

WATER INDUSTRY ACT 1991, SECTION 13
PROPOSALS BY THE DIRECTOR GENERAL OF WATER SERVICES FOR THE
MODIFICATION OF THE CONDITIONS OF APPOINTMENT OF
BOURNEMOUTH AND WEST HAMPSHIRE WATER PLC AS A WATER UNDERTAKER

THE PROCESS

This Notice seeks views on the proposed modifications described below. Any representations or objections must be sent in writing to the Director General of Water Services, Centre City Tower, 7 Hill Street, Birmingham, B5 4UA (fax, 0121-625 3606 or e-mail keith.mason@ofwat.gsi.gov.uk) to be received no later than 5.00pm on 23 June 2005.

DESCRIPTION OF THE PROPOSED MODIFICATIONS AND THE REASONS FOR THEM

Bournemouth and West Hampshire Water plc (the Company) is appointed as a water undertaker under the Water Industry Act 1991. On 14 April 2005, the Company cancelled its Preference Shares, the listing of the Preference Shares on the Official List maintained by the UK Listing Authority and their trading on the London Stock Exchange's main market for listed securities.

In order to finance the repayment of the Preference Shares and the repayment of certain of the Company's existing bank facilities, the Company has entered into new financing arrangements. The new arrangements will increase the level of debt of the appointed business.

The Director General of Water Services wishes to ensure that the Company's regulated business is ring-fenced from non-regulated activities which are carried out by its group. The Company must not, whether through its involvement in those non-regulated activities or by its dividend policy, put at risk its ability either to carry out its functions as a water undertaker or to finance those functions. The Company's Instrument of Appointment (its Appointment) currently contains the majority of ring-fencing conditions that are consistent with other water undertakers of a similar size and structure. To ensure that the Company's regulated business is appropriately ring-fenced, however, we will modify Condition F of its Appointment to require it to maintain an investment-grade corporate credit rating.

The Company's Appointment already contains Condition P, which requires it to obtain from its ultimate holding company legally-enforceable undertakings, applicable to all other companies in its group. These undertakings are designed to ensure that the Company has the active co-operation of its owners in complying with the conditions of its Appointment and with the proper discharge of its functions as a water undertaker.

The Company's ownership has not changed. In line with other water companies that have recently been involved in corporate activity, however, we will amend Condition P of the Company's Appointment to:

- require it to obtain undertakings from its ultimate controller(s) and its UK holding company;
- define what is meant by the 'ultimate controller' of a water company; and
- require the Company to obtain new undertakings from its new UK holding company or ultimate controller(s), should these change in the future.

Office of Water Services
26 May 2005