PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2011

Portsmouth Water Limited, a supplier of water to Hampshire and West Sussex, announced its results for the year to 31 March 2011.

HIGHLIGHTS

During the past year, Portsmouth Water has again maintained its reputation for supplying high quality drinking water, providing excellent levels of customer service and carrying out its functions in a low cost, efficient manner:

- 2nd highest performing Company in the Ofwat qualitative survey
- Lowest number of complaints in the industry
- Achieved the leakage target
- RoSPA Gold Medal for health and safety

- Financial performance impacted by:
  - 2009 Ofwat price Determination of a negative 4.8% price limit
  - Exceptional charge of £1.1m in respect of an impairment provision on Havant Thicket Winter Storage Reservoir Project

	2011	2010
Turnover	**£35.5m**	£37.3m
Operating profit	**£6.1m**	£8.9m
Profit before taxation	**£0.9m**	£9.0m
Net debt	**£87.1m**	£84.5m
Capital expenditure	**£9.6m**	£14.6m

CHAIRMAN'S STATEMENT

In the last year Portsmouth Water has continued to be recognised for excellent customer service and for its record on health and safety. A significant element of management time has, however, been focused on the Draft Water Resources Management Plan. In last year's report I advised that the Secretary of State at Defra had announced that the plan should be subject to a public inquiry. Following discussions with Defra and further revisions to the Plan, the inquiry was cancelled, but Defra advised that the revised plan was to be subject to a further public consultation. This consultation closed in November 2010 and after reflecting the representations to the consultation, the revised draft plan was submitted to the Secretary of State who is currently considering whether she will approve its publication.

A major revision in the Draft Water Resources Management Plan was the deferral of Havant Thicket Winter Storage Reservoir from its original completion date of 2021 to 2035. As part of its regulated price determination in 2004 the Company was allowed investment to undertake the preliminary planning and environmental studies for the construction of the reservoir. It was anticpated that a planning application would be made in 2010. The deferral of the project means that much of the work undertaken to date, particularly the environmental elements, will have to be repeated at the later date. The cost of the work undertaken to date is held as an asset, but in these circumstances the Board have decided to make an impairment provision against the value of that asset and as I indicated in my Interim Statement, an exceptional charge has been made in the financial results for 2011 of £1.1m.

In the financial results for the year, turnover fell by £1.8m (4.9%) to £35.5m and operating profit fell by £2.8m to £6.1m. This was principally due to the 2009 Price Determination which included a real reduction in charges for 2010/11 of 4.8%. Operating profit was further reduced by an increase of £0.9m in the pension service charge as calculated under FRS17. Operating costs excluding the FRS17 pension charge and depreciation reduced by 1.6%, this despite RPI at an average of 5% for the year, and shows out-performance against the level assumed in the Final Determination by Ofwat. Despite the reduction in profit, cashflow remained strong, with net cashflow from operations being £0.4m higher at £17.6m.

Capital Expenditure in the year to 2011 was £9.6m (2010 - £14.6m), and included £5.0m on mains renewals. This reduction reflects the reduced Capital Programme for the AMP5 period and that expenditure in 2010 was above the normal level as the AMP4 programme was completed.

I am pleased to report that Portsmouth Water has continued its excellent performance in delivering customer service. Over the last year Ofwat have been undertaking a quarterly telephone questionnaire on a sample of customers who have contacted their water company in order to establish the quality of the response to that contact. This is part of a new approach to measuring customer service and is known as the Service Incentive Mechanism. Part of this approach includes a qualitative survey of customers regarding the quality of service received and, in results published for 2010/11, Portsmouth Water was ranked joint second in performance out of 22 companies. In addition, the Consumer Council for Water has reported that for 2009/10, the Company received only 7 written complaints per 10,000 connections, compared to an industry average of 64. The level of complaints received was maintained at the same level for 2010/11.

Despite the dry weather in March and April this year, the groundwater aquifers which provide our water resources received sufficient recharge in the Autumn and Winter and therefore no restrictions are anticipated this summer. The winter of 2010/11 was regarded as one of the coldest for many years, and although the number of burst pipes increased in December and January, the Company again met its leakage target. Compliance with drinking water standards remains at a high level of 99.96%.

The health and safety of employees has the highest priority for the business and the effort and commitment of everyone at the Company was rewarded by the award of a Gold Medal from RoSPA. This award is in recognition of achieving five Gold Awards and an industry sector award in the last five years.

Over the last year, Ofwat have opened a debate about the future of regulation of the industry, how it can be improved and on the possible approaches to Market Reform. We support their efforts to move towards a risk based approach to regulation based on outcomes, rather than a micro management approach which has led to increasing information requirements and a process that has become overly complex. We do, however, have concerns at Ofwat proposals to have separate price limits for the retail and wholesale elements of the business at the next price review. We believe that this will considerably increase the burden on small companies without delivering any real benefits for the customer. Market Reform is still on Ofwat's agenda, but it needs the Government to specify and then legislate for the direction it wants the industry to take. A Water White Paper is expected in the Autumn in which the Government will give its views on the Cave Report on Market Reform which was published in 2009 and which advocated the careful introduction of competition into the industry.

The high level of performance achieved is a testament to the dedication and commitment of the employees and I would like to thank everyone for their efforts. A demanding price determination and the changing regulatory environment will present the Company with challenges, but we have made a good start, with excellent customer service performance and strong control of operating costs. I am confident that the management and employees can rise to the challenges ahead.

T. M. Lazenby MBE
Chairman

Financial Performance
The results for 2010/11 have been materially affected by the Price Determination by Ofwat published in November 2009 and the impairment of part of the investment in the Havant Thicket Winter Storage Reservoir following a revision to the Company's draft Water Resources Management Plan. The Price Determination included a real reduction of 4.8% in charges for customers for 2010/11 and this has resulted in a rebalancing of turnover and operating profit from the level achieved in 2009/10.

Profit before tax
Turnover for the year reduced by 4.9% to £35.5m. This reflected the 2009 Price Determination and a reduction in income from mains diversion work of £0.3m. and, largely as a result of these factors, operating profit reduced to £6.1m. from £8.9m. in 2010 as analysed below:

	2010/11 £m	2009/10 £m
Turnover	35.5	37.3
Operating costs excluding depreciation and the FRS17 pension charge	18.8	19.1
Operating profit before depreciation and FRS17 pension charge	16.7	18.2
Depreciation (including renewals)	8.3	7.9
FRS17 pension charge	2.3	1.4
Total Operating Profit	**6.1**	**8.9**

Operating costs, excluding depreciation and the FRS17 pension charge fell despite inflation (RPI) over the period of 5%. This was largely due to a fall in business rates following a re -evaluation in 2009 and a reduction in the amount provided for doubtful debts. The current service cost for the pension scheme increased by £0.9m. to £2.3m. reflecting the effect of falling bond yields on the calculation of the scheme's liabilities.

An exceptional charge of £1.1m. was made in respect of an impairment loss on the asset value of Havant Thicket Winter Storage Reservoir. At the Final Determination in 2004, the Company was provided with investment to undertake the preliminary planning and environmental studies for the construction of a reservoir at Havant Thicket. It was anticipated that this work would allow a planning application for the reservoir to be made in 2010. Total expenditure to date on this project amounts to £1.9m. This cost is held on the balance sheet as an asset. The current draft of the Water Resources Management Plan, on which a consultation was completed in November 2010 and is now with the Secretary of State for consideration, assumes the reservoir will not be required until 2033/34. Work on the reservoir is therefore now not expected to be started until 2025 and by that time a large element of the work undertaken to date will have to be redone, particularly the environmental studies. Under these circumstances it is not appropriate to carry the cost of this work as an asset and therefore an element of this has been impaired and written down.

Interest receivable at £1.2m (2010 - £1.4m) relates mainly to interest received from group companies and is based on Libor plus 1%. An increase in other finance income of £1.2m. to £1.9m. represents an increase in the expected return on Pension Fund assets.

Interest payable at £7.2m (2010 - £1.9m) includes £3.9m for indexation of the loan provided by Artesian Finance plc (2010 - negative £1.2m). The indexation of the loan for 2010 was based on RPI for July 2010 of 4.8%, whereas, RPI for July 2009 was negative 0.4%. Interest on the capital sum amounted to £3.1m. (2010 - £2.9m).

As a result of these factors, profit before tax reduced to £0.9m (2010 - £9.0m).

Taxation
The taxation charge at £0.2m was £3.0m lower due to the fall in pre-tax profit and the impact of the change in Corporation Tax rates on the deferred tax liabilities.

Dividends
The dividends paid during the year amounted to £3.385m (2010 - £4.663m). Dividends are paid up to the parent company and largely used to service debt held by the group.

Cashflow and Balance Sheet
Despite the reduction in Operating Profit net cashflow from operations was £0.4m. higher at £17.6m (2010 - £17.2m). This was the result of the following movements in Working Capital:

- A payment of £0.5m. for mains diversionary work undertaken for an associate company, the costs for which were incurred in 2009/10 and included in work in progress at March 2010 year end.
- An advance payment from Southern Water Services of £1.3m. in respect of monies falling due through to 2013 as part of the Bulk Supply Agreement.

Net debt (excluding deferred arrangement costs) at £88.3m (2010 - £85.8m) includes an index linked loan with a value of £85.3m. (2010: £81.4m.) The value is indexed each year by the previous July's recorded RPI. The increase in debt for the year is a result of this indexation. The level of gearing is an important ratio in the Company's loan covenants and is measured by the ratio of net debt to the Company's Regulatory Capital Value (RCV) which is determined by Ofwat at the 2009 Price Determination. The RCV is also indexed by RPI but at the March (year end) figure. The ratio is known as the Regulatory Asset Ratio. At the year end, the ratio was 76.7%.

Accounting Policies
The accounts have been prepared in accordance with the accounting policies described in note 1 to the accounts on pages 30 to 31 and with UK GAAP.

Under its licence of appointment, Portsmouth Water Limited, a private company, is required to publish information about its annual results as if it were a company covered by the Listing Rules of the Financial Services Authority. From April 2005, listed groups are required to prepare accounts in accordance with International Financial Reporting Standards (IFRS). It is the Company's view that these standards are not appropriate for a regulated water business and it has been granted exemption, by Ofwat, such that it need only adopt IFRS when non-listed companies are required by statute to do so.

The Company has changed its policy in respect of capitalisation of fixed assets, in that the employment costs and related overheads of the Capital Works department are allocated to the specific capital projects to which they are attributable. This is in line with the treatment by other water companies and the change has been made to provide more accurate reporting to Ofwat as part of Accounting Separation. The previous year's results shown in this respect have been restated to reflect this change.

Pensions
The Company accounts for the Brockhampton Pension Scheme in which it is the principal employer, in accordance with FRS17. The latest actuarial valuation carried out for the purposes of FRS17 showed a surplus after deferred tax of £21.0m (2010 - £9.8m). The actual gain before deferred tax of £14.9m. which is shown in the Statement of Total Recognised Gains and Losses (STRGL) on page 27 results partly from the statutory change in indexing pensions in payment from RPI to CPI and partly from the rise in asset values during the year.

In the most recent triennial actuarial valuation conducted at March 2008, the Scheme had a surplus of £17.1m. Until March 2010, the Company had not made contributions for a number of years. For the year ended 31 March 2011, the Company made contributions of £0.7m. this being at a rate of 12.4% of earnings.

The Company is currently in discussions with its employees regarding proposals to reduce the level of future benefits in the scheme. Under the proposals, new employees will receive a pension on a defined contribution basis although for existing employees their future benefit will remain on a defined benefit basis. The changes are being proposed to reduce the long term cost of providing pensions and to reduce the risks to the Company associated with defined benefits pensions.

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2011

	Notes	**2011** **£000**	2010 £000 (restated)
Turnover	2	**35,515**	37,342
Cost of sales		**(19,708)**	(19,493)
Gross profit		**15,807**	17,849
Net operating expenses	3	**(9,699)**	(8,993)
Operating profit		**6,108**	8,856
(Loss) on sale of fixed assets		**(8)**	(22)
Profit on ordinary activities before exceptional item		**6,100**	8,834
Exceptional item	10	**(1,086)**	-
Profit on ordinary activities before interest		**5,014**	8,834
Interest receivable	5	**1,178**	1,405
Other finance income	28	**1,897**	714
		8,089	10,953
Interest payable and similar charges	6	**(7,221)**	(1,944)
Profit on ordinary activities before taxation	7	**868**	9,009
Taxation on profit on ordinary activities	8	**(180)**	(3,198)
Profit for the financial year	20	**688**	5,811

The profit and loss account has been prepared on the basis that all operations are continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 March 2011

	Notes	**2011** **£000**	2010 £000 (restated)
Profit for the financial year		**688**	5,811
Actuarial gain/(loss) on pension scheme	28	**14,904**	(2,636)
Deferred tax relating to actuarial (gain)/loss on pension scheme	17	**(4,024)**	738
Effect of change to corporation tax rate on pension asset		**(226)**	-
Total recognised gains and losses relating to the year		**11,342**	3,913
Prior year adjustment		**389**	-
Total gains and losses recognised since last financial statements		**11,731**	3,913

The prior year adjustment results from a change in accounting policy in respect of the capitalisation of fixed assets, as detailed in note 1 to the accounts.

The accompanying notes form an integral part of these accounts.

BALANCE SHEET
As at 31 March 2011

	Note	**2011 £000**	**2011 £000**	2010 £000 (restated)	2010 £000 (restated)
Fixed assets					
Tangible assets	10	**95,876**		96,574	
Investments	11	**59,468**	**155,344**	59,468	156,042
Current assets					
Stocks		**520**		553	
Debtors	12	**4,698**		4,935	
Investments	13	**4**		4	
Cash at bank and in hand	14	**1,746**		1,931	
		6,968		7,423	
Creditors: amounts falling due within one year	15	**(17,243)**		(20,702)	
Net current liabilities			**(10,275)**		(13,279)
Total assets less current liabilities			**145,069**		142,763
Creditors: amounts falling due after more than one year	16		**(85,070)**		(80,136)
Provisions for liabilities	17		**(10,419)**		(10,272)
Net assets excluding pension asset			**49,580**		52,355
Pension asset	28		**20,969**		9,774
Net assets including pension asset			**70,549**		62,129
Capital and reserves					
Called up share capital	19		**1,078**		1,078
Share premium account	20		**1,539**		1,539
Capital redemption reserve	20		**3,250**		3,250
Profit and loss account	20		**64,682**		56,262
Shareholders' funds	21		**70,549**		62,129

The accompanying notes form an integral part of these accounts.
The accounts were authorised for issue and approved by the Board on 27 May 2011, and signed on its behalf by;

T. M. Lazenby MBE
Chairman

Company Number: 2536455

CASH FLOW STATEMENT

For the year ended 31 March 2011

	Notes	**2011 £000**	**2011 £000**	2010 £000	2010 £000
				(restated)	(restated)
Net cash inflow from operating activities	22		**17,556**		17,153
Returns on investments and servicing of finance					
Interest received		**1,177**		1,420	
Interest paid		**(3,283)**	**(2,106)**	(3,071)	(1,651)
Taxation					
UK corporation tax paid		**(858)**		(965)	
Payments for group relief		**(164)**	**(1,022)**	(797)	(1,762)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(10,626)**		(13,479)	
Sale of tangible fixed assets		**21**		12	
Capital contributions received		**877**	**(9,728)**	552	(12,915)
Equity dividends paid			**(3,385)**		(4,663)
Cash inflow/(outflow) before management of liquid resources and financing			**1,315**		(3,838)
Management of liquid resources					
(Purchase) of short term deposits			**(75)**		(55)
Financing					
(Repayment of)/new loans		**(1,500)**		2,000	
Loan repayments from Group company		**-**	**(1,500)**	1,165	3,165
(Decrease) in cash in the year	23		**(260)**		(728)

The accompanying notes form an integral part of these accounts.

NOTES

1. The financial information included in this announcement as regards the Company has been prepared in accordance with United Kingdom accounting standards and does not constitute statutory accounts for the relevant periods within the meaning of Section 434 of the Companies Act 2006.

2. Statutory accounts for the Company for the financial year ended 31 March 2010, upon which the auditors of the Company have given an unqualified report, have been delivered to the Registrar of Companies. Statutory accounts for the Company for the financial year ended 31 March 2011 will be delivered to the Registrar of Companies as soon as practicable after approval at the next Annual General Meeting.

For further information, please contact:

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