PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2010

Portsmouth Water Limited, a supplier of water to Hampshire and West Sussex, announced its results for the year to 31 March 2010.

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:

- The Company is again rated in Band A for operating cost efficiency by the industry regulator.
- The Company has continued to perform well in the customer service indicators used by the regulator to assess customer service.
- A high level of compliance with drinking water standards and water supplies maintained without any restrictions.
- The AMP4 capital expenditure programme was completed.
- Awarded a Gold Medal in the RoSPA Occupational Health and Safety Awards.
- The Company met its leakage target for 2009/10.

The key events which will have an impact on Portsmouth Water's performance in the next regulatory period are:

- The industry regulator announced its determination of price limits for the five years to 2015. On average the Company's prices will reduce by 2.1% per annum, excluding inflation.
- The Company's Water Resources Management Plan will be subject to a Public Inquiry in 2010.

	2010	2009
Turnover	**£37.3m**	£35.4m
Operating profit	**£8.3m**	£7.0m
Profit before taxation	**£8.5m**	£5.8m
Net debt	**£84.5m**	£82.9m
Capital expenditure	**£14.1m**	£11.8m

Portsmouth water
150 years of quality service

Chairman's Statement

It has been an important year for Portsmouth Water and its customers. In November 2009, Ofwat, the economic regulator for the water industry, announced its Final Determination of price limits for the five year period to March 2015 and Defra also advised the Company that it's 25 year Draft Water Resources Management Plan will be subject to a Public Inquiry. These two events will have a major influence on the long term service and security of supplies for customers and the outlook for future performance. In the year the Company has continued to provide its customers with excellent value for money and its water supply charges continue to be the lowest in the industry. It is worth recording that Portsmouth Water scores highly in all the customer service measures used by Ofwat and the Consumer Council for Water. The Company and all of its staff work hard to meet customers' expectations and the results of this are reflected in an exceptionally low level of complaints relative to the rest of the industry. It's approach to health and safety is also recognised by a fifth successive Rospa gold award.

Outlook

In the year to March 2010, the Company produced excellent financial results and maintained its high standards of customer service. Future performance will reflect the outcome of the Price Determination and our response to it. The Final Determination required a price reduction before inflation of 4.8% for 2010/11 and an average reduction of 2.1% each year over the five years. Whilst the Company did not believe this was the appropriate outcome for customers, as bills will be likely to significantly increase after 2015, the Board felt that the Company should focus on delivery of service to customers and that it could continue to meet its financial obligations without referring Ofwat's Determination to the Competition Commission for review.

As a result of the reduced income, a reduction in dividends will be required in the years ahead in part reflecting the lower cost of capital determined by Ofwat. Measures have been taken to address one of the key uncertainties in operating cost by fixing the Company's wholesale electricity price until December 2014 at levels significantly below the current contract price. Electricity costs represent 12% of total operating cost. Tight control of operating costs, whilst maintaining services to customers, will be key objectives in the next five years.

The Company has a strong record of delivery and with adequate financing in place, the Board is confident that the Company will meet its financial obligation to investors until the next price review.

Portsmouth Water's Draft Water Resources Management Plan set out how the Company would meet customers demand for water over the next 25 years. This included a number of measures to overcome rising demand and the impact of climate change, including the construction of a winter storage reservoir at Havant Thicket which was scheduled to be in service by 2022. Preliminary work on the feasibility of options and environmental assessments for the reservoir have already been undertaken. Under new statutory provisions Water Resources Management Plans now have to be approved for publication by the Secretary of State. In the case of Portsmouth Water, along with two other water companies, the Secretary of State has decided that a number of the assumptions used in the draft plan need to be explored at a Public Inquiry. As a result of this development, there is now uncertainty as to the timing of the reservoir. The Company remains committed to the case for the development of the reservoir and is convinced that, together with appropriate demand management measures, it represents the most suitable solution for maintaining the long term security of water supplies given the expected impacts of climate change.

2009/10 Performance

In the year ended March 2010, turnover increased by 5.5% to £37.3m primarily as a result of the tariff increases effective from July 2009. Operating profit rose by 18.9% to £8.3m as a result of the tariff increase but partly offset by an increase in energy costs.

In the light of these results, the Directors are recommending a final dividend of £1.885m, which will be paid in May 2010.

Portsmouth Water has continued to provide high levels of customer service. In the Overall Performance Assessment of Water Companies compiled by Ofwat for 2008/09, the Company was placed fifth out of 22 companies and had the lowest level of complaints in the industry. These standards of performance were maintained in the year to March 2010, although the final Ofwat assessments are not published until later in the year.

Compliance with drinking water standards remains at a high level at 99.98% and water supplies were maintained throughout the year without any restrictions. Groundwater levels are currently at a very high level and no restrictions are anticipated this summer.

Portsmouth Water continues to be regarded as one of the most efficient water companies and again succeeded in being placed in the highest band for operating efficiency by Ofwat.

Capital Expenditure in the year 2010 was £14.1m and included £7.0m on mains renewals. The five year AMP4 programme was completed at approximately £3.4m (6.0%) less than the amount allowed in the 2004 Ofwat Determination, mostly as a result of the effective purchasing on the three membrane filtration plants built in the period.

Health and Safety

The health and safety of employees has the highest priority for the business and in 2009 there were no RIDDOR reportable accidents. The effort and commitment of employees over the last few years was rewarded this year by the Company receiving 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.

The awards for health and safety and the high level of performance achieved are a testament to the dedication and commitment of the employees and the Board thanks them for their efforts. The 2009 Price Determination has presented the Company with a significant challenge for the next five years, but I am confident that the management and employees can rise to that challenge and maintain services to customers at industry leading levels.

T. M. Lazenby MBE
Chairman

Financial Performance

Profit before tax

Turnover for the year increased by 5.5% to £37.3m. This reflected the 4.0% overall tariff increase implemented in July 2009 and £0.5m of income for undertaking a mains diversion. As a result of this operating profit increased by 18.9% to £8.3m as analysed below:

	2009/10 £m	2008/09 £m
Operating profit before depreciation and FRS17 Pension Charge	17.6	16.4
Depreciation (including renewals)	7.9	7.7
FRS17 Pension Charge	1.4	1.7
Total Operating Profit	**8.3**	7.0

Operating costs, excluding depreciation and the FRS17 pension charge rose by £0.7m (3.7%), including an increase in electricity costs of £0.3m which reflected the full year effect from an increase in price as a result of the new electricity contract which took effect from November 2008. The current service cost for the pension scheme reduced by £0.3m to £1.4m following a review by the Actuaries in accordance with FRS 17. The Company did not make any contributions to the scheme.

Interest receivable at £1.4m (2009 - £4.5m) relates mainly to interest received from group companies and is based on Libor plus 1%. A reduction in other finance income of £1.0m represents a fall in the expected return on Pension Fund assets following a review by the actuaries in accordance with FRS 17.

Interest payable at £1.9m (2009 - £7.3m) includes £1.2m negative indexation of the loan provided by Artesian Finance plc (2009 - positive £4.0m). The indexation of the loan for 2010 was based on a fall in RPI for July 2009 of 0.4%, whereas, RPI for July 2008 was +5.0%. Interest on the capital sum amounted to £2.9m (2009 - £3.0m).

As a result of the higher turnover and lower interest costs, profit before tax increased to £8.5m (2009 - £5.8m).

Taxation

The taxation charge at £3.0m was £1.3m higher than last year as result of the higher profit and higher deferred tax, together with the effect of a refund received in the previous year.

Dividends

The dividends paid during the year amounted to £4.663m (2009 - £4.664m). Dividends are paid up to the parent company and largely used to service debt held by the group.

Cashflow and Balance Sheet

Net cashflow from operations at £16.6m (2009 - £16.7m) was unchanged from the previous year despite the increase in operating profit, largely as a result of the mains diversion work undertaken but not billed by the year end. Net cash outlay on fixed assets at £12.4m (2009 - £10.6m) reflected further progress on the mains renewal programme (£7.0m) and completion of the AMP 4 Quality programme. The mains renewal expenditure included replacement of a large raw water main at £0.9m.

Net debt at £84.5m (2009 - £82.9m) increased during the year as a result of the relatively large capital programme. At the year end, net debt to regulatory capital value (RCV) was 77.0% (2009 – 77.4%). The ratio for 2010 reflects the RCV arising from the 2009 final determination.

Interest Rate, Liquidity, Capital and Credit Risk

The major financial risks faced by the Company are interest rate, liquidity, capital and credit risks. The Company assesses these risks on an ongoing basis and its policies for managing them remain unchanged from previous periods.

The Company's exposure to interest rate fluctuations is now limited by the fixed interest rate applicable to the index-linked loan drawn in 2002, with inflation risks on the cost of the loan being effectively hedged against regulated revenues which are also linked to the RPI. Interest is charged at a fixed rate of 3.635% on the indexed amount of the loan. The indexed value of the loan at 31 March 2010 was £81.4m (2009 - £82.6m).

The Company seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs through an appropriate borrowing structure and to invest cash assets safely and profitably on the short term market. In 2009/10 all of the short term cash was deposited with the Company's Bankers, RBS. Short term liquidity is achieved through a £15m working capital facility and an overdraft arrangement. At the end of the year, £6.0m of this facility had been drawn (2009 - £4.0m), while the overdraft arrangement remained unutilised. The £15m facility terminates in March 2011 but the Company has had approval from its Bankers for a three year £10m facility to take effect from April 2011.

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so it can provide returns for shareholders and benefit to customers.

The capital structure is set at a level which provides an appropriate risk profile to ensure the Company can obtain finance at competitive levels. As is common in the water industry the Company monitors capital in the ratio of debt to Regulatory Capital Value (RCV). RCV is a measure of the Company's asset value used in the setting of prices in the water industry. The level of RCV is published by the regulator (Ofwat) on an annual basis. The ratio achieved for 2009/10 is shown below, and the details of the calculation are shown on page 46.

The Company's exposure to credit risk results from the continuing impact of bad debt on its ability to collect water revenues. It seeks to minimise this risk by utilising all available means, including the use of a dedicated debt recovery section, agencies for collecting outstanding debt and the following of best practice guidelines.

Accounting Policies
The accounts have been prepared in accordance with the accounting policies described in note 1 to the accounts on pages 33 to 34 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.

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 £9.8m (2009 - £12.2m).

Profit and Loss Account
For the year ended 31 March 2010

	Notes	2010 £000	2009 £000
Turnover	2	**37,342**	35,404
Cost of sales		**(20,037)**	(18,961)
Gross profit		**17,305**	16,443
Net operating expenses	3	**(8,993)**	(9,454)
Operating profit		**8,312**	6,989
(Loss) on sale of fixed assets		**(22)**	(37)
Profit on ordinary activities before interest		**8,290**	6,952
Interest receivable	5	**1,405**	4,537
Other finance income	28	**714**	1,676
		10,409	13,165
Interest payable and similar charges	6	**(1,944)**	(7,351)
Profit on ordinary activities before taxation	7	**8,465**	5,814
Taxation on profit on ordinary activities	8	**(3,043)**	(1,683)
Profit for the financial year	20	**5,422**	4,131

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 2010

	Notes	2010 £000	2009 £000
Profit for the financial year		**5,422**	4,131
Actuarial (loss) on pension scheme	28	**(2,636)**	(13,020)
Deferred tax relating to actuarial loss on pension scheme	17	**738**	3,646
Total recognised gains and losses relating to the year		**3,524**	(5,243)

The accompanying notes form an integral part of these accounts.

Balance Sheet
As at 31 March 2010

	Note	**2010 £000**	**2010 £000**	2009 £000	2009 £000
Fixed assets					
Tangible assets	10	**96,030**		90,459	
Investments	11	**59,468**	**155,498**	60,633	151,092
Current assets					
Stocks		**553**		415	
Debtors	12	**4,935**		4,032	
Investments	13	**4**		4	
Cash at bank and in hand	14	**1,931**		2,604	
		7,423		7,055	
Creditors: amounts falling due within one year	15	**(20,547)**		(17,054)	
Net current liabilities			**(13,124)**		(9,999)
Total assets less current liabilities			**142,374**		141,093
Creditors: amounts falling due after more than one year	16		**(80,136)**		(81,263)
Provisions for liabilities	17		**(10,272)**		(9,131)
Net assets excluding pension asset			**51,966**		50,699
Pension asset	28		**9,774**		12,180
Net assets including pension asset			**61,740**		62,879
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		**55,873**		57,012
Shareholders' funds	21		**61,740**		62,879

The accompanying notes form an integral part of these accounts.
The accounts were authorised for issue and approved by the Board on 26 May 2010, and signed on its behalf by;

T. M. Lazenby MBE
Chairman

Company Number: 2536455

Cash Flow Statement
For the year ended 31 March 2010

	Notes	2010 £000	2010 £000	2009 £000	2009 £000
Net cash inflow from operating activities	22		**16,599**		16,719
Returns on investments and servicing of finance					
Interest received		**1,420**		4,417	
Interest paid		**(3,071)**	**(1,651)**	(3,327)	1,090
Taxation					
UK corporation tax paid		**(965)**		(724)	
Payments for group relief		**(797)**	**(1,762)**	(1,284)	(2,008)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(12,925)**		(11,521)	
Sale of tangible fixed assets		**12**		19	
Capital contributions received		**552**	**(12,361)**	890	(10,612)
Equity dividends paid			**(4,663)**		(5,079)
Cash (outflow)/inflow before management of liquid resources and financing			**(3,838)**		110
Management of liquid resources					
(Purchase) of short term deposits			**(55)**		-
Financing					
New loans		**2,000**			-
Loan repayments from Group company		**1,165**	**3,165**		-
(Decrease)/increase in cash in the year	23		**(728)**		110

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 2009, 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 2010 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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