voluntary early retirement arrangements, and 1.1% to raise the ongoing funding level to 100% within six years if the adopted assumptions were borne out in practice. The voluntary early retirement scheme closed at 31 March 2003 and the ongoing employer contribution rate reduced by 1% to 15% for 2003/04. The next full actuarial valuation will be carried out as at 31 March 2004 and the valuation report will be issued in October 2004.

## FRS17 Retirement benefits

The Accounting Standards Board has announced a deferral of full mandatory adoption of FRS17 following the notification of intention by the International Accounting Standards Board that it is to review IAS19, the present international standard for post employment benefits. Instead the transitional disclosure requirements will continue.

The valuation of the Scheme used for FRS17 disclosures has been based on the most recent actuarial valuation of BW's scheme at 31 March 2001 and updated to 31 March 2004 by an independent qualified actuary and takes into account the transitional requirements of FRS17.

The present value of the scheme liabilities was calculated in accordance with FRS17 using the following assumptions:

|  | 2004  | 31 March<br>2003 | 2002 |
|--|-------|------------------|------|
| Rate of inflation  | 2.75% | 2.5%             | 2.5% |
| Rate of increase in salaries                                   | 4.3%  | 4.0%             | 4.0% |
| Rate of increase for pensions in payment and deferred pensions | 2.75% | 2.5%             | 2.5% |
| Rate used to discount scheme liabilities                       | 5.5%  | 5.4%             | 6.0% |

The assets in the Scheme at 31 March 2004 and the expected future rates of return on them were:

|  | 31 March 2004 |      | 31 March 2003 |       | 31 March 2002 |      |
|--|---------------|------|---------------|-------|---------------|------|
|  | £ million     | %    | £ million     | %     | £ million     | %    |
| Equities                                 | 118.2         | 8.1% | 104.4         | 7.5%  | 152.4         | 6.1% |
| Bonds                                    | 68.4          | 4.9% | 46.5          | 5.0%  | 29.2          | 5.3% |
| Other assets                             | 0.3           | 4.0% | 3.0           | 3.75% | 11.8          | 4.0% |
| <b>Total fair value of assets</b>        | <b>186.9</b>  |      | <b>153.9</b>  |       | <b>193.4</b>  |      |
| Present value of scheme liabilities      | 242.5         |      | 221.7         |       | 188.0         |      |
| <b>(Deficit) / surplus in the scheme</b> | <b>(55.6)</b> |      | <b>(67.8)</b> |       | <b>5.4</b>    |      |
| Related deferred tax asset               | 16.7          |      | 20.3          |       | 1.6           |      |
| <b>Net pension (liability) / asset</b>   | <b>(38.9)</b> |      | <b>(47.5)</b> |       | <b>3.8</b>    |      |

If FRS17 had been adopted in the financial statements, the Group's net assets and profit and loss reserve at 31 March 2004 would be as follows:

|   | 31 March<br>2004 | 31 March<br>2003 |
|---|------------------|------------------|
|   | £million         | £million         |
| <b>Net assets</b>                             |                  |                  |
| Net assets excluding pension liability        | 418.7            | 373.9            |
| Pension liability                             | (38.9)           | (47.5)           |
| <b>Net assets including pension liability</b> | <b>(379.8)</b>   | <b>(326.4)</b>   |

|   | 31 March<br>2004 | 31 March<br>2003 |
|---|------------------|------------------|
|   | £million         | £million         |
| <b>Reserves</b>   |                  |                  |
| Profit and Loss account reserve excluding pension liability | (0.6)            | 4.2              |
| Pension reserve   | (38.9)           | (47.5)           |
| <b>Profit and loss account reserve</b>                      | <b>(39.5)</b>    | <b>(43.3)</b>    |

If FRS17 has been adopted in the financial statements, the following amounts would have been recognised in the performance statements for the financial year to 31 March 2004:

|   | <b>31 March<br/>2004</b> | 31 March<br>2003 |
|---|--------------------------|------------------|
|   | <b>£million</b>          | £million         |
| <b>Amounts charged to the profit and loss account</b>                   |                          |                  |
| Current service cost  | 7.1                      | 6.3              |
| Past service costs  | -                        | 1.5              |
| <b>Total charged to operating profit</b>                                | <b>7.1</b>               | <b>7.8</b>       |
| <b>The amount charged / (credited) to other finance income</b>          |                          |                  |
| Interest on scheme liabilities  | 12.0                     | 11.3             |
| Expected return on scheme assets  | (10.2)                   | (11.5)           |
| Net charge / (credit) to other finance income                           | 1.8                      | (0.2)            |
| <b>Total charged to profit and loss account before deduction of tax</b> | <b>8.9</b>               | <b>7.6</b>       |

|   | <b>2003/04<br/>Total</b> | 2002/03<br>Total |
|---|--------------------------|------------------|
|   | <b>£million</b>          | £million         |
| <b>Amounts recognised in the Statement of Recognised Gains and Losses (STRGL)</b> |                          |                  |
| Gain / (loss) on assets   | -                        | 22.8             |
| Experience (loss) / gain on liabilities   | -                        | (1.6)            |
| Loss on change of assumptions (financial and demographic)                         | -                        | (6.1)            |
| <b>Total gain / (loss) recognised in STRGL before adjustment of tax</b>           | <b>15.1</b>              | <b>(73.1)</b>    |

|  | <b>31 March<br/>2004</b> | 31 March<br>2003 |
|--|--------------------------|------------------|
|  | <b>£million</b>          | £million         |
| <b>History of experience gains and losses</b>              |                          |                  |
| Gain / (loss) on scheme assets (amount)                    | 22.8                     | (52.0)           |
| % of scheme assets at end of year                          | 12.2%                    | 33.8%            |
| Experience (loss) / gain on scheme liabilities (amount)    | (1.6)                    | 0.1              |
| % of scheme liabilities at end of year                     | 0.7%                     | 0.0%             |
| Total actuarial gain / (loss) recognised in STRGL (amount) | 15.1                     | (73.1)           |
| % of scheme liabilities at end of year                     | 6.2%                     | 33.0%            |

|  | <b>31 March<br/>2004</b> | 31 March<br>2003 |
|--|--------------------------|------------------|
|  | <b>£million</b>          | £million         |
| <b>Movement in surplus / (deficit) in the Scheme during the year</b> |                          |                  |
| (Deficit) / surplus in the scheme at 1 April                         | (67.8)                   | 5.4              |
| Contributions paid   | 6.0                      | 7.5              |
| Current service cost   | (7.1)                    | (6.3)            |
| Past service cost  | -                        | (1.5)            |
| Other finance (charges) / income                                     | (1.8)                    | 0.2              |
| Actuarial gain / (loss)  | 15.1                     | (73.1)           |
| <b>Deficit in the scheme at 31 March before tax</b>                  | <b>(55.6)</b>            | <b>(67.8)</b>    |

Provisions in respect of unfunded pension arrangements (see notes 7 and 15) have been calculated using the discount rates shown above and therefore are consistent with FRS17.

# Notes to the Accounts

## 9. Tangible Fixed Assets

| Group                    | Freehold Land Buildings and Structures |                    | Leasehold Land and Buildings |                    | Craft, Plant and Equipment |                | Total<br>£000   |
|--------------------------|--|--------------------|------------------------------|--------------------|----------------------------|----------------|-----------------|
|                          | Operational<br>£000                    | Investment<br>£000 | Operational<br>£000          | Investment<br>£000 | Owned<br>£000              | Leased<br>£000 |                 |
| <b>Cost or valuation</b> |  |                    |                              |                    |                            |                |                 |
| At 1 April 2003          | 61,095                                 | 316,851            | 2,651                        | 747                | 53,969                     | 1,002          | <b>436,315</b>  |
| Transfers                | (6,379)                                | 4,392              | (1,571)                      | 512                | 1,009                      | (1,002)        | <b>(3,039)</b>  |
| Additions                | 1,427                                  | 63,189             | -                            | -                  | 7,595                      | -              | <b>72,210</b>   |
| Reduction in value       | (2)                                    | (39)               | (80)                         | -                  | (342)                      | -              | <b>(463)</b>    |
| Disposals                | (18)                                   | (9,819)            | -                            | -                  | (1,207)                    | -              | <b>(11,044)</b> |
| Revaluation              | -                                      | 43,160             | -                            | 300                | -                          | -              | <b>43,460</b>   |
| <b>At 31 March 2004</b>  | <b>56,123</b>                          | <b>417,734</b>     | <b>1,000</b>                 | <b>1,559</b>       | <b>61,023</b>              | <b>-</b>       | <b>537,439</b>  |
| <b>Depreciation</b>      |  |                    |                              |                    |                            |                |                 |
| At 1 April 2003          | 15,651                                 | -                  | 137                          | -                  | 27,925                     | 1,002          | <b>44,715</b>   |
| Transfers                | (2,128)                                | -                  | (10)                         | -                  | 101                        | (1,002)        | <b>(3,039)</b>  |
| Additions                | -                                      | -                  | -                            | -                  | 1,146                      | -              | <b>1,146</b>    |
| Provision for year       | 961                                    | -                  | 23                           | -                  | 5,087                      | -              | <b>6,071</b>    |
| Disposals                | (5)                                    | -                  | -                            | -                  | (1,055)                    | -              | <b>(1,060)</b>  |
| <b>At 31 March 2004</b>  | <b>14,479</b>                          | <b>-</b>           | <b>150</b>                   | <b>-</b>           | <b>33,204</b>              | <b>-</b>       | <b>47,833</b>   |
| <b>Net book value:</b>   |  |                    |                              |                    |                            |                |                 |
| <b>at 31 March 2004</b>  | <b>41,644</b>                          | <b>417,734</b>     | <b>850</b>                   | <b>1,559</b>       | <b>27,819</b>              | <b>-</b>       | <b>489,606</b>  |
| At 31 March 2003         | 45,444                                 | 316,851            | 2,514                        | 747                | 26,044                     | -              | 391,600         |
| <b>BW</b>                |  |                    |                              |                    |                            |                |                 |
|                          | Freehold Land Buildings and Structures |                    | Leasehold Land and Buildings |                    | Craft, Plant and Equipment |                | Total<br>£000   |
|                          | Operational<br>£000                    | Investment<br>£000 | Operational<br>£000          | Investment<br>£000 | Owned<br>£000              | Leased<br>£000 |                 |
| <b>Cost or valuation</b> |  |                    |                              |                    |                            |                |                 |
| At 1 April 2003          | 61,095                                 | 312,940            | 2,651                        | 747                | 53,968                     | 1,002          | <b>432,403</b>  |
| Transfers                | (6,379)                                | 4,392              | (1,571)                      | 512                | 1,009                      | (1,002)        | <b>(3,039)</b>  |
| Additions                | 1,427                                  | 61,854             | -                            | -                  | 6,272                      | -              | <b>69,552</b>   |
| Reduction in value       | (2)                                    | (39)               | (80)                         | -                  | (341)                      | -              | <b>(462)</b>    |
| Disposals                | (18)                                   | (9,314)            | -                            | -                  | (1,003)                    | -              | <b>(10,335)</b> |
| Revaluation              | -                                      | 46,960             | -                            | 300                | -                          | -              | <b>47,260</b>   |
| <b>At 31 March 2004</b>  | <b>56,123</b>                          | <b>416,793</b>     | <b>1,000</b>                 | <b>1,559</b>       | <b>59,904</b>              | <b>-</b>       | <b>535,379</b>  |
| <b>Depreciation</b>      |  |                    |                              |                    |                            |                |                 |
| At 1 April 2003          | 15,651                                 | -                  | 137                          | -                  | 27,925                     | 1,002          | <b>44,715</b>   |
| Transfers                | (2,128)                                | -                  | (10)                         | -                  | 101                        | (1,002)        | <b>(3,039)</b>  |
| Provision for year       | 961                                    | -                  | 23                           | -                  | 4,983                      | -              | <b>5,967</b>    |
| Disposals                | (5)                                    | -                  | -                            | -                  | (663)                      | -              | <b>(668)</b>    |
| <b>At 31 March 2004</b>  | <b>14,479</b>                          | <b>-</b>           | <b>150</b>                   | <b>-</b>           | <b>32,346</b>              | <b>-</b>       | <b>46,975</b>   |
| <b>Net book value:</b>   |  |                    |                              |                    |                            |                |                 |
| <b>At 31 March 2004</b>  | <b>41,644</b>                          | <b>416,793</b>     | <b>850</b>                   | <b>1,559</b>       | <b>27,558</b>              | <b>-</b>       | <b>488,404</b>  |
| At 31 March 2003         | 45,444                                 | 312,940            | 2,514                        | 747                | 26,043                     | -              | 387,688         |

The value of fixed assets includes assets in the course of construction valued at £3.8 million (2003: £6.4 million)

| The surplus on revaluation at 31 March comprises:  | Group           |                 | BW              |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2003/04<br>£000 | 2002/03<br>£000 | 2003/04<br>£000 | 2002/03<br>£000 |
| Increase in net revaluation from transfers between investment and operational properties | <b>22,707</b>   | -               | <b>22,707</b>   | -               |
| Surplus on revaluation of investment properties  | <b>20,753</b>   | 25,224          | <b>24,553</b>   | 21,312          |
|  | <b>43,460</b>   | 25,224          | <b>47,260</b>   | 21,312          |

The net book value of investments properties at 31 March comprises:

|                       |                |         |                |         |
|-----------------------|----------------|---------|----------------|---------|
| Cost                  | <b>159,948</b> | 94,315  | <b>159,013</b> | 94,206  |
| Revaluation surpluses | <b>259,345</b> | 223,284 | <b>259,339</b> | 219,481 |
|                       | <b>419,293</b> | 317,599 | <b>418,352</b> | 313,687 |

### Depreciation

In accordance with Statement of Standard Accounting Practice No. 19, depreciation is not provided on investment properties. This is a departure from the requirements of the Companies Act 1985. In the opinion of the Board Members, this departure is required in order to show a true and fair view in these accounts.

### Investment properties

Investment properties were revalued at 31 December 2004 on an open market value basis by Gerald Eve, Chartered Surveyors. Based upon these valuations, British Waterways has incorporated a value of investment properties of £419.3 million in these accounts.

BW continues to reposition its property portfolio through disposals and reinvestment.

In the event that the investment properties were to be sold for their revalued amount, tax on such disposals would be approximately £70 million (2002/03: £61 million).

# Notes to the Accounts

## 10. Fixed Assets Investments

|   | Group           |                 | BW              |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2003/04<br>£000 | 2002/03<br>£000 | 2003/04<br>£000 | 2002/03<br>£000 |
| <b>Shares in group undertakings</b>                     |                 |                 |                 |                 |
| At 1 April  | -               | -               | 1,316           | 1,068           |
| Additions in year                                       |                 |                 |                 |                 |
| Joint ventures and associated undertakings              |                 |                 | 405             | 141             |
| Subsidiary companies                                    |                 |                 | 6,267           | 112             |
| Disposals in year                                       | -               | -               | -               | (5)             |
| <b>At 31 March</b>                                      | <b>-</b>        | <b>-</b>        | <b>7,988</b>    | <b>1,316</b>    |
| <b>Loans to group undertakings</b>                      |                 |                 |                 |                 |
| At 1 April  | -               | -               | 5,903           | 2,652           |
| Additions in year                                       | -               | -               | 7,142           | 4,564           |
| Repayments in year                                      | -               | -               | (5)             | (1,313)         |
| <b>At 31 March</b>                                      | <b>-</b>        | <b>-</b>        | <b>13,040</b>   | <b>5,903</b>    |
| <b>Interests in joint ventures (see Note 10b below)</b> |                 |                 |                 |                 |
| Additions - net assets                                  | 2,718           | 287             | -               | -               |
| - goodwill  | (87)            | (30)            | -               | -               |
| <b>At 31 March</b>                                      | <b>2,631</b>    | <b>257</b>      | <b>-</b>        | <b>-</b>        |
| <b>Interests in associates (see Note 10b below)</b>     |                 |                 |                 |                 |
| At 1 April - net assets                                 | 4,045           | 2,591           | -               | -               |
| - goodwill  | 549             | 549             | -               | -               |
|   | 4,594           | 3,140           | -               | -               |
| Additions - net assets                                  | 2,582           | 1,454           | -               | -               |
| Transfer to subsidiary undertakings                     | (549)           | -               | -               | -               |
| At 31 March - net assets                                | 6,627           | 4,045           | -               | -               |
| - goodwill  | -               | 549             | -               | -               |
|   | 6,627           | 4,594           | -               | -               |
| <b>Other investments</b>                                |                 |                 |                 |                 |
| At 1 April  | 148             | 148             | 148             | 148             |
| <b>At 31 March</b>                                      | <b>148</b>      | <b>148</b>      | <b>148</b>      | <b>148</b>      |
|   |                 |                 | -               | -               |
| <b>Total fixed asset investments</b>                    | <b>9,406</b>    | <b>4,999</b>    | <b>21,176</b>   | <b>7,367</b>    |

### a) Subsidiary undertakings

BW's principal subsidiary undertakings are as follows:

- Blackwall Estates Ltd manages property in London Docklands
- British Waterways Marinas Ltd commenced trading 1 January 2004, operates inland waterway marinas.
- British Waterways Pension Trustees Ltd acts as trustee to the British Waterways 1990 Pension Fund. The book value of BW's interest is represented by a debt of equal amount due to the subsidiary and both have been eliminated from BW's accounts.
- Granary Wharf Ltd, acquired 2nd September 2004-2003 manages property in Leeds.
- Leeds Canal Basin (Development) Ltd, acquired 2nd September 2004-2003 manages property in Leeds.

- Waterscape Limited commenced trading 1st April 2003, operates an online travel and leisure website.
- Wood Wharf Management Company Ltd manages property in London Docklands.

The following companies did not trade during the year:

- Limehouse Developments Ltd
- Limehouse Basin Management Ltd

Goodwill arises from BW's investment in Leeds Canal Basin (Development) Ltd (£3,109,000) and the Directors have performed an impairment review and no amortisation is required.

## b) Investments joint ventures and associated undertakings

The following information relates to those joint ventures and associated undertakings of the Group at the year end whose results or financial position, in the opinion of the directors, principally affect the figures of the Group. All joint ventures and associated undertakings of the Group are unlisted and are registered and operate in the United Kingdom.

|   | Accounting<br>Period End<br>Date | Issued<br>Share<br>Capital | Equity<br>Interest<br>Held | Main<br>Activity      |
|---|----------------------------------|----------------------------|----------------------------|-----------------------|
| <b>Joint Ventures</b>                       |                                  |                            |                            |                       |
| ISIS Waterside Regeneration Ltd Partnership | 31 December 2003                 | 9,900                      | 50%                        | Property              |
| Watergrid Ltd                               | 31 December 2003                 | 300,000                    | 45%                        | Water Supply          |
| <b>Associated Undertakings</b>              |                                  |                            |                            |                       |
| Nottingham Waterside Ltd                    | 31 December 2003                 | 1,000                      | 49%                        | Property              |
| Paddington Business Barges                  | 31 December 2003                 | 1,000                      | 49%                        | Office<br>Development |
| Waterwise UK Ltd                            | 31 December 2003                 | 1,000                      | 49%                        | Water Safety          |
| City Road Basin Ltd                         | 31 December 2003                 | 100                        | 49%                        | Property              |
| Edinburgh Quay Ltd                          | 31 December 2003                 | 100                        | 49%                        | Property              |
| H2O Urban Ltd                               | 31 December 2003                 | 100                        | 49%                        | Property              |
| Euro-waterways Ltd                          | 30 April 2003                    | 90                         | 49%                        | Leisure               |

## c) Other investments

BW has an investment of £147,500 in Easynet Group plc. Easynet Group plc and subsidiaries provide internet access, computer networking hardware, software, peripherals and consultancy services to customers in the UK and Europe.

## 11. Stocks

|                               | Group                 |                       | BW                    |                       |
|-------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                               | 31 March 2004<br>£000 | 31 March 2003<br>£000 | 31 March 2004<br>£000 | 31 March 2003<br>£000 |
| Raw materials and consumables | 195                   | 382                   | 195                   | 382                   |
| Held for resale               | 744                   | 666                   | 254                   | 666                   |
|                               | <b>939</b>            | <b>1,048</b>          | <b>449</b>            | <b>1,048</b>          |

## 12. Other Debtors

|  |      | Group                 |                       | BW                    |                       |
|--|------|-----------------------|-----------------------|-----------------------|-----------------------|
|  | Note | 31 March 2004<br>£000 | 31 March 2003<br>£000 | 31 March 2004<br>£000 | 31 March 2003<br>£000 |
| Deferred consideration sale agreements | 12a  | 10,993                | 16,251                | 10,993                | 16,251                |
| Grant-in-aid                           |      | 7,217                 | 4,351                 | 7,217                 | 4,351                 |
| Value added tax                        |      | 5,580                 | 6,715                 | 5,575                 | 6,715                 |
| Deferred tax asset                     | 12b  | 283                   | -                     | 273                   | -                     |
| Others                                 | 12c  | 1,739                 | 2,171                 | 1,377                 | 2,164                 |
|  |      | <b>25,812</b>         | <b>29,488</b>         | <b>25,435</b>         | <b>29,481</b>         |

### a) Deferred consideration sale agreements

Of the deferred consideration sale agreements £2.5 million (2003: £10.9 million) will fall due after more than one year.

# Notes to the Accounts

## b) Deferred tax asset

In accordance with FRS19 no liability has been provided for deferred tax on gains recognised on revaluing property to its market value or on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided is £80 million (70 million for revalued properties, £10 million for rolled over gains).

| Group                                      | Recognised      |                 | Not Recognised  |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2003/04<br>£000 | 2002/03<br>£000 | 2003/04<br>£000 | 2002/03<br>£000 |
| Accelerated capital allowances             | (1,084)         | (549)           | -               | -               |
| Short term timing differences              | 234             | (1,448)         | -               | -               |
| Losses                                     | 1,113           | 1,304           | -               | -               |
| Potential deferred tax asset / (liability) | 283             | (693)           | -               | -               |
| <b>Rolled over gains</b>                   |                 |                 | <b>10,055</b>   | <b>9,891</b>    |

| BW   | Recognised      |                 | Not Recognised  |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2003/04<br>£000 | 2002/03<br>£000 | 2003/04<br>£000 | 2002/03<br>£000 |
| Accelerated capital allowances             | (1,085)         | (549)           | -               | -               |
| Short term timing differences              | 234             | (1,448)         | -               | -               |
| Losses                                     | 1,124           | 1,304           | -               | -               |
| Potential deferred tax asset / (liability) | 273             | (693)           | -               | -               |
| <b>Rolled over gains</b>                   |                 |                 | <b>10,055</b>   | <b>9,891</b>    |

## c) Other long term debtors

Of the others, (2003: £115,000) will fall due after more than one year.

## 13. Analysis of Net Funds

| Group                  | 1 April<br>2003<br>£000  | Cash<br>Flows<br>£000 | 31 March<br>2004<br>£000 |
|------------------------|--------------------------|-----------------------|--------------------------|
|                        | Cash at bank and in hand | 22,692                | (1,576)                  |
| Capital debt (Note 19) |                          |                       |                          |
| - due within one year  | -                        | (600)                 | (600)                    |
| - due after one year   | (14,736)                 | 600                   | (14,136)                 |
|                        | <b>7,956</b>             | <b>(1,576)</b>        | <b>6,380</b>             |

| BW                     | 1 April<br>2003<br>£000  | Cash<br>Flows<br>£000 | 31 March<br>2004<br>£000 |
|------------------------|--------------------------|-----------------------|--------------------------|
|                        | Cash at bank and in hand | 22,616                | (2,283)                  |
| Capital debt (Note 19) |                          |                       |                          |
| - due within one year  | -                        | (600)                 | (600)                    |
| - due after one year   | (14,736)                 | 600                   | (14,136)                 |
|                        | <b>7,880</b>             | <b>(2,283)</b>        | <b>5,597</b>             |

## 14. Creditors

### a) Amounts falling due within one year

|                                    | Group                 |                       | BW                    |                       |
|------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                    | 31 March 2004<br>£000 | 31 March 2003<br>£000 | 31 March 2004<br>£000 | 31 March 2003<br>£000 |
| Trade creditors                    | 5,955                 | 14,133                | 5,907                 | 14,133                |
| Taxation and social security       | 1,601                 | 1,432                 | 1,587                 | 1,432                 |
| Amounts owed to group undertakings | -                     | -                     | 3,061                 | 43                    |
| Other creditors                    | 16,683                | 14,224                | 16,511                | 14,223                |
| Accruals                           | 22,746                | 16,655                | 22,529                | 16,661                |
| Deferred income (see note 14c)     | 24,075                | 23,058                | 26,042                | 25,406                |
|                                    | <b>71,060</b>         | <b>69,502</b>         | <b>75,637</b>         | <b>71,898</b>         |

### b) Amounts falling due after more than one year

|                                | Group                 |                       | BW                    |                       |
|--------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                | 31 March 2004<br>£000 | 31 March 2003<br>£000 | 31 March 2004<br>£000 | 31 March 2003<br>£000 |
| Deferred income (see note 14c) | 46,910                | 16,871                | 46,910                | 16,871                |
| Other creditors                | 19,439                | 78                    | 19,350                | -                     |
|                                | <b>66,349</b>         | <b>16,949</b>         | <b>66,260</b>         | <b>16,871</b>         |

Of the other creditors £19.4million (2002: nil) will fall due after more than one year.

### c) Deferred income

The balance on creditors falling due after more than one year includes deferred income arising from the receipt of cash dowries received in respect of obligations to maintain the River Tees navigation and Tees Barrage which was acquired from the Commission for the New Towns in the year ended 31 March 2000 and the Liverpool Docks which was acquired from English Partnerships on 1 July 2003. Movements during the year were as follows:

|   | 2003/04<br>£000 | 2002/03<br>£000 |
|---|-----------------|-----------------|
| Balance at 1 April 2003                                 |                 |                 |
| Amounts falling due within one year                     | 993             | 762             |
| Amounts falling due after more than one year            | 16,871          | 17,124          |
|   | <b>17,864</b>   | <b>17,886</b>   |
| Acquisition of Liverpool Docks                          | 32,486          | -               |
| Unwinding of discount                                   | 1,924           | 1,073           |
|   | <b>52,274</b>   | <b>18,959</b>   |
| Reduction due to re-assessment of outstanding liability | -               | (333)           |
| Payments  | (2,511)         | (762)           |
| <b>Balance at 31 March 2004</b>                         | <b>49,763</b>   | <b>17,864</b>   |
| <b>Balance at 31 March 2004 analysed as follows:</b>    |                 |                 |
| Amounts falling due within one year                     | 2,853           | 993             |
| Amounts falling due after more than one year            | 46,910          | 16,871          |
|   | <b>49,763</b>   | <b>17,864</b>   |

# Notes to the Accounts

## 15. Provisions for Liabilities and Charges

| <b>Group</b>                   | <b>Note</b> | Provision 1<br>April 2003<br>£000 | On acquisitions<br>£000 | Paid<br>£000   | Charged /<br>(released)<br>£000 | <b>Provision 31<br/>March 2004<br/>£000</b> |
|--------------------------------|-------------|-----------------------------------|-------------------------|----------------|---------------------------------|---|
| Corporation tax                | 15a         | 735                               | 68                      | (662)          | 1,984                           | <b>2,125</b>                                |
| Deferred taxation              | 12b         | 693                               | (22)                    | -              | (671)                           | -   |
| Chairman's pension costs       | 15b         | 57                                | -                       | -              | 21                              | <b>78</b>                                   |
| Other post retirement benefits | 15c         | 367                               | -                       | (8)            | (32)                            | <b>327</b>                                  |
| Business reorganisation        | 15d         | 660                               | -                       | (1,446)        | 5,402                           | <b>4,616</b>                                |
| Other provisions               | 15e         | 10,509                            | -                       | (7,559)        | 2,388                           | <b>5,338</b>                                |
| <b>Group</b>                   |             | <b>13,021</b>                     | <b>46</b>               | <b>(9,675)</b> | <b>9,092</b>                    | <b>12,484</b>                               |

| <b>BW</b>                      | <b>Note</b> | Provision 1<br>April 2003<br>£000 | On acquisitions<br>£000 | Paid<br>£000   | Charged /<br>(released)<br>£000 | <b>Provision 31<br/>March 2004<br/>£000</b> |
|--------------------------------|-------------|-----------------------------------|-------------------------|----------------|---------------------------------|---|
| Corporation tax                | 15a         | 735                               | -                       | (662)          | 2,285                           | <b>2,358</b>                                |
| Deferred taxation              | 12b         | 693                               | -                       | -              | (693)                           | -   |
| Chairman's pension costs       | 15b         | 57                                | -                       | -              | 21                              | <b>78</b>                                   |
| Other post retirement benefits | 15c         | 367                               | -                       | (8)            | (32)                            | <b>327</b>                                  |
| Business reorganisation        | 15d         | 660                               | -                       | (1,446)        | 5,402                           | <b>4,616</b>                                |
| Other provisions               | 15e         | 6,709                             | -                       | (2,574)        | 1,203                           | <b>5,338</b>                                |
| <b>BW</b>                      |             | <b>9,221</b>                      | <b>-</b>                | <b>(4,690)</b> | <b>8,186</b>                    | <b>12,717</b>                               |

### a) Corporation tax

A provision has been made for current and previous year corporation tax liabilities on trading profits and capital gains. Additional disclosure is made in note 6 to these accounts.

### b) Chairman's pension costs

An unfunded pension entitlement has been arranged for the Chairman. A provision is included in the balance sheet to cover this liability and has been calculated using discount rates consistent with those required under FRS17 as shown in note 8 to these accounts.

### c) Other post retirement benefits

Under the terms of the 1962 Transport Act, employees transferring from the British Transport Commission to successor bodies were entitled to retain their reduced cost travel benefits. Successor bodies, including BW, were made responsible for procuring the benefits on their behalf.

Currently seven BW employees and 295 pensioners retain entitlement to this benefit. A provision to cover the present value of the future cost of these benefits is included in the balance sheet.

The provision was re-assessed at 31 March 2004 by independent qualified actuaries using discount rates consistent with those required under FRS17 as shown in note 8 to these accounts.

### d) Business reorganisation

The business reorganisation provision relates principally to redundancy costs arising from the significant change in the organisations structure announced in May 2003.

### e) Other provisions

The other provisions relate principally to third party claims and a provision arising from leasehold properties previously occupied by BW.

## 16. Deferred Capital Grant

|   | Group and BW     |                 |
|---|------------------|-----------------|
|   | 2003 /04<br>£000 | 2002/03<br>£000 |
| Balance at 1 April                            | 14,130           | 10,469          |
| Defra grant allocated to capital              | 700              | 4,400           |
| Scottish Executive grant allocated to capital | -                | 1,173           |
| Other deferred capital grants                 | -                | 241             |
|   | <b>14,830</b>    | 16,283          |
| Released to profit and loss account           |                  |                 |
| Government grant                              | (1,480)          | (2,153)         |
| Non government grants                         | (6)              |                 |
| <b>Balance at 31 March</b>                    | <b>13,344</b>    | 14,130          |

## 17. Reserves

|  | Realised<br>Capital Reserve<br>£000 | Investment<br>Property<br>Revaluation<br>Reserve<br>£000 | Unrealised<br>Capital<br>Reserves<br>£000 | Capital<br>Contribution<br>£000 | Other<br>Reserves<br>£000 |
|--|-------------------------------------|--|---|---------------------------------|---------------------------|
| <b>BW</b>  |                                     |  |   |                                 |                           |
| Balance at 1 April 2003  | 127,970                             | 219,481  | 4,100                                     | 3,450                           | -                         |
| Net increase resulting from transfers between<br>investment and operational properties | -                                   | 22,907   | -   | -                               | -                         |
| Realisation of property revaluation gains of previous years                            | 7,601                               | (7,601)  | -   | -                               | -                         |
| Corporation tax on capital gains of previous years                                     | (1,182)                             | -  | -   | -                               | -                         |
| Unrealised surplus on revaluation on investment properties                             | -                                   | 24,552   | -   | -                               | -                         |
| Transfer of profit on sale of investment properties<br>from profit and loss account    | 4,892                               | -  | -   | -                               | -                         |
| Transfer of other property from profit and loss account                                | (1,403)                             | -  | -   | -                               | -                         |
| Corporation tax on capital gains in current year                                       | (1,102)                             | -  | -   | -                               | -                         |
| Reduction in provision on deferred taxation on property gains                          | 966                                 | -  | -   | -                               | -                         |
| <b>Balance at 31 March 2004</b>  | <b>137,742</b>                      | <b>259,339</b>   | <b>4,100</b>                              | <b>3,450</b>                    | <b>-</b>                  |
| <b>Group share of reserves in associated undertakings</b>                              |                                     |  |   |                                 |                           |
| Balance at 1 April 2003  | -                                   | 3  | -   | -                               | 10                        |
| Unrealised surplus on revaluation of investment properties                             | -                                   | 3  | -   | -                               | -                         |
| Movement on other reserves   | -                                   | -  | -   | -                               | 11                        |
| <b>Balance at 31 March 2004</b>  | <b>-</b>                            | <b>6</b>   | <b>-</b>                                  | <b>-</b>                        | <b>21</b>                 |
| <b>Total Group</b>   | <b>137,742</b>                      | <b>259,345</b>   | <b>4,100</b>                              | <b>3,450</b>                    | <b>21</b>                 |

The realised capital reserve includes the value of profits on valuation arising from the sale of property and other property rights and the realisation of property revaluation gains of previous years, net of corporation tax. The investment property revaluation reserve includes unrealised gains on property valuation. The unrealised capital reserve includes the value of the excess of the fair value of assets acquired on acquisition of a business over the fair value of the consideration received. Capital contributions are from Defra to enable BW to repay National Loans Fund loans maturing before 2013 as they mature (see note 19).

# Notes to the Accounts

## 18. Profit and Loss Account

|                              | Group            |                 | BW               |                 |
|------------------------------|------------------|-----------------|------------------|-----------------|
|                              | 2003 /04<br>£000 | 2002/03<br>£000 | 2003 /04<br>£000 | 2002/03<br>£000 |
| Balance at 1 April           | 4,176            | 23,243          | 4,043            | 23,519          |
| Loss transferred to reserves | (4,825)          | (19,067)        | (4,053)          | (19,476)        |
| <b>Balance at 31 March</b>   | <b>(649)</b>     | <b>4,176</b>    | <b>(10)</b>      | <b>4,043</b>    |

## 19. Amounts due to National Loans Fund

|                                 | Group and BW             |                          |
|---------------------------------|--------------------------|--------------------------|
|                                 | 31 March<br>2004<br>£000 | 31 March<br>2003<br>£000 |
| Loans are repayable as follows: |                          |                          |
| In one year or less             | 600                      | -                        |
| Between one and two years       | 3,584                    | 600                      |
| Between two and five years      | 3,712                    | 6,272                    |
| In greater than five years      | 6,840                    | 7,864                    |
| <b>Total</b>                    | <b>14,736</b>            | <b>14,736</b>            |

### Details of individual loans:

| Maturity Date | Rate of Interest %             | Amount £000 | Maturity Date | Rate of Interest %             | Amount £000 | Maturity Date | Rate of Interest %             | Amount £000 |
|---------------|--------------------------------|-------------|---------------|--------------------------------|-------------|---------------|--------------------------------|-------------|
| 2 Oct 2004    | 15 <sup>1</sup> / <sub>4</sub> | 600         | 2 Apr 2007    | 13 <sup>3</sup> / <sub>4</sub> | 1,344       | 2 Apr 2012    | 10 <sup>1</sup> / <sub>4</sub> | 640         |
| 2 Apr 2005    | 14                             | 640         | 2 Oct 2007    | 13 <sup>5</sup> / <sub>8</sub> | 320         | 2 Apr 2012    | 9                              | 448         |
| 2 Apr 2005    | 14 <sup>5</sup> / <sub>8</sub> | 704         | 2 Apr 2008    | 12 <sup>1</sup> / <sub>8</sub> | 256         | 2 Oct 2012    | 9 <sup>1</sup> / <sub>2</sub>  | 714         |
| 2 Apr 2005    | 14 <sup>1</sup> / <sub>8</sub> | 640         | 2 Apr 2008    | 11                             | 768         | 2 Apr 2020    | 8 <sup>5</sup> / <sub>8</sub>  | 1000        |
| 2 Oct 2005    | 13 <sup>3</sup> / <sub>8</sub> | 960         | 2 Apr 2009    | 10 <sup>1</sup> / <sub>4</sub> | 896         | 2 Apr 2021    | 8 <sup>1</sup> / <sub>2</sub>  | 1000        |
| 2 Oct 2005    | 13 <sup>1</sup> / <sub>2</sub> | 640         | 2 Apr 2010    | 11 <sup>1</sup> / <sub>8</sub> | 576         | 2 Apr 2022    | 7 <sup>3</sup> / <sub>4</sub>  | 250         |
| 2 Apr 2006    | 14 <sup>1</sup> / <sub>4</sub> | 640         | 2 Apr 2010    | 10 <sup>7</sup> / <sub>8</sub> | 128         | 2 Apr 2023    | 5 <sup>7</sup> / <sub>8</sub>  | 250         |
| 2 Apr 2007    | 15 <sup>1</sup> / <sub>8</sub> | 384         | 2 Apr 2011    | 9 <sup>1</sup> / <sub>4</sub>  | 288         | 2 Apr 2024    | 5                              | 650         |

The government has decided to make capital contributions to BW to enable BW to repay those loans maturing before 2013 (£11.6 million) as they mature, thus removing from BW the need to take out new loans to repay them.

### Borrowing authorised by Defra

|   | 31 March<br>2004<br>£000 | 31 March<br>2003<br>£000 |
|---|--------------------------|--------------------------|
| Amount of debt due to National Loans Fund | 14,736                   | 14,736                   |
| Bank overdraft facility                   | 3,000                    | 3,000                    |
| <b>Borrowing authorised by Defra</b>      | <b>17,736</b>            | <b>17,736</b>            |

The bank overdraft facility is guaranteed by H.M. Treasury annually.

### Analysis of changes in financing during the year

|                     | 2003/04<br>£000 | 2002/03<br>£000 |
|---------------------|-----------------|-----------------|
| <b>Capital Debt</b> | <b>£000</b>     | <b>£000</b>     |
| At 1 April          | 14,736          | 16,336          |
| Loans repaid        | -               | (1,600)         |
| <b>At 31 March</b>  | <b>14,736</b>   | <b>14,736</b>   |

## 20. Capital Commitments

All capital commitments arise within BW. Capital expenditure for which BW has contracted at 31 March 2004 was £2,232,000 (2003: £4,424,000).

## 21. Operating Leases

At 31 March 2003 the minimum lease payments due in the following year under operating leases to which the Group was committed were as follows:

| Group                      | Land and buildings |            | Other operating leases |              |
|----------------------------|--------------------|------------|------------------------|--------------|
|                            | 31 March           | 31 March   | 31 March               | 31 March     |
|                            | 2004               | 2003       | 2004                   | 2003         |
|                            | £000               | £000       | £000                   | £000         |
| Leases due to expire       |                    |            |                        |              |
| Within one year            | 139                | 50         | 239                    | 163          |
| Within two to five years   | 778                | 187        | 1,158                  | 1,843        |
| In greater than five years | 815                | 750        | 52                     | 50           |
|                            | <b>1,732</b>       | <b>987</b> | <b>1,449</b>           | <b>2,056</b> |

| BW                         | Land and buildings |            | Other operating leases |              |
|----------------------------|--------------------|------------|------------------------|--------------|
|                            | 31 March           | 31 March   | 31 March               | 31 March     |
|                            | 2004               | 2003       | 2004                   | 2003         |
|                            | £000               | £000       | £000                   | £000         |
| Leases due to expire       |                    |            |                        |              |
| Within one year            | 139                | 50         | 239                    | 163          |
| Within two to five years   | 669                | 187        | 1,158                  | 1,843        |
| In greater than five years | 815                | 750        | 52                     | 50           |
|                            | <b>1,623</b>       | <b>987</b> | <b>1,449</b>           | <b>2,056</b> |

# Notes to the Accounts

## 22. Related Party Transactions

During the year, BW entered into a number of transactions with related parties in the normal course of business and at an arm's-length basis. The names of these parties, the nature of these transactions and their total value is shown below.

BW policy is to appoint Directors and senior members of staff to the Board of all group undertakings and other key partners to ensure that BW's interests are properly represented.

There are no further related party transactions arising within BW's wholly owned subsidiaries.

|   | Amount receivable / (payable)<br>during the year<br>£000 | Amount outstanding at<br>31 March 2004<br>£000 |
|---|--|--|
| Transactions with The Waterways Trust, a registered charity of which Sir Peter Soulsby (resigned November 2003) and Simon Salem (resigned March 2004) were trustees during the year |  |  |
| Fees paid for fundraising, archiving and support services   | (1,646)  | -  |
| Contribution to restoration works   | 28   | 55   |
| Transactions with the Millennium Link Trust a charitable company limited by guarantee of which Jim Stirling (Director, Scotland) is a Director                                      |  |  |
| Rent receivable   | 75   | -  |
| Rent payable  | (75)   | -  |
| Transactions with the Heritage Lottery Fund, a non-departmental public body of which Derek Langslow (Board Member) is a trustee   |  |  |
| Contribution to restoration works   | 1,295  | 17   |

## 23. Acquisition of Business

On 2 September 2003 BW increased its investment in Granary Wharf Ltd and Leeds Canal Basin (Developments) Ltd from 49% to 100% by purchasing the remaining 51% shareholding.

The following table sets out the fair value of the identifiable assets and liabilities to BW as at the date of acquisition.

|   | £000    | £000  |
|---|---------|-------|
| Tangible fixed assets acquired                  | 1,486   |       |
| Fair value adjustment                           | 5,484   |       |
| Fair value of tangible fixed assets             |         | 6,970 |
| Current assets                                  | 2,229   |       |
| Current liabilities                             | (1,542) |       |
|   |         | 687   |
| Fair value of net assets acquired               |         | 7,657 |
| Investment in associates on date of acquisition | 1,050   |       |
| Purchase consideration : cash                   | 3,498   | 4,548 |
| Goodwill on acquisition                         |         | 3,109 |

The fair value adjustment to fixed assets at the date of acquisition arises from an independent open market valuation of property.

## 24. Contingent Liabilities

Contingent liabilities arising from third party claims, valued at £4,600,000 (2002: £5,800,000), are not included in the balance sheet as it is not considered likely that the amounts will fall due for payment.

# Five Year Summaries

## PROFIT AND LOSS ACCOUNT

|   | BW Group*<br>2003/04<br>£000 | BW Group<br>2002/03<br>£000 | BW<br>2001/02<br>£000 | BW<br>2000/01<br>£000 | BW<br>1999/00<br>£000 |
|---|------------------------------|-----------------------------|-----------------------|-----------------------|-----------------------|
| <b>Direct income from:</b>  |                              |                             |                       |                       |                       |
| Property  | 53,057                       | 49,873                      | 40,040                | 36,391                | 24,695                |
| Leisure uses  | 20,435                       | 18,121                      | 15,566                | 13,971                | 11,808                |
| Commercial Uses   | 4,451                        | 4,449                       | 4,889                 | 6,089                 | 6,625                 |
| Contributions to non-statutory works                                  | 14,303                       | 27,866                      | 43,019                | 66,645                | 51,524                |
| Other Income  | 6,235                        | 7,422                       | 6,418                 | 5,087                 | 3,287                 |
| Maintenance agreements  | 4,126                        | 1,895                       | 1,047                 | 771                   | 750                   |
| Direct Income   | 102,607                      | 109,626                     | 110,979               | 128,954               | 98,689                |
| Government grant  | 94,770                       | 81,970                      | 64,637                | 62,055                | 58,673                |
| <b>Total revenue</b>  | <b>197,377</b>               | <b>191,596</b>              | <b>175,616</b>        | <b>191,009</b>        | <b>157,362</b>        |
| Operating (loss) / profit   | (3,778)                      | (19,450)                    | (9,938)               | (287)                 | 849                   |
| Share of operating profit and losses of associates and joint ventures | (946)                        | 1,059                       | -                     | -                     | -                     |
| Profit on sale of investment properties                               | 7,570                        | 3,771                       | 2,078                 | 5,103                 | 2,673                 |
| Profit on sale of other property rights                               | -                            | -                           | 45,882                | -                     | -                     |
| Exceptional costs of business reorganisation                          | (5,402)                      | -                           | -                     | -                     | -                     |
| Income from associated undertakings                                   | -                            | -                           | -                     | -                     | 170                   |
| Interest receivable net of (payable)                                  | 737                          | (34)                        | (1,472)               | (188)                 | (563)                 |
| Loss / (profit) for financial year before taxation                    | (1,819)                      | (14,654)                    | 36,550                | 4,628                 | 3,129                 |
| Taxation on profits   | 346                          | 4,362                       | (2,665)               | (73)                  | (277)                 |
| Loss / (profit) for financial year after taxation                     | (1,473)                      | (10,292)                    | 33,885                | 4,555                 | 2,852                 |
| Transfers to realised capital reserve                                 | (3,352)                      | (8,775)                     | (5,926)               | (5,030)               | (2,396)               |
| Revenue (loss) / profit retained                                      | (4,825)                      | (19,067)                    | 27,959                | (475)                 | 456                   |

## BALANCE SHEET

### Assets employed

|   |          |          |          |          |          |
|---|----------|----------|----------|----------|----------|
| Fixed assets  | 502,121  | 396,599  | 362,716  | 351,555  | 298,089  |
| Current assets  | 79,861   | 90,929   | 101,330  | 66,721   | 77,086   |
| Creditors - amounts falling due within one year         | 71,060   | 69,502   | 58,951   | 66,609   | 49,627   |
| Net current assets                                      | 8,801    | 21,427   | 42,379   | 112      | 27,459   |
| Total assets less current liabilities                   | 510,922  | 418,026  | 405,095  | 351,667  | 325,548  |
| Creditors: Amounts falling due after more than one year | (66,349) | (16,949) | (17,124) | -        | -        |
| Provisions for liabilities and charges                  | (12,484) | (13,021) | (12,452) | (33,188) | (31,635) |
| Deferred capital grant                                  | (13,344) | (14,130) | (10,469) | (7,251)  | (5,386)  |
|   | 418,745  | 373,926  | 365,050  | 311,228  | 288,527  |

### Financed By

#### Reserves

|          |         |         |         |         |         |
|----------|---------|---------|---------|---------|---------|
| Reserves | 404,009 | 359,190 | 348,714 | 294,492 | 270,341 |
| Debt     | 14,736  | 14,736  | 16,336  | 16,736  | 18,186  |
|          | 418,745 | 373,926 | 365,050 | 311,228 | 288,527 |

## INVESTMENT PROPERTIES

|  |         |         |         |         |         |
|--|---------|---------|---------|---------|---------|
| Net book value of investment properties (£000)     | 419,292 | 317,599 | 292,900 | 293,158 | 247,703 |
| Annual revaluation of investment properties (£000) | 43,460  | 25,224  | 15,752  | 18,239  | 23,372  |
| Rental yield per accounts                          | 6.8%    | 6.6%    | 6.3%    | 6.8%    | 6.9%    |

\*2002/03 was the first year that BW presented consolidated accounts. Comparatives for Group results are not included for years prior to 2002/03.

# ACCOUNTS DIRECTION

British Waterways Board direction given by the Secretary of State for Environment, Food and Rural Affairs in respect of the annual accounts.

The Secretary of State for Environment, Food and Rural Affairs in exercise of the powers conferred by section 24 of the Transport Act 1962 and of all other powers enabling her in that respect, and with the consent of the Treasury and in consultation with the Scottish Executive, hereby makes the following direction.

1. The annual accounts, which it is the duty of the British Waterways Board to prepare in respect of each accounting year until further notice, shall comprise in respect of BW:
  - (a) in respect of the Board and its subsidiaries
    - (i) a Board Members' Report
    - (ii) a Consolidated Profit and Loss Account
    - (iii) a Consolidated Statement of Recognised Gains and Losses
    - (iv) a Consolidated Balance Sheet; and
    - (v) a Consolidated Cash Flow Statement; and
  - (b) in respect of the Board (public corporation)
    - (i) a balance sheet;

including in each case such notes as may be necessary for the purposes referred to in paragraph 2.
2. The annual accounts referred to shall give a true and fair view of the profit or loss, state of affairs and cash flows of BW and its subsidiaries. Subject to the foregoing requirements, without limiting the information given, and save as described in Schedule 1 to this direction, the annual accounts shall also, where applicable, comply with:
  - (a) the accounting and disclosure requirements of companies legislation currently in force;
  - (b) the best commercial accounting practice as defined by UK Generally Accepted Accounting Practise (UK GAAP) and accounting standards adopted or issued by the Accounting Standards Board; and
  - (c) any additional disclosure or accounting requirements that the Treasury may issue from time to time in respect of public corporations' accounts.
3. The balance sheet shall be prepared under the historical cost convention modified by the revaluation of investment properties.
4. Clarification of the application of the accounting and disclosure requirements of the Companies Act and accounting standards is given in Schedule 1 to this Direction. The annual accounts shall include the information set out in Schedule 2 to this direction.
5. The Direction shall be reproduced as an annex to the annual accounts.
6. The Direction issued on 20 May 2002 is hereby revoked.

Dated 27 January 2003

Signed by authority of the  
Secretary of State

**J Roberts**

A Senior Civil Servant in the Department  
for Environment, Food and Rural Affairs.

## Schedule 1

In the balance sheet, loans from the Secretary of State shall be grouped with capital and reserves. Interest on these loans shall be separately disclosed in the profit and loss account. When preparing its balance sheet, BW shall have regard to the balance sheet format 1 prescribed in Schedule 4 to the Companies Act 1985. Items A to J in Format 1 shall be presented so as to show the total of those items separately from the totals of item K (capital and reserves). The disclosure exemptions permitted by the Companies Act for small and medium size companies do not apply unless approved by the Treasury.

## Schedule 2

- (I) The Board Members' Report shall
  - (a) contain the information which the Companies Act 1985 requires to be disclosed in the directors' report, where appropriate;
  - (b) state that the accounts have been prepared in a form notified by the Secretary of State with the consent of the Treasury in accordance with the relevant statute; and
  - (c) include a brief history and statutory background of BW.
- (II) The annual accounts, or the notes thereto, shall disclose: the turnover and other operating income, operating costs, each analysed as follows:
  - (i) BW (public corporation) to include an analysis of expenditure on:
    - (a) multiple use waterways;
    - (b) leisure waterways and;
    - (c) waterways not fully navigable.
      - (i) BW's subsidiary companies
      - (ii) BW's share of joint ventures and associates
  - (III) The annual accounts shall also disclose details of:
    - (a) rents receivable for the year showing separately rents from investment property and rents from other property;
    - (b) interests during the year in other transport undertakings and other trade investments;
    - (c) government grant received during the year reconciled to income from grant as shown in the profit and loss account;
    - (d) indebtedness to the Secretary of State (National Loans Fund) at the year end including details of maturity dates, interest rates and information about the use of BW's borrowing powers.
    - (e) the Chairman's and Board Members' emoluments for the year provided written consent has been obtained to disclosure under the Data Protection Act 1998 and if consent to disclosure is withheld then a statement to that effect against the name of the individual (this consent is not required where a requirement to disclose is a condition in the employment contract);
    - (f) staff costs for the year, excluding Non-Executive Board Members, according to categories of staff;
    - (g) a statement of the number of employees during the year, excluding board members, whose emoluments excluding pension contributions fell in each bracket of a scale in multiples of £10,000, starting at £50,000.
    - (h) a statement that the resource Departmental Expenditure Limit (DEL), capital DEL and resource annually managed expenditure budget limits set by the Department have not been exceeded.

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