REGULATORY ACCOUNTS 2011

CONTENTS

OUR BUSINESS

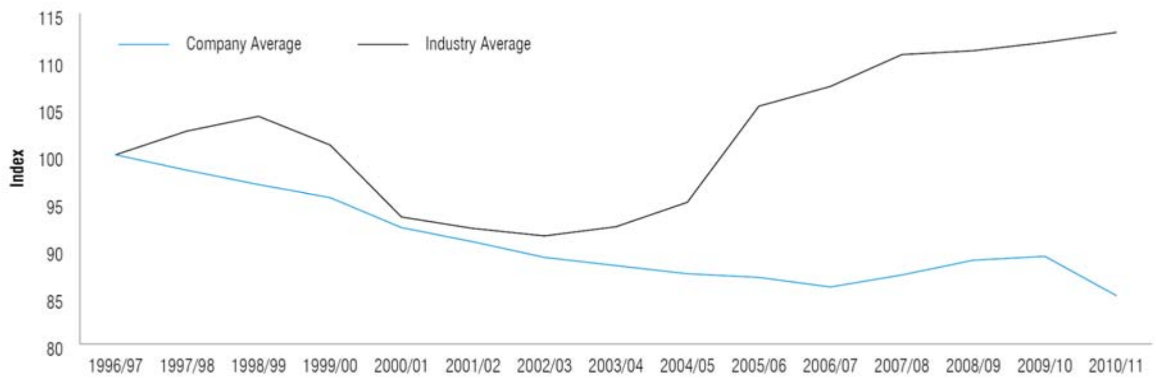
Portsmouth Water provides water to 304,000 homes and businesses in an area covering 868 square kilometres from the River Meon in Hampshire to the River Arun in West Sussex. The Company serves the cities and towns of Portsmouth, Chichester, Fareham, Gosport, Havant and Bognor Regis. On average, each day it supplies approximately 179 million litres of water through a network of over 3,270 kilometres of underground mains. Water supplied is derived from the chalk of the South Downs and is abstracted from wells, boreholes, springs and the River Itchen. The table below shows the major sources used by the Company during the year. The springs at Havant and Bedhampton, which provide 27% of the total supply, are thought to be the largest group of springs used for public supplies in Europe.

Source	**Actual 2010/11 Abstraction (Million Litres)**	**% of Supply 2010/11**	**% of Supply 2009/10**
Springs at Havant & Bedhampton	18,689	27	26
River Itchen	8,335	12	13
Boreholes, Wells & Adits	41,400	61	61
Totals	**68,424**	**100**	**100**

Water from the springs at Havant and Bedhampton is treated at the Farlington treatment works and there are also complex treatment works at the River Itchen, Lovedean, Soberton and Fishbourne. The last three works accounted for approximately 5% of supplies in 2010/11. Water from the remaining sources requires less sophisticated treatment.

Portsmouth Water's charges are the lowest in England and Wales, the average annual bill for water being £89 per household, the equivalent of 24p per day. In real terms, the price of water for household customers has fallen by 14.9% over the last 14 years. This compares with a real increase of 13% for the industry as a whole, as illustrated in the chart below, where the 1996/97 prices are indexed at 100:

Comparison of Average Household Bills with Average Industry Tariffs



The water industry is subject to a range of UK and EU legislation. Standards, particularly those relating to the environment, are being tightened on a regular basis and require increasing levels of investment. The standards of service provided by Portsmouth Water are monitored by three main regulators - the Water Services Regulation Authority (Ofwat) for setting prices and to ensure value for customers, the Environment Agency (EA) for environmental protection and the Drinking Water Inspectorate (DWI) for drinking water quality. Customers are represented by the Consumer Council for Water (CCW), which monitors the quality of service provided by the Company. Portsmouth Water works closely with these and other organisations interested in the services it provides.

Ofwat is the water industry's economic regulator, and its principal duties are exercised through the price-setting process. Ofwat sets price limits for Portsmouth Water every five years. The last determination of prices was in November 2009 for the period 2010 to 2015. The price setting process is known as the Periodic Review and involves a series of consultations between water companies, Ofwat and the other regulators over a two year period. The review examines all aspects of the business and requires the Company to submit a detailed Business Plan to Ofwat. Water companies are allowed to increase prices to customers annually by inflation (RPI) plus or minus the price limit set by Ofwat. The price limits reflect the revenue, which the regulator believes an efficient company needs in order to finance its operations and capital programme, after making an assessment of potential future efficiency gains.

The price limits set for the five year period to 2015 are as follows:

	2010/11	2011/12	2012/13	2013/14	2014/15
% (reduction) in bills before inflation	**(4.8)**	**(2.1)**	**(1.7)**	**(1.4)**	**(0.6)**

Long Term Resource Planning

Over the last twenty years, the Company has experienced falling demand for water, particularly from commercial customers. The future, however, is expected to see rising demand from domestic customers, with a significant house building programme planned in the Company's area of supply. The Company's strategy for ensuring there are sufficient water supplies to meet the demands of customers through to 2034/35 is set out in its Draft Water Resources Management Plan, the latest version being published in April 2011. The plan has been subject to two public consultations and all feedback has been taken into account and a Statement of Response to the representations received was published on our website in April 2011. The Plan requires the approval of the Secretary of State who is now considering it and in due course will advise us either to publish the plan, provide further information or decide that a public examination is required. The current Draft Plan has identified the key elements needed to manage water resources over the next 25 years and these are:-

- A compulsory metering programme utilising automatic meter reading technology over a 15 year period starting in 2015
- A 5 year programme of leakage savings delivering a 3 million litres per day leakage reduction starting in 2015
- The construction of a Washwater Recovery Plant at Farlington Treatment Works by 2017/18
- The development of Havant Thicket Winter Storage Reservoir filled by surplus water from the Havant and Bedhampton Springs between 2025 and 2035.

A key change from the 2004 Water Resources Plan is the deferral of the Havant Thicket Winter Storage Reservoir from 2021 to 2035.

The Company is committed to sustainable development. It must balance the provision of water supply with the needs of the environment and play a part in ensuring that the UK complies with European and National environmental legislation.

BUSINESS STRATEGY

Mission Statement

'We aim to supply drinking water of the highest quality, providing high levels of customer service and excellent value for money'

The Company has a well developed, focused strategy which will meet the demands of all its stakeholders. The key objectives are:

- To ensure customers enjoy reliable and secure supplies meeting all water quality standards.
- To maintain our standards of customer service as one of the highest in the industry.
- To provide value for money by continuing to focus on operational efficiency.
- To minimise the impact on the environment to ensure we have a sustainable long term future.
- To grow the business where appropriate utilising a good resource position to provide bulk supplies and trade water.
- To achieve returns consistent with retaining investor confidence.

The strategy will be achieved by focusing on five key issues:

- Having a well developed and frequently updated long term water resources plan, which will meet the needs of the customer, through secure water supplies, whilst respecting the environment
- Putting customers at the heart of everything we do, and ensuring that they continue to receive excellent value for money
- Maintaining our asset base.
- Setting goals for efficiency which outperform regulatory targets
- Maintaining a motivated workforce, whilst ensuring that the health and safety of employees is given the highest priority

The progress of the Company is measured by a number of key performance indicators (KPI) and these are highlighted in the following section of the Review.

CURRENT DEVELOPMENT AND PERFORMANCE

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 £6.0m. from £8.8m. in 2010 as analysed below:

	2010/11 £m	2009/10 £m
Turnover	35.5	37.3
Operating costs excluding depreciation and FRS17 pension charge	18.9	19.2
Operating profit before depreciation and FRS17 pension charge	16.6	18.1
Depreciation (including renewals)	8.3	7.9
FRS17 Pension Charge	2.3	1.4
Total Operating Profit	**6.0**	**8.8**

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 17 to 19 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 14 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.

Key Financial Performance Indicators

Gearing (net debt/regulatory capital value) and cash interest cover are recognised as key indicators for the Company. Performance in 2011 against the target ratios is shown in the table below.

KPI - 1[1]	**Target**	**Performance 2010/11**	**Performance 2009/10**
Gearing - Debt/RCV[2]	<83%	76.7%	77.0%
Cash interest cover[2]	>1.5	1.67	1.72

[1] Each KPI is defined in the Appendix on pages 45 and 46

[2] Definition of terms is contained in the Appendix on pages 45 and 46

Customer Service

For a number of years Ofwat have used the Overall Performance Assessment (OPA) to measure the performance of companies in relation to customer service. This is being replaced with a new measure, the Service Incentive Mechanism (SIM) which places greater emphasis on the quality of service received rather than the speed of response. Part of this is a qualitative assessment survey and the results of this are shown below, together with the OPA score for 2009/10. Therefore we show the results of both measures in the table below.

KPI – 2 Customer Service Measures	**Target**	**Performance 2010/11**	**Performance 2009/10**
Number of properties at risk of inadequate pressure	≤ 120	66	66
Properties affected by unplanned interruptions to supply >12 hours	Nil	Nil	Nil
Population subject to hosepipe bans	Nil	Nil	Nil
Billing contacts - answered within 5 days	100%	100%	100%
Written complaints - answered within 10 days **	100%	99.5%	100%
Bills for metered customers - number receiving bill based on meter reading	100%	100%	100%
Telephone contact - number of calls abandoned	≤ 2.5%	3.5%	2.9%
- all lines busy	≤ 0.7%	0.2%	0.1%
Overall Performance Assessment			
- position relates to 22 companies	<6th	4th	5th
Service Incentive Mechanism – qualitative survey element			
- position relates to 22 companies	<6th	2nd	n/a
Number of written complaints per 10,000 connections *	<10	7	7

* For 2009/10, the Industry average was 64 complaints per 10,000 connections.

** The Company had 201 written complaints, so the 99.5% represents one complaint taking longer than 10 days.

KPI - 3 Water Quality

The Company carries out an exhaustive programme of testing to ensure that water of the highest quality is supplied to customers. The table below shows the percentage number of samples which pass the strict standards set out in the Water Supply (Water Quality) Regulations.

Water Quality	**Target**	**Performance 2010**	**Performance 2009**
Compliance samples passing standards	99.95%	99.96%	99.98%

The water quality performance indicator relates to the calendar year.

Operating Efficiency

For many years Ofwat have published a report which included its assessment of the comparative operating efficiency of all water companies in England and Wales using econometric modelling. Portsmouth Water has always been ranked in Band A (mostly the highest or 2nd highest performing company). This benefited customers through relatively lower prices. Ofwat do not intend to publish this assessment in future, however they did use this relative performance to set efficiency targets for the 5 year period to 2015. As a result, Ofwat set an efficiency target of 0.25% per annum. The table below shows the outcome against this target.

KPI - 4 Efficiency

Target	**Performance 2010/11**
To achieve the Ofwat efficiency target of 0.25%	3.5%

Capital Investment

Gross capital investment during the year was £9.6m (2010 - £14.6m) and included £5.0m (2010 - £7.0m) on infrastructure renewals. After receiving capital contributions and infrastructure charges of £0.9m, net capital expenditure was £8.7m (2010 - £14.0m). Capital expenditure was high in 2009/10 as the Company concluded its AMP4 programme.

During the year the Company renewed 18.29km of mains (2010 - 23.7km) at a cost of £4.6m with the remaining cost on infrastructure renewals (£0.4m) being the settlement of a claim from a contractor for work on raw water mains carried out in 2009/10.

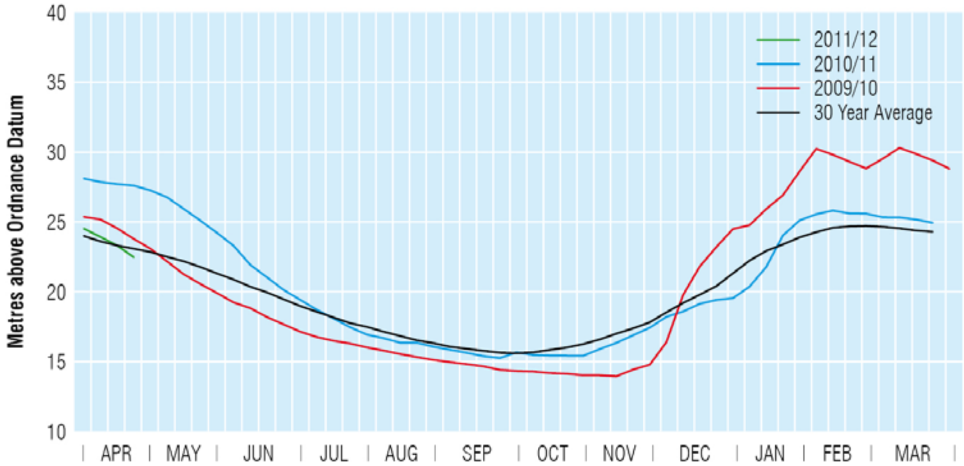
Gross expenditure on above ground assets at £4.6m included £0.8m for installing domestic meter options and £0.5m on the implementation of a new billing system. The remainder was on relatively small projects. In the Final Determination the Company was given an allowance of 5,000 domestic meter options per year, however in 2010/11 only 3,604 customers chose to switch to a measured supply. At March 2011, meter penetration for the Company was 19% of household customers.

Water Resources - Outlook for 2011

As detailed on page 1, 88% of water supplied to customers is from groundwater springs, boreholes and wells which abstract from the underground chalk of the South Downs. Groundwater levels are therefore critical to maintaining supplies to customers. The Company has for many years monitored the groundwater level at Idsworth Well, Rowlands Castle, which is unaffected by abstraction and is representative of groundwater conditions in the South Downs chalk.

At the end of April 2011, groundwater levels were close to the long term average as outlined on the graph below, which includes the thirty year long term average.

Idsworth Well



Water resources are therefore, despite the dry conditions in March and April, expected to be sufficient to meet peak demands in the summer of 2011 and a hosepipe ban is not expected in our area of supply.

Leakage

Leakage for the year was recorded at an average of 29.6Ml/d. The leakage targets were set out in the Company's Business Plan for the last Periodic Review and agreed by Ofwat as part of the Final Determination in 2009.

KPI - 5 Leakage

Target	Performance 2010/11
Average leakage of 29.7 Ml/d	Average leakage of 29.6 Mld

Employees

The Company employs 224 people and believes it recruits and retains the right people key to the successful performance of the business.

The Company is firmly committed to the development of its employees and that they should all have opportunities to reach their full potential and, as a result, a number during the year have undertaken Degrees, HNC's, NVQ's along with associated professional qualifications.

In line with this objective the Company fully supports the principle of Modern Apprenticeships; for example, all new employees within the Customer Services department aged under 25 are employed through the Modern Apprenticeship scheme which leads to a minimum NVQ level 2 qualification with many going on to achieve level 3.

A key part of staff development is the Company involvement with the Institute of Water. The Institute of Water is a professional body whose purpose is to promote the advancement of knowledge within the water industry. To this end, Area and National Committees organise meetings, seminars, technical visits and conferences, as well as a variety of social events. These activities provide a shop window for the latest technological developments in the industry and a forum for the discussion of major topics. The Company encourages its staff to belong to the IoW and gain the benefit for both their personal and professional development by attending these events.

Total absence for 2010/11 (days per employee per year) was 3.9 (2010 - 4.9). This figure compares favourably with the average for private sector employers, which stands at 7.4 (Source: CIPD: Absence Survey Report 2010).

Health and Safety

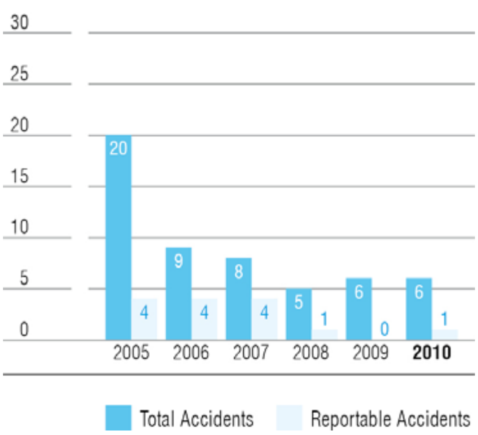
Health and safety of employees is considered fundamental to the success of the business and the Company is committed to achieving high standards across the organisation. The Company has put health and safety at the top of the agenda and from the Board down has made it a high priority.

Considerable time and resources have continued to be directed into raising the awareness of Health and Safety and the statistical results for the year 2010 show very positive results from these efforts, with only one reportable accident (accident causing more than three days' absence) being recorded.

Total Accidents and Reportable Accidents

It is pleasing to report that our efforts have again been recognised externally through the RoSPA Health and Safety Awards, by the Company being awarded the Gold Medal. This is in recognition of our Health and Safety record over the last five years where we have received five Gold awards and an Industry sector award. This award is again recognition of the efforts of all employees who should feel proud of their achievements in making the Company a safer place.

Total Accidents and Reportable Accidents



CORPORATE RESPONSIBILITY

Water Efficiency

During the year, a Water Efficiency Officer was appointed and a number of new initiatives were carried out and planned as part of an overall water efficiency strategy for the next four years.

Initiatives included a partnership with the website provider 'Save Water Save Money' who, upon request from a customer provides free water efficiency packs. Customers are able to select from a number of water efficiency appliances such as a save a flush bag, shower timer, twin tap inserts, a shower regulator and a number of information leaflets. In addition, all new metered customers received an enhanced meter pack which included water saving devices and there were also a number of media campaigns which included working with Paramount Pictures utilising the movie Rango, which featured a water efficiency message.

Water efficiency also featured in a number of our community activities including the Hampshire Water Festival and our education centre at Staunton Country Park.

Catchment Management

Portsmouth Water have established 'The Downs and Harbours Clean Water Partnership' with Natural England and the Environment Agency. The partnership's objective is to protect and improve drinking water quality and both river and coastal water quality.

A key issue for the Partnership is to try and ensure that there is no deterioration in the quality of our drinking water supplies which are taken from underground aquifers. This is achieved by advising land owners and farmers on the best practice for use of fertilisers and overall land management. This will prevent us in the future having to use expensive treatment processes to remove chemicals such as nitrate (found in fertilisers) from drinking water.

Work in the community

2010/11 has seen the Company continue to play a valuable role in supporting the local community.

This has included continued sponsorship of the popular Portsmouth in Bloom competition run by Portsmouth City Council and extending our education partnership with Staunton Country Park for a further 3 years. Both these partnerships help us promote sustainable gardening along with the efficient use of water and allow us to educate future and current generations on the need to save water.

A key community activity during 2010 was the Hampshire Water Festival, held at Staunton Country Park, which saw over 12,000 visitors over a weekend in July. The Company played a large part in the overall success of the event both from involvement in the organisation (the management committee), our work in producing high quality publicity materials along with the use of our bills for promoting the event and our activities over the weekend. The festival became a Company wide event with employees displaying an excellent commitment to deliver a strong water efficiency message in an entertaining way for families.

As part of our 'Water for Health' initiative, which promotes the benefits to children of drinking water, we again made available drinking water bottles at the subsidised cost of 30p per bottle to every child in a local primary, infant and junior school. This initiative remains very popular with 30,000 bottles delivered last year and which has seen nearly 260,000 water bottles delivered to local school children over a number of years.

The Company continue to offer community talks to local schools, colleges, clubs and groups such as Age Concern, Rotary and the Women's Institute as well as supporting local schools in activities such as Science Days.

WaterAid

The Company continues to support and promote the charity WaterAid to customers and staff. Over the last 30 years donations from our customers, together with fundraising efforts of our employees have raised a staggering £400,000 for WaterAid. It is estimated the average cost is only £15 per person for supplying a safe water supply to a village, combined with sanitation and hygiene education for life.

Environmental Performance

The Company recognises its impact on the environment and seeks to carry out its activities in a sustainable manner, which is highlighted by the initiatives shown below.

Conservation

The Company's total licensed area of supply covers an attractive part of Southern England between the South Downs and the coastal areas of Hampshire and West Sussex. It includes the historic cities of Portsmouth and Chichester, and the popular holiday resorts of Bognor Regis, Selsey and Hayling Island. The harbours of Portsmouth, Langstone, Chichester and Pagham have a number of important environmental designations under the EU Habitats Directive and are popular water activity venues.

Following the implementation of abstraction licence reductions at Havant and Bedhampton Springs and several sources in Sussex in order to protect habitats, the Company has agreed in principle a licence reduction for its Gaters Mill abstraction with the Environment Agency to preserve the River Itchen.

Biodiversity Action Plan

The Company's policy is to conserve and enhance the natural environment of its land and to preserve historic buildings and equipment, so far as is consistent with the primary duty of providing a sufficient supply of wholesome water at reasonable cost.

Sustainable Procurement

In procuring goods and services, the Company has a policy which seeks to ensure that its impact on the environment is minimised. This includes the use of low sulphur content diesel fuel, timber from replanted forests and predominantly recycled material for reinstatement.

RISKS AND UNCERTAINTIES

Risk Management

The Company identifies risks under six main headings - Operational, Water Quality, Financial, Environmental, Regulatory and Health and Safety of Employees. Individual risks facing the Company are identified and recorded in a risk register. For each risk the consequences, impact and likelihood of failure are identified, together with the management controls in place. The register also clearly allocates management responsibility and whether any further actions are required to control the risks.

The Board reviews the risk register and the controls established to mitigate these risks on an annual basis. It also receives regular reports on operational matters, including a monthly review of water quality matters directly with the Water Quality Manager and a quarterly review of health and safety matters with the Personnel and Safety Manager. The Directors also receive reports from independent regulatory bodies, which comment on the performance of the core water business.

The Audit Committee meets at least three times a year, monitors the effectiveness of the systems which are in place and reports to the Board as a whole.

Operational Risk

The key operational risks facing the Company are the loss of a treatment works or part of the mains network, which would result in a failure to supply water to customers. To mitigate this risk, the supply network has been enhanced over several years to connect different supply areas, such that in most situations water can be transferred to compensate for a failure at a treatment works. The Company also has a fully documented Emergency Plan which is initiated in the event of an incident, impacting either its ability to supply water to the public or resulting in a water quality issue.

Water Quality Risk

To ensure water quality standards are maintained, the Company has a fully documented Drinking Water Safety Plan which identifies the potential risks throughout the supply process. Water quality is also monitored by a comprehensive sampling regime in accordance with statutory legislation. Furthermore, a telemetry system linked to all treatment works provides an alarm to our 24 hour Operations Centre if there is a failure of equipment. The Company also maintains two days' storage of treated water in service reservoirs to provide sufficient time for any water quality issues at treatment works to be rectified before supply to customers. In addition, it has membrane filtration at five treatment works considered most at risk from cryptosporidium being present in the raw water.

Financial Risk

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 2011 was £85.3m (2010 - £81.4m).

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 2010/11 all of the short term cash was deposited with the Company's Bankers, RBS. Short term liquidity is achieved through a £10m working capital facility and an overdraft arrangement. At the end of the year, £4.5m. of this facility had been drawn (2010 - £6.0m), while the overdraft arrangement remained unutilised. The £10m facility, which terminates in August 2013, was arranged in August 2010 and replaced a £15m facility that was due for renewal.

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 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.

Financial Loss

The risk of financial loss is addressed through comprehensive insurance cover for a range of risks, including damage to property, public and employee liability, fraud and terrorism. A system of internal controls is in place to manage the risks. In early 2007, the Auditors conducted a special review of the Company's internal control systems. The review did not reveal any significant weaknesses and it has recently been updated to reflect system changes. A disaster recovery plan is also in place to enable the Company to operate in the event of an incident disrupting its computer systems. At a remote site ten miles from its Head Office, the Company has an additional mainframe computer, which is 'backed up' every evening, and several workstations for employees to operate.

Energy represents over 11% of total operating costs and fluctuating prices can have a material impact on profitability. To mitigate against the impact of price movements we have fixed the wholesale price of energy until December 2014 at a price considerably lower than we paid in 2010/11. The fixed price comes into effect in October 2011.

Environmental Risk

The major environmental risk faced by the Company at the present time is a potential loss of abstraction licence resulting from measures that may be required by the EA to allow the UK to comply with the Water Framework Directive. Over the next few years the Company will be undertaking a study to identify the impact of its abstraction at key points and to identify solutions where required.

The flooding in various parts of the UK during the summer of 2007 has prompted several national reports. Whilst the Company was not affected in 2007, it has conducted an assessment of the risks at each of its sites and included a small amount of expenditure which was allowed in the Final Determination of prices to remedy those sites where there is a risk of damage as a result of flooding.

Regulatory Risk

Regulatory risk relates to decisions taken by Ofwat at the five yearly price review and the potential failure to meet the level of service and capital programme agreed with Ofwat for the AMP 5 period, which could result in Ofwat taking action, including financial penalties. The price review is conducted in an open and transparent manner and the Company actively participates in the process. The performance against the regulatory targets is reviewed on a monthly basis by the Board or the Executive Directors. The annual performance against the targets is discussed on pages 4 to 5.

In the last 18 months, Ofwat have been reviewing their approach to Regulation and Future Price setting in their Programme 'Sustainable Water'. A key objective of this review is to reduce the regulatory burden and we support their efforts in this. We also support their proposals to focus on overall outcomes rather than continue with the intensive requirement for information and increasingly complex price reviews. For future price reviews Ofwat are proposing to include separate price limits for retail and wholesale elements. We are concerned that this will increase complexity and add to the burden for smaller companies.

Competition in the Water Industry

In 2008, the Secretary of State for Defra announced an independent review of competition and innovation in water markets. The review was to be led by Professor Martin Cave of Warwick University. The Final Report of this review was published in 2009, which concluded that the careful introduction of competition would help the Industry to meet the challenges it faced in the future.

The report proposed that competition should be introduced initially in retail for business customers and in water abstraction and then over time into upstream activity including treatment. A step by step approach was recommended to examine the benefit at each stage. The report also suggested that to obtain the full benefits of competition the whole retail element (household and business customers) should be separated from the vertically integrated water company as a separate business, even though only business customers would be the subject of competition.

Ofwat have been extremely active in considering how competition will work in the industry and have prepared a number of discussion papers and has continued to work on its accounting separation project which seeks to analyse cost into several business activities, including retail.

The Coalition government has indicated that it will publish a White Paper, possibly in the Autumn of 2011, in which it will give its view on the proposals for competition.

For its part the Company has participated in the discussions on the issues involved in market reform and is considering how it will respond to any changes. The Company is supportive of wider water trading and believes this can be achieved by offering greater incentive to companies to utilise bulk supplies. We also recognise that the introduction of retail competition for a greater number of business customers may well yield overall benefits, however it believes that wider market reform should only be pursued where the net benefit can be clearly demonstrated. We are not convinced that this is the case with the legal separation of the Retail Business unit. We have concluded that for small companies the costs will outweigh the benefits, which in any case we believe are vastly overstated.

Health and Safety

The health and safety of employees is taken very seriously and a number of initiatives have been introduced over several years to reduce the number of accidents and the impact of injury.

These include:

- A Health and Safety Committee comprising Management and the Trade Unions
- A risk assessment programme that has seen over 500 assessments produced
- A system of workplace inspection ensuring that all manned premises are inspected at least twice per year
- Specific training for those at high risk of injury
- A limited free physiotherapy service for employees to deal with injuries

N. J. Roadnight	**N. Smith**
Managing Director	Finance Director

23 June 2011

This report has been prepared in accordance with the requirements of the Companies Act 2006 and the Listing Rules of the Financial Services Authority.

INFORMATION NOT SUBJECT TO AUDIT

Remuneration Committee

The Remuneration Committee met once during the year to consider and approve, on behalf of the Board, the conditions of service of the executive Directors of the Company. It comprises the three independent non-executive Directors, Mr. R. L. Sullivan (Chairman of the Remuneration Committee), Mr. T. M. Lazenby MBE and Mr. R. J. Tennant.

The Level and Make-up of Remuneration

The objective is to attract, retain and motivate high calibre senior executives through pay arrangements which are competitive and fair and reasonable for the responsibilities involved. In addition to individual performance, reference is made to pay levels in companies of similar size and within the same industry.

The remuneration package of the executive Directors, as reported in the accounts, includes a performance related element. The salary of the executive Directors includes a performance related element, which is based upon the achievement of agreed financial, customer service and personal targets for the whole of the previous year.

The executive Directors have one year service contracts with the Company, which are in accordance with the 2008 version of the UK Corporate Governance Code (the 'Combined Code'). None of the executive Directors serves as a non-executive Director for another company. The non-executive Directors do not have service contracts.

The service contracts of the executive Directors include notice periods of one year, both by the Company and by the Director. There are no provisions for termination payments, other than payments for the period of notice.

Fees payable to the non-executive Directors are determined by the Board as a whole and reflect the time, commitment and responsibilities of the role.

No Director is involved in deciding his own remuneration.

INFORMATION SUBJECT TO AUDIT

Directors' remuneration:	**2011**	2010
	£000	£000
Total remuneration	**485**	531
Highest paid Director	**166**	162

Remuneration is analysed by Director below:

	Salary/Fees	Benefits	**Total 2011**	Total 2010
	£000	£000	**£000**	£000
Executive:				
J E Cogley	-	-	-	52
A R Neve	104	14	**118**	117
N J Roadnight	147	19	**166**	162
N Smith	111	15	**126**	129
Non-executive:				
T M Lazenby MBE (Chairman)	33	-	**33**	31
R L Sullivan	21	-	**21**	20
R J Tennant	21	-	**21**	20
	437	48	**485**	531

In the comparative year 2010 Mr N. Smith and Mr A. R. Neve received bonus payments of £6,000 and £3,000 respectively. This is included in salary/fees above.
Fees paid in respect of Mr. T. M. Lazenby MBE are paid to Seamab Consultancy Limited.
Benefits comprise company cars and medical insurance.
Mr J. E. Cogley left service on the 31 August 2009.

Long-term incentive schemes

The Company does not operate any long-term performance linked bonus scheme.

Share options

The Company does not operate an Executive Share Option Scheme.

The Directors' beneficial holdings of shares in South Downs Capital Limited, the ultimate parent undertaking, are detailed below and, in total, represent 15% of the issued share capital of that Company. They have no interests in the shares of Portsmouth Water Limited.

	'C' Ordinary Shares
A R Neve	30
N J Roadnight	55
N Smith	45

Mr J. E. Cogley left service on the 31 August 2009 but continues to have a beneficial holding of 20 shares in South Downs Capital Limited.

Pensions

The Company participates in the Brockhampton Pension Scheme to provide defined benefits based primarily on final pensionable pay for its employees, including the executive Directors. The maximum pension payable under this Scheme is 2/3 of final pensionable pay.

Benefits in kind relating to company cars are considered to be part of pensionable pay for all employees under the Scheme.

The executive Directors have accrued pension benefits under the Brockhampton Pension Scheme, which is a defined benefits scheme, during the year as detailed below:

	Increase in Accrued Pension During Year to 31 March 2011 £000	**Transfer Value of Increase £000**	**Accumulated Accrued Pension at 31 March 2011 £000**	**Accumulated Accrued Pension at 31 March 2010 £000**
J E Cogley[1]	-	-	-	69
A R Neve	1	14	77	74
N J Roadnight	2	42	103	97
N Smith	1	3	64	61

The accumulated accrued pension is the leaving service benefit to which the Director would be entitled to if he were to leave service at the end of the year. It includes any benefits earned as an employee prior to becoming a Director, as well as those earned for qualifying services after becoming a Director.

The increase in accrued pension excludes any increase for inflation, as measured by the Consumer Price Index.

The transfer value has been calculated on the basis of actuarial advice in accordance with the basis adopted by the Trustees of the Scheme for calculating cash equivalent transfer values (which is consistent with Actuarial Guidance Note GN11 as in force on 30 September 2008), except that the assumption for pension increases in deferment and payment has been adjusted to reflect the recent change in statutory pension increases from Retail Prices Index to Consumer Prices Index. The transfer value of the increase is then reduced by the amount of each member's contribution paid during the year.

[1]Mr J. E. Cogley left service on the 31 August 2009 and therefore his leaving service benefit is his entitled benefit using his actual date of leaving.

By order of the Board

T. M. Lazenby MBE
Chairman
Havant
23 June 2011

For the year ended 31 March 2011

	Notes	Appointed 2011 £000	Non Appointed 2011 £000	Total 2011 £000	Appointed 2010 £000 (Restated)	Non Appointed 2010 £000 (Restated)	Total 2010 £000 (Restated)
TURNOVER	2	35,450	65	35,515	37,306	36	37,342
Operating costs	3	(25,917)	(52)	(25,969)	(25,189)	(22)	(25,211)
Historical cost depreciation		(3,511)	-	(3,511)	(3,339)	-	(3,339)
Operating income	4	(8)	-	(8)	(22)	-	(22)
OPERATING PROFIT		6,014	13	6,027	8,756	14	8,770
Other income	5	-	73	73	-	64	64
Interest receivable	6	1,178	-	1,178	1,405	-	1,405
Other finance income	20	1,897	-	1,897	714	-	714
Interest payable and similar charges	7	(7,221)	-	(7,221)	(1,944)	-	(1,944)
Exceptional item	10	(1,086)	-	(1,086)	-	-	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		782	86	868	8,931	78	9,009
Taxation	8						
- Current Tax		(305)	(24)	(329)	(2,232)	(22)	(2,254)
- Deferred Tax		149	-	149	(944)	-	(944)
PROFIT FOR THE FINANCIAL YEAR		626	62	688	5,755	56	5,811
Dividends	9	(2,860)	(62)	(2,922)	(4,607)	(56)	(4,663)
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR		(2,234)	-	(2,234)	1,148	-	1,148

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2011

	Notes	Appointed 2011 £000	Non Appointed 2011 £000	Total 2011 £000	Appointed 2010 £000 (Restated)	Non Appointed 2010 £000 (Restated)	Total 2010 £000 (Restated)
Profit for the financial year		626	62	688	5,755	56	5,811
Actuarial gain(loss) on pension scheme	20	14,904	-	14,904	(2,636)	-	(2,636)
Deferred tax relating to actuarial (gain)/loss on pension scheme	18	(4,024)	-	(4,024)	738	-	738
Effect of change to corporation tax rate on pension asset		(226)	-	(226)	-	-	-
Total recognised gains relating to the year		11,280	62	11,342	3,857	56	3,913
Prior year adjustment		389	-	389	-	-	-
Total gains recognised since last financial statements		11,669	62	11,731	3,857	56	3,913

HISTORICAL COST BALANCE SHEET

As at 31 March 2011

	Notes	Appointed 2011 £000	Non Appointed 2011 £000	Total 2011 £000	Appointed 2010 £000 (Restated)	Non Appointed 2010 £000 (Restated)	Total 2010 £000 (Restated)
FIXED ASSETS							
Tangible	10	90,657	-	90,657	91,622	-	91,622
Investments							
- Loan to group company	11	59,468	-	59,468	59,468	-	59,468
- Other	13	4	-	4	4	-	4
		150,129	-	150,129	151,094	-	151,094
CURRENT ASSETS							
Stores		520	-	520	553	-	553
Debtors	12	4,698	-	4,698	4,935	-	4,935
Cash and short-term deposits	14	1,746	-	1,746	1,931	-	1,931
Infrastructure renewals prepayment		3,747	-	3,747	3,480	-	3,480
		10,711	-	10,711	10,899	-	10,899
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR							
Borrowings	15	(4,784)	-	(4,784)	(6,284)	-	(6,284)
Corporation tax payable		(189)	-	(189)	(897)	-	(897)
Unpaid dividend		(1,412)	-	(1,412)	(1,875)	-	(1,875)
Creditors	16	(10,858)	-	(10,858)	(11,646)	-	(11,646)
NET CURRENT LIABILITIES		(6,532)	-	(6,532)	(9,803)	-	(9,803)
TOTAL ASSETS LESS CURRENT LIABILITIES		143,597	-	143,597	141,291	-	141,291
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR							
Borrowings	17	(85,070)	-	(85,070)	(80,136)	-	(80,136)
PROVISIONS FOR LIABILITIES							
Deferred Taxation	18	(10,419)	-	(10,419)	(10,272)	-	(10,272)
NET ASSETS EXCLUDING PENSION ASSET		48,108	-	48,108	50,883	-	50,883
Pension asset	20	20,969	-	20,969	9,774	-	9,774
NET ASSETS INCLUDING PENSION ASSET		69,077	-	69,077	60,657	-	60,657
CAPITAL AND RESERVES							
Called up share capital		1,078	-	1,078	1,078	-	1,078
Share premium account	19	1,539	-	1,539	1,539	-	1,539
Capital redemption reserve	19	3,250	-	3,250	3,250	-	3,250
Profit and loss account	19	63,210	-	63,210	54,790	-	54,790
		69,077	-	69,077	60,657	-	60,657

For the year ended 31 March 2011

	Statutory UK GAAP £m	Regulatory £m	Commentaries
PROFIT AND LOSS ACCOUNT			
Operating profit	6.108	6.027	See a) below
BALANCE SHEET			
Tangible fixed assets (net book value)	95.876	90.657	See b) below

a) The difference relates to the way these figures have been presented in both sets of accounts. In the Statutory Accounts, this figure excludes the (£0.008m) for loss on sale of fixed assets as it is reported below the operating profit line in the profit and loss account, but includes other income of £0.073m. In the Regulatory Accounts the amount shown includes the (£0.008m) for loss on sale of fixed assets but reports the other income below the operating profit line.

b) The difference relates to the different accounting treatments for infrastructure renewals accounting in each set of accounts. In the Statutory Accounts the Company has followed common industry practice and adopted the infrastructure renewals accounting policy as set out in FRS 15. This has not been applied in the Regulatory Accounts, at the request of Ofwat.

1 ACCOUNTING POLICIES

The accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and with the provisions of the Companies Act 2006, except for the treatment of capital contributions as detailed in note 1.(c), and the non-application of FRS 15 for infrastructure renewals accounting, as required by Ofwat for the purposes of producing the regulatory accounts.

In view of the licence conditions under which the Company operates as a water supplier, it has to publish information about its annual results as if it were a company covered by the Listing Rules of the Financial Services Authority, except where it is considered inappropriate to do so. Earnings per share disclosures required by FRS 22 are not presented as the Company is a wholly owned subsidiary.

The principal accounting policies which have been applied consistently are as follows:

(a) Turnover

Turnover, which excludes value added tax, represents the income receivable for goods and services provided to external customers in the ordinary course of business. It comprises the value of water supplied and other related charges. Turnover from the regulated water business includes amounts billed for the year, together with an estimation of amounts unbilled at the year end, for measured water customers. Unmeasured income bills are based on the rateable value of properties. Measured income arises from customers who have meters fitted at their premises and amounts billed, therefore, are based on actual water consumption. The estimation of the amounts unbilled at the year end uses a defined methodology based upon a measure of unbilled water consumed, which is calculated from historical customer data.

The Company does not make any provision for revenue recognition in accordance with Note G of FRS5, therefore the revenues reported in these regulatory accounts are identical with those reported in the statutory accounts. Irrecoverable amounts are not provided for, but are written off on an ongoing basis over the course of the year as they are identified.

All properties on the customer database are billed at the commencement of the billing year. Properties which are unoccupied or unfurnished are then written off during the year, following either contact from the customer and/or an inspection of the property carried out by the Company. Normal charges apply to furnished unmetered vacant properties.

A metered customer can request their supply to be temporarily turned off, after which they will not be charged until their supply is restored. Disconnected properties are not charged.

A property which is believed to be occupied, but the occupier's details are not known, is charged once the occupier's details are established.

Cash received from 'charges on income' is not treated as revenue, but is applied to reduce the outstanding debt derived from the turnover recognition policy. When the income was invoiced or accrued, it was recognised in line with the accounting policy.

Revenue from new properties is recognised from the date the meter is installed and the customer details have been obtained. Properties are only added to the billing system, once sufficient details have been obtained.

(b) Fixed assets

(i) Infrastructure assets - mains

Infrastructure assets comprise a network of systems. Expenditure on infrastructure assets relating to increases in capacity or enhancement of the network is treated as an addition and included in tangible fixed assets at cost. Expenditure on maintaining the operating capability of the network is classified as infrastructure renewals expenditure and charged as an operating cost. The cost of infrastructure assets is their purchase cost together with incidental expenses of acquisition and directly attributable labour costs which are incremental to the Company.

No depreciation is charged on infrastructure assets because the network is required to be maintained in perpetuity and therefore has no finite economic life.

(ii) Other assets

Other assets comprise buildings and reservoirs, pumping plant, vehicles, mobile plant and office equipment. The cost of other assets is their purchase cost together with incidental expenses of acquisition and directly attributable labour costs which are incremental to the Company. Depreciation is provided on all other fixed assets with the exception of freehold land. It is calculated to write off the cost of assets less estimated residual values over their estimated useful economic lives using the straight line method. Those lives are estimated as follows:

Buildings and Reservoirs	100 years
Pumping Plant	15-25 years
Vehicles and Mobile Plant	5-7 years
Office Equipment	7 years

(c) Capital contributions

(i) Mains contributions

In certain circumstances third parties make non-returnable contributions towards the cost of specific infrastructure assets. They are treated as capital contributions and the Directors consider it appropriate that, in order to present a true and fair view, they should be deducted from fixed assets, as shown in note 10 to the accounts on page 23. In accordance with the Companies Act 2006 requirement to include fixed assets at cost, such contributions would normally be treated as deferred income and released to the profit and loss account over the useful life of the corresponding assets. However, the assets to which they relate do not have determinable finite lives and, accordingly, no basis exists on which to recognise those contributions as deferred income.

(ii) Infrastructure charges

Infrastructure charges are made in respect of new connections in accordance with Condition 'C' of the Instrument of Appointment. These charges are treated as capital contributions and deducted from fixed assets, as more fully explained in note 1.(c)(i) above.

(d) Investments

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

(e) Stocks

Stocks of raw materials are valued at the lower of cost or net realisable value. In accordance with established practice in the water industry, no value is placed upon the water in reservoirs, mains or in the course of treatment.

(f) Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or the right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

The deferred tax balances have been discounted using a post-tax yield to maturity that could be obtained at the balance sheet date on government bonds with maturity dates similar to when the timing differences are expected to reverse.

(g) Leases

All leases are regarded as operating leases. Operating lease payments are charged to the profit and loss account on a straight line basis over the period of the lease.

(h) Pension costs and other post retirement benefits

Portsmouth Water Limited is the principal employer and its parent company, Brockhampton Holdings Limited, is the participating employer in the Brockhampton Pension Scheme. This scheme is a defined benefit scheme. The assets of the scheme are held in a separate trustee administered fund.

The current service costs are charged to the profit and loss account and included as staff employment costs. The interest cost and expected return on assets are shown as a net amount within other finance income. Actuarial gains and losses are recognised immediately in the Statement of Recognised Gains and Losses.

Pension scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted to their present value using the AA corporate bond rate.

Pension scheme assets are valued at market value at the balance sheet date. The pension scheme surplus is recognised in full on the balance sheet.

The deferred tax relating to a defined benefit asset is offset against the defined benefit asset and not included with other deferred tax liabilities.

Detailed information regarding the surplus and actuarial position of the scheme is given in note 20 to the accounts on pages 28 to 30.

(i) Financial instruments

When a financial asset or liability is recognised initially it is measured at its fair value plus or minus transaction costs. The Company subsequently categorises financial instruments as follows:

Fixed asset investments consist of loans to Group undertakings, which earn interest based on London Interbank rates and are classified as loans and receivables. They are measured at amortised cost.

Other financial assets consist of short term bank deposits and debtors and are classified as loans and receivables. They are measured at amortised cost.

The Company's financial liabilities consist of fixed rate borrowings in the form of perpetual debentures and an index linked loan. These instruments are classified as other liabilities and are measured at amortised cost.

Change in Accounting Policy

The Company has changed its policy in respect of the capitalisation of fixed assets, in that the employment costs and related departmental overhead of the capital works department are allocated to the specific capital projects to which they are attributable.

The effect of this change in accounting policy was to:

(i) Increase operating profits by £0.462m. (2010 - £0.544m.)

(ii) Increase profits after taxation by £0.329m. (2010 - £0.389m.)

(iii) Increase fixed assets by £0.357m. (2010 - £0.388m.)

(iv) Increase net current liabilities by £0.028m. (2010 - decrease of £0.001m.)

(v) Increase profit and loss account reserve by £0.329m. (2010 - £0.389m.)

2. TURNOVER

	Appointed 2011 £000	Non Appointed 2011 £000	Total 2011 £000	Appointed 2010 £000	Non Appointed 2010 £000	Total 2010 £000
Unmeasured supplies	21,201	-	21,201	22,572	-	22,572
Measured supplies	10,427	-	10,427	10,197	-	10,197
Measured large users	2,115	-	2,115	2,543	-	2,543
SWS Bulk Supply	561	-	561	518	-	518
Third party services	1,052	65	1,117	1,377	36	1,413
Other sources	94	-	94	99	-	99
	35,450	65	35,515	37,306	36	37,342

3. ANALYSIS OF OPERATING COSTS

This note has been prepared in accordance with Condition 'F' of the Company's Instrument of Appointment.

	Appointed 2011 £000	Non Appointed 2011 £000	Total 2011 £000	Appointed 2010 £000 (Restated)	Non Appointed 2010 £000 (Restated)	Total 2010 £000 (Restated)
Manpower costs	8,606	5	8,611	7,552	18	7,570
Other costs of employment	192	-	192	171	-	171
Power	2,459	-	2,459	2,328	-	2,328
Rates	2,338	-	2,338	2,475	-	2,475
Hired and contracted services	3,570	35	3,605	4,050	-	4,050
Materials and consumables	1,344	12	1,356	1,529	4	1,533
Service charges	1,953	-	1,953	1,804	-	1,804
Infrastructure renewals charge	4,747	-	4,747	4,561	-	4,561
Provision for bad and doubtful debts	519	-	519	630	-	630
Other operating costs	189	-	189	89	-	89
	25,917	52	25,969	25,189	22	25,211

4. OPERATING INCOME

	Appointed 2011 £000	Non Appointed 2011 £000	Total 2011 £000	Appointed 2010 £000	Non Appointed 2010 £000	Total 2010 £000
(Loss) arising on disposal of fixed assets	(8)	-	(8)	(22)	-	(22)

5. OTHER INCOME

	Appointed 2011 £000	Non Appointed 2011 £000	Total 2011 £000	Appointed 2010 £000	Non Appointed 2010 £000	Total 2010 £000
Rents	-	69	69	-	59	59
Home Assistance Service	-	4	4	-	5	5
	-	73	73	-	64	64

6. INTEREST RECEIVABLE

	2011 £000	2010 £000
Loan to Group Company	1,161	1,381
Repayment interest	3	-
Interest on short term deposits	12	16
Other interest receivable	2	8
	1,178	1,405

7.	INTEREST PAYABLE AND SIMILAR CHARGES		2011 £000	2010 £000
	£66.5m loan	- interest	3,062	2,937
		- indexation	3,890	(1,184)
		- amortisation of fees	57	57
		- administration expenses	25	25
			7,034	1,835
	Other bank loans and overdraft		170	94
	Debenture stocks		10	10
	Other interest payable		7	5
			7,221	1,944

8.	TAXATION	2011 £000	2010 £000 (Restated)
	Current tax		
	United Kingdom corporation tax at 28% (2010 - 28%)	334	2,257
	Adjustment in respect of prior periods	(5)	(3)
		329	2,254
	Deferred tax		
	Origination and reversal of timing differences	486	1,192
	Decrease/(increase) in discount	28	(51)
	Effect of change to corporation tax rate	(367)	-
	Difference between pension cost charge and pension cost relief	66	(197)
	Effect of change to corporation tax rate on pension asset	(362)	-
		(149)	944
	Tax on profit on ordinary activities	180	3,198

The tax charge for the year is higher (2010 - lower) than the standard rate of corporation tax in the UK of 28% (2010 - 28%). The difference is explained as follows:

	2011	2010
Profit on ordinary activities before tax	868	9,009
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2010 - 28%)	243	2,523
Effect of:		
Expenses not deductible for tax purposes316	19	
Capital allowances for the period in excess depreciation	(343)	(606)
Revenue items charged to capital	186	124
Difference between pension cost charge and pension cost relief	(68)	197
Adjustments to tax charge in respect of prior periods	(5)	(3)
Current tax charge for year	329	2,254

9.	DIVIDENDS	2011 £000	2010 £000
	Equity: Ordinary/'A' Ordinary		
	- interim paid	1,037	2,050
	- final paid	1,885	2,613
		2,922	4,663

The Directors have approved the payment of a final dividend of £1.192m for the year ended 31 March 2011, payable in May 2011.

Dividend Policy

The Company's dividend policy is to maintain operational dividends in line with a payment which is based on 5% of the equity value of the opening Regulatory Capital Value for the year in question. The second part of the dividend is the recirculation of the inter-company interest received by Portsmouth Water on its loan to South Downs Limited. This payment is made net of any group tax relief surrendered.

10. TANGIBLE FIXED ASSETS

	Operational Assets £000	Infrastructure Assets £000	Other Tangible Assets £000	Total £000
HISTORICAL COST				
At 1 April 2010	81,255	45,756	12,729	139,740
Prior year adjustment	294	104	-	398
At 1 April 2010 (Restated)	81,549	45,860	12,729	140,138
Additions	1,403	1,374	1,761	4,538
Disposals	(187)	-	(221)	(408)
At 31 March 2011	82,765	47,234	14,269	144,268
DEPRECIATION				
At 1 April 2010	20,955	-	8,221	29,176
Prior year adjustment	10	-	-	10
At 1 April 2010 (Restated)	20,965	-	8,221	29,186
Charge for year	2,264	-	1,247	3,511
Impairment loss	1,086	-	-	1,086
Disposals during year	(168)	-	(211)	(379)
At 31 March 2011	24,147	-	9,257	33,404
NET BOOK VALUE				
At 31 March 2011	58,618	47,234	5,012	110,864
At 1 April 2010 (Restated)	60,584	45,860	4,508	110,952
CAPITAL CONTRIBUTIONS				
At 1 April 2010	-	19,330	-	19,330
Received during year	-	877	-	877
At 31 March 2011	-	20,207	-	20,207
NET BOOK VALUE AFTER DEDUCTING CAPITAL CONTRIBUTIONS				
At 31 March 2011	58,618	27,027	5,012	90,657
At 1 April 2010 (Restated)	60,584	26,530	4,508	91,622

Included within operational assets at cost was an amount of £1.897m. relating to a capital project involving the design and construction of a winter storage reservoir at Havant Thicket. Costs incurred to date were in respect of the initial design, planning application and environmental impact studies. This project is not now expected to be started until 2025 and therefore it was considered appropriate to make an impairment provision in respect of those elements of the project which will have to be redone in the future. The impairment loss amounts to £1.086m. and has been shown as an exceptional item in the profit and loss account on page 13.

In the preparation of its Statutory Accounts, the Company has followed common industry practice and adopted the infrastructure renewals accounting basis as set out in FRS 15 : Tangible Fixed Assets. However, for the purposes of the Regulatory Accounts, Ofwat has requested that FRS 15 is not applied for infrastructure renewals accounting, thereby providing a basis consistent with prior years. There has been no change to this policy in 2010/11. A reconciliation to the balance sheet shown in the Statutory Accounts is provided below:

	Infrastructure Assets £000
COST	
Cost at 31 March 2011 per Regulatory Accounts	47,234
Adjustment to opening balance	31,136
Infrastructure renewals expenditure capitalised since 1 April 1999	48,535
Disposals since 1 April 1999	(2,683)
Cost at 31 March 2011 per Statutory Accounts	124,222
DEPRECIATION	
At 31 March 2011 per Regulatory Accounts	-
Adjustment to opening balance	31,136
Depreciation charge for infrastructure renewals since 1 April 1999	43,316
Disposals	(2,683)
At 31 March 2011 per Statutory Accounts	71,769
NET BOOK VALUE	
At 31 March 2011 per Regulatory Accounts	47,234
Adjustments for infrastructure renewals accounting since 1 April 1999	5,219
At 31 March 2011 per Statutory Accounts	52,453

11. FIXED ASSET INVESTMENT

	Loan to Group Undertakings £000
At 1 April 2010 and 31 March 2011	59,468

12. DEBTORS

	2011 £000	2010 £000
Trade debtors	1,878	1,912
Amounts owed by Group companies	28	23
Prepayments and accrued income	2,420	2,771
Other debtors	372	229
	4,698	4,935

All of the above amounts fall due within one year

As at 31 March 2011, trade debtors had a carrying value of £4.126m (2010 - £4.100m) before provision for bad debt. Trade debtors in arrears are provided for in full, but only an element of current debt is provided for. The amount of the provision was £2.248m as at 31 March 2011 (2010 - £2.188m).

The ageing of these debtors was as follows:

	2011 £000	2010 £000
Up to 12 months	2,006	2,182
Over 12 months	2,120	1,918
	4,126	4,100

The debtors provided for are mainly in respect of water charges for household customers where experience in the water industry has shown over time that it is likely that there will be difficulties in recovering the water charges for the periods concerned.

Movement on the provision for bad debt are as follows:

	2011 £000	2010 £000
As at 1 April 2010	2,188	2,042
Provision for bad debt required in the year	519	630
Debt written off in the year as uncollectable	(459)	(484)
As at 31 March 2011	2,248	2,188

The other classes within debtors do not contain balances that may be irrecoverable. The maximum exposure to credit risk at the reporting date is the fair value of each class of debtor mentioned above. The Company does not hold any collateral as security.

13. INVESTMENTS

	2011 £000	2010 £000
Unlisted investments	4	4

14. CASH AT BANK AND IN HAND

Of the total amount shown of £1.746m, £1.591m (2010 - £1.518m) is held specifically for the payment of the next half yearly loan interest charges.

15. BORROWINGS: DUE WITHIN ONE YEAR

	2011 £000	2010 £000
3% Perpetual debenture stock	60	60
3½% Perpetual debenture stock	185	185
4% Perpetual debenture stock	39	39
Bank loan	4,500	6,000
	4,784	6,284

The £4.5m bank loan is part of a three year £10m working capital facility, which is secured upon the assets of the Company and bears interest at London Interbank rates.

16. OTHER CREDITORS	Appointed 2011 £000	Non Appointed 2011 £000	Total 2011 £000	Appointed 2010 £000	Non Appointed 2010 £000	Total 2010 £000
Payments received on account	2,060	-	2,060	1,502	-	1,502
Trade creditors	1,132	-	1,132	1,050	-	1,050
Amounts owed to Group companies	223	-	223	203	-	203
Social security and other taxation	211	-	211	209	-	209
Other creditors	1,949	-	1,949	3,083	-	3,083
Accruals	418	-	418	422	-	422
Water rates in advance	4,865	-	4,865	5,177	-	5,177
	10,858	-	10,858	11,646	-	11,646

17. CREDITORS: DUE AFTER ONE YEAR	2011 £000	2010 £000
Due within one to two years:		
Payments on account	439	-
Due within two to five years:		
Payments on account	548	-
In five years or more:		
Bank loan	85,306	81,416
Less: deferred arrangement costs	1,223	1,280
	84,083	80,136
	85,070	80,136

The thirty year £66.5m index-linked loan was issued on 26 June 2002, is repayable on 30 September 2032, and is secured upon the assets of the Company. The capital value of the loan is adjusted by the change in the Retail Prices Index from year to year. The fees associated with the loan issue of £1.722m are amortised over the life of the loan. The amount owing on the loan is stated net of the unamortised issue fees.

The loan interest is calculated by adjusting the value of the loan by the Retail Prices Index and then charging interest on this inflated amount at 3.635% per annum.

18. PROVISIONS FOR LIABILITIES	2011 £000	2010 £000
DEFERRED TAXATION:		
At 1 April 2010	10,272	9,131
Provided during the year in profit and loss account	147	1,141
At 31 March 2011	10,419	10,272

The total deferred tax balance before the effect of discounting is £11.345m (2010 - £11.261m). The amount provided for deferred taxation represents timing differences caused by the excess of tax allowances over depreciation.

	2011 £000	2010 £000
Deferred tax excluding that relating to pension asset:		
Accelerated capital allowances	10,419	10,272
Pension asset (note 20)	7,755	3,801
Total provision for deferred tax	18,174	14,073
At 1 April 2010	14,073	13,867
Deferred tax charge in profit and loss account (note 8)	(149)	944
Deferred tax charged to the statement of total recognised gains and losses	4,250	(738)
At 31 March 2011	18,174	14,073

A reduction in the UK corporation tax rate from 28% to 27% with effect from 1 April 2011 was enacted during the period. As a consequence the deferred tax charge includes a decrease in the deferred tax liability of £0.367m. The recent announcement to further reduce the rate to 26% with effect from 1 April 2011 has not been enacted at the balance sheet date therefore has not been taken into account.

In addition to the reduction in the rates of corporation tax mentioned above, the UK Government has announced its intention to further reduce the rate of corporation tax to 23% by 2014. If this reduction to 23% had been enacted by 31 March 2011 the deferred tax liability would have been reduced by a further £1.544m to £8.875m.

The future tax charges will also be affected by the Government's intention to reduce the main rate of capital allowances from 20% to 18% with effect from 1 April 2012, together with a reduction in the special/long life pool rate from 10% to 8%. As none of these changes had been enacted or substantively enacted by the balance sheet date, no adjustment is recognised in these financial statements.

If all the changes had been enacted at the balance sheet date the deferred tax liability of £10.419m (see note 18) would have been reduced by £1.487m to £8.932m and the deferred tax liability relating to the pension asset of £7.755m (see note 20) would have been reduced by £1.148m to £6.607m. The reduction in the deferred tax liability would have been dealt with in the profit and loss account. The reduction in the deferred tax liability relating to the pension asset would have been dealt with in the statement of total recognised gains and losses. The reductions in deferred tax are expected to be implemented over the period to 2014 in line with legislative changes.

No provision has been made for deferred tax on gains recognised 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 for is £0.669m. (2010 - £0.694m.). At present it is not envisaged that any tax will become payable in the foreseeable future.

19. RESERVES

	Share Premium £000	Capital Redemption £000	Profit and Loss £000
At 1 April 2010, as previously reported	1,539	3,250	54,401
Prior year adjustment - capital works department	-	-	389
As 1 April 2010 (Restated)	1,539	3,250	54,790
Profit for financial year	-	-	688
Dividends	-	-	(2,922)
Actuarial gain on pension scheme	-	-	14,904
Movement on deferred tax relating to pension scheme	-	-	(4,024)
Effect of change to corporation tax rate on pension asset	-	-	(226)
As 31 March 2011	1,539	3,250	63,210

20. PENSIONS

Portsmouth Water Limited is the principal employer and its parent company, Brockhampton Holdings Limited, is the participating employer in the Brockhampton Pension Scheme. This scheme provides defined benefits based primarily on final pensionable earnings. The assets of the scheme are held in a separate trustee administered fund.

In July 2010 the Government announced its intention that future statutory minimum pension indexation would be measured by the Consumer Prices Index, rather than the Retail Prices Index. This has been reflected in the Company's assumptions and a gain of £9.94m has been recognised as a result, and is included in actuarial gains on assumptions in the figures below.

The formal actuarial valuation as at 31 March 2008 was updated to the accounting date by an independent qualified actuary in accordance with FRS 17. As required by FRS 17, the value of the defined benefit liabilities has been measured using the projected unit method.

The estimated Company contributions expected to be paid to the Scheme for the year commencing 1 April 2011 is £0.7m (2010 actual: £0.7m).

The key FRS 17 assumptions used for the scheme were as follows:

	2011 % per annum	2010 % per annum	2009 % per annum
RPI inflation	3.5	3.7	3.2
CPI inflation	2.8	n/a	n/a
Discount rate	5.5	5.5	6.9
Pension increases	2.8	3.7	3.2
Salary growth	5.75	5.95	5.45

On the basis of the assumptions used for life expectancy, a male pensioner currently aged 60 would be expected to live for a further 28.9 years (2010 - 28.7 years). Allowance is made for future improvements in life expectancy.

The fair value of assets in the scheme, a breakdown of the assets into the main asset classes, the present value of the FRS 17 liabilities and the surplus of assets over the FRS 17 liabilities (which equals the gross pension asset) are set out below:

	2011 Expected Return % per annum	2011 Fair Value £000	2010 Expected Return % per annum	2010 Fair Value £000	2009 Expected Return % per annum	2009 Fair Value £000
Equities	7.6	77,654	7.8	74,538	8.0	53,382
Bonds	4.1	40,353	4.3	37,784	4.2	29,017
Other	2.1	2,030	2.0	1,521	1.9	4,325
	6.3	120,037	6.6	113,843	6.4	86,724

The total expected return on assets is derived by taking the weighted average of the long-term expected return on each of the asset classes.

	2011 £000	2010 £000
Total fair value of scheme assets	120,037	113,843
FRS 17 value of scheme liabilities	91,313	100,268
Gross pension asset	28,724	13,575
Related deferred tax liability	7,755	3,801
Net pension asset	20,969	9,774

Under FRS 17, the scheme is represented on the balance sheet at 31 March 2011 as an asset of £28.724m (2010 - £13.575m), which amounts to £20.969m net of deferred tax (2010 - £9.774m).

The Company remained on a contribution holiday until 31 March 2010 and then began paying contributions at a rate of 12.4% of earnings. Members pay contributions at a rate of 5% of earnings.

The FRS 17 value of scheme liabilities moved over the period as follows:

	2011 £000	2010 £000
Opening scheme liabilities	100,268	69,808
Employer's part of current service cost	2,345	1,419
Interest cost	5,495	4,762
Contributions by scheme participants	279	284
Benefits paid	(3,351)	(3,306)
Actuarial (gain)/loss	(13,723)	27,301
Closing scheme liabilities	91,313	100,268

The FRS 17 value of scheme assets moved over the period as follows:

	2011 £000	2010 £000
Opening fair value of scheme assets	113,843	86,724
Expected return on assets	7,392	5,476
Contributions by scheme participants	279	284
Contributions by the Company	693	-
Benefits paid	(3,351)	(3,306)
Actuarial gain	1,181	24,665
Closing fair value of scheme assets	120,037	113,843

The following amounts have been included within operating profit under FRS 17:

	2011 £000	2010 £000
Current service cost (employer's part only)	2,345	1,419
Past service credit	-	-
Total operating charge	2,345	1,419

The following amounts have been included as other finance income under FRS 17:

	2011 £000	2010 £000
Expected return on pension scheme assets	7,392	5,476
Interest on post retirement liabilities	(5,495)	(4,762)
Net return	1,897	714
Total (expense) recognised in the profit and loss account	(448)	(705)

The following amounts have been recognised within the statement of total recognised gains and losses (STRGL) under FRS 17:

	2011 £000	2010 £000
Actual return less expected return on scheme assets	1,181	24,665
Experience gains arising on scheme liabilities	-	-
Gain/(loss) due to changes in assumptions underlying the FRS 17 value of scheme liabilities	13,723	(27,301)
Actuarial gain/(loss) recognised in the STRGL	14,904	(2,636)

The actual return on plan assets was a gain of £8.573m in the year to 31 March 2011 (2010 - gain of £30.141m).

The history of experience gains and losses is:

	2011	2010	2009	2008	2007
Present value of scheme liabilities (£000)	(91,313)	(100,268)	(69,808)	(77,718)	(86,882)
Total fair value of scheme assets (£000)	120,037	113,843	86,724	107,696	108,711
Surplus (£000)	28,724	13,575	16,916	29,978	21,829
Actual return less expected return on scheme assets (£000)	1,181	24,665	(25,132)	(5,382)	(535)
Percentage of scheme's assets	1%	22%	(29)%	(5)%	0%
Experience gains arising on scheme's liabilities (£000)	-	-	4,722	-	-
Percentage of the FRS 17 value of the scheme's liabilities	0%	0%	7%	0%	0%
Total amount recognised in the STRGL (£000)	14,904	(2,636)	(13,020)	7,602	(519)
Percentage of the FRS 17 value of the scheme's liabilities	16%	3%	19%	10%	0%

The cumulative amount recognised in the STRGL as at 31 March 2011 was a loss of £7.729m (2010 - loss of £22.633m).

The Accounting Standards Board have published guidance relating to best practice for disclosure of pensions information. The Company has decided not to follow the guidance at this time.

CURRENT COST PROFIT AND LOSS ACCOUNT
FOR THE APPOINTED BUSINESS

For the year ended 31 March 2011

	Notes	2011 £000	2010 £000 (Restated)
TURNOVER	2	35,450	37,306
Current cost operating costs	3	(31,094)	(30,142)
Operating income	2	9	(65)
		4,365	7,099
Working capital adjustment	4	321	262
CURRENT COST OPERATING PROFIT		4,686	7,361
Exceptional item	5	(1,216)	-
Interest receivable		1,178	1,405
Other finance income		1,897	714
Interest payable and similar charges		(7,221)	(1,944)
Financing adjustment	4	104	59
CURRENT COST (LOSS)/PROFIT BEFORE TAXATION		(572)	7,595
Taxation			
- Current Tax		(305)	(2,232)
- Deferred Tax		149	(944)
CURRENT COST (LOSS)/PROFIT FOR THE FINANCIAL YEAR		(728)	4,419
Dividends		(2,860)	(4,607)
CURRENT COST (LOSS) RETAINED		(3,588)	(188)

CURRENT COST BALANCE SHEET
FOR THE APPOINTED BUSINESS

As at 31 March 2011

	Notes	2011 £000	2010 £000 (Restated)
FIXED ASSETS			
Tangible fixed assets	5	1,027,639	753,673
Third party contributions since 1989/90		(23,688)	(21,653)
		1,003,951	732,020
Working capital	6	(5,456)	(5,991)
Cash		156	416
Short term deposits		1,590	1,515
Infrastructure renewals prepayment		3,747	3,480
NET OPERATING ASSETS		1,003,988	731,440
NON OPERATING ASSETS AND LIABILITIES			
Borrowings		(4,784)	(6,284)
Non-trade debtors		10	9
Non-trade creditors: amounts falling due within one year		(195)	(177)
Investment - loan to group company		59,468	59,468
- other		4	4
Corporation tax payable		(189)	(897)
Dividends		(1,412)	(1,875)
TOTAL NON OPERATING ASSETS AND LIABILITIES		52,902	50,248
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR			
Borrowings		(85,070)	(80,136)
PROVISIONS FOR LIABILITIES AND CHARGES		971,820	701,552
Deferred tax provision		(10,419)	(10,272)
NET ASSETS EXCLUDING PENSION ASSET		961,401	691,280
Pension asset		20,969	9,774
NET ASSETS INCLUDING PENSION ASSET		982,370	701,054
CAPITAL AND RESERVES			
Called up share capital		1,078	1,078
Share premium account		1,539	1,539
Capital redemption reserve		3,250	3,250
Profit and loss account	7	25,829	18,763
Current cost reserve	8	950,674	676,424
		982,370	701,054

CURRENT COST CASH FLOW STATEMENT

For the year ended 31 March 2011

	Notes	Appointed 2011 £000	Non Appointed 2011 £000	Total 2011 £000	Appointed 2010 £000 (Restated)	Non Appointed 2010 £000 (Restated)	Total 2010 £000 (Restated)
NET CASH INFLOW FROM OPERATING ACTIVITIES	9	17,470	86	17,556	17,075	78	17,153
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE							
Interest received		1,177	-	1,177	1,420	-	1,420
Interest paid		(3,283)	-	(3,283)	(3,071)	-	(3,071)
NET CASHFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE		(2,106)	-	(2,106)	(1,651)	-	(1,651)
TAXATION							
UK corporation tax paid		(998)	(24)	(1,022)	(1,740)	(22)	(1,762)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT							
Purchase of tangible fixed assets		(5,612)	-	(5,612)	(6,357)	-	(6,357)
Receipt of contributions		877	-	877	552	-	552
Infrastructure renewals expenditure		(5,014)	-	(5,014)	(7,122)	-	(7,122)
Sale of tangible fixed assets		21	-	21	12	-	12
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(9,728)	-	(9,728)	(12,915)	-	(12,915)
EQUITY DIVIDENDS PAID		(3,323)	(62)	(3,385)	(4,607)	(56)	(4,663)
CASH INFLOW/(OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		1,315	-	1,315	(3,838)	-	(3,838)
MANAGEMENT OF LIQUID RESOURCES							
(Purchase) of short term deposits		(75)	-	(75)	(55)	-	(55)
NET CASHFLOW BEFORE FINANCING		1,240	-	1,240	(3,893)	-	(3,893)
FINANCING							
(Repayment of)/new loans		(1,500)	-	(1,500)	2,000	-	2,000
Loan repayment by Group Company		-	-	-	1,165	-	1,165
(DECREASE) IN CASH IN THE YEAR	10	(260)	-	(260)	(728)	-	(728)

1. ACCOUNTING POLICIES

The current cost accounts have been prepared for the appointed business of Portsmouth Water Limited in accordance with guidance issued by the Director General of Water Services for modified real terms financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance, in the context of assets which are valued at their current cost value to the business with the exception of assets acquired prior to 31 March 1990.

The accounting policies used are the same as those adopted in the historical cost accounts as shown on pages 17 to 19, except as set out below:

Tangible Fixed Assets

Assets acquired prior to 31 March 1990 and in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. Also, no provision is made for possible funding of future replacements of pre 31 March 1990 assets by contributions from third parties and, to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amounts.

Modern Equivalent Asset (MEA) Valuation

A review of the MEA valuation and asset stock is undertaken as part of the periodic review. The revised values arising from this review provide the basis for calculating the MEA in the current cost financial statements. The process of continuing refinement of asset records has produced adjustments to existing values. The current cost depreciation figures included in the current cost operating costs are based on the revised MEA values.

Land and buildings

Non-specialised operational properties are valued on the basis of open market value for existing use at 31 March 1993 and have been expressed in real terms by adjusting for inflation as measured by the changes in the Retail Price Index (RPI) since that date.

Specialised operational properties acquired since 31 March 1990 are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between periodic Asset Management Plan (AMP) reviews by adjusting for inflation, as measured by changes in the RPI.

Infrastructure assets

Mains are valued at replacement cost, determined principally on the basis of data provided by the AMP.

A process of continuing refinement of asset records is expected to produce adjustments to existing values when periodic review of the AMP takes place. In the intervening years, values are restated to take account of changes in the general level of inflation as measured by changes in the RPI over the year.

Other operational fixed assets

All other operational fixed assets are valued periodically at depreciated replacement cost. Between periodic AMP reviews, values are restated for inflation as measured by changes in the RPI over the year.

Surplus land

Surplus land is valued at recoverable amount, taking into account that part of any proceeds to be passed on to customers under Condition 'B' of the Licence.

Third party contributions

Infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in RPI for the year and treated as for deferred income.

Real Financial Capital Maintenance Adjustments

These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms:

Working capital adjustment - this is calculated by applying the change in the RPI over the year to the opening working capital balance.

Financing adjustment - this is calculated by applying the change in the RPI over the year to the opening balance of net finance, which comprises all monetary assets and liabilities in the balance sheet, apart from those included in working capital, deferred tax, dividends payable and index linked debt.

Other Current Cost Adjustments

Depreciation adjustment - this is the difference between depreciation based on the current cost value of assets in these accounts and depreciation charged in arriving at historical cost profit.

Disposal of fixed assets adjustment - this is the difference between the values of realised assets in these current cost financial statements and the historical cost financial statements.

There has been no change in the year to the current cost depreciation policy.

2. TURNOVER

	2011 £000	2010 £000 (Restated)
Unmeasured supplies	21,201	22,572
Measured supplies	10,427	10,197
Measured large users	2,115	2,543
SWS bulk supply	561	518
Third party services	1,052	1,377
Other sources	94	99
	35,450	37,306

OPERATING INCOME

	2011 £000	2010 £000 (Restated)
Current cost profit/(loss) on disposal of fixed assets	9	(65)
Working capital adjustment	321	262

3. CURRENT COST OPERATING COSTS

	2011 £000	2010 £000
Operating costs per historical cost accounts	29,428	28,528
Current cost depreciation adjustment (note 1)	1,666	1,614
	31,094	30,142

4. WORKING CAPITAL AND FINANCING ADJUSTMENTS

These are the real financial capital maintenance adjustments for working capital and net finance, as described in note 1.

5. TANGIBLE FIXED ASSETS

	Operational Assets £000	Infrastructure Assets £000	Other Tangible Assets £000	Total £000
GROSS CURRENT REPLACEMENT COST				
At 1 April 2010	196,270	624,576	15,262	836,108
Prior year adjustment	294	104	-	398
At 1 April 2010 (Restated)	196,564	624,680	15,262	836,506
AMP adjustment	(11,237)	233,926	-	222,689
RPI adjustment	9,821	45,906	801	56,528
Disposals	(216)	-	(283)	(499)
Additions	1,403	1,374	1,761	4,538
At 31 March 2011	196,335	905,886	17,541	1,119,762
DEPRECIATION				
At 1 April 2010	72,423	-	10,400	82,823
Prior year adjustment	10	-	-	10
At 1 April 2011 (Restated)	72,433	-	10,400	82,833
AMP adjustment	(967)	-	-	(967)
RPI adjustment	3,809	-	542	4,351
Disposals during year	(216)	-	(271)	(487)
Charge for year	3,810	-	1,367	5,177
Impairment loss	1,216	-	-	1,216
At 31 March 2011	80,085	-	12,038	92,123
NET BOOK VALUE				
At 31 March 2011	116,250	905,886	5,503	1,027,639
At 1 April 2010 (Restated)	124,131	624,680	4,862	753,673

The RPI adjustment relates to the increase of the current cost valuations in line with inflation.
The impairment loss of £1.216m. represents the revalued amount of the Havant Thicket winter storage reservoir project, included in operational assets at cost, and impaired for the reasons set out in note 10 to the historical cost accounts on page 23.

6. WORKING CAPITAL

		2011 £000	2010 £000
Stores		520	553
Trade debtors	- measured household	193	46
	- unmeasured household	1,104	1,246
	- measured non-household	353	333
	- unmeasured non-household	7	9
	- other	640	919
Measured income accrual		2,208	2,568
Prepayments and other debtors		212	203
Trade creditors		(553)	(517)
Deferred income - customer advance receipts		(2,479)	(2,144)
Capital creditors		(2,092)	(3,166)
Accruals and other creditors		(5,569)	(6,041)
TOTAL WORKING CAPITAL		(5,456)	(5,991)

7. PROFIT AND LOSS ACCOUNT

	£000
As at 1 April 2010, as previously reported	18,374
Prior year adjustment - capital works department	389
As 1 April 2010 (Restated)	18,763
Loss for the financial year	(728)
Dividend	(2,860)
Actuarial gain on pension scheme	14,904
Movement on deferred tax relating to pension scheme	(4,024)
Effect of change to corporation tax rate on pension asset	(226)
As 31 March 2011	25,829

8. CURRENT COST RESERVE

	£000
As 1 April 2010	676,424
AMP revaluation adjustment	223,656
RPI adjustments:-	
Fixed assets	52,177
Working capital adjustment	(321)
Net finance adjustment	(104)
Third party contributions	(1,158)
At 31 March 2011	950,674

9. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2011 £000	2010 £000 (Restated)
Current cost operating profit	4,686	7,361
Working capital adjustment	(321)	(262)
Increase/(decrease) in working capital	1,473	(1,139)
Other finance charges	1,652	1,419
Current cost depreciation	5,177	4,953
Current cost (profit)/loss on sale of fixed assets	(9)	72
Infrastructure renewals charge	4,747	4,561
Movement in provisions	65	110
NET CASHFLOW FROM OPERATING ACTIVITIES	17,470	17,075

10. ANALYSIS OF NET DEBT

	As at 1 April 2010 £000	Cash Flow £000	Non Cash Movements £000	As at 31 March 2011 £000
Cash at bank and in hand	416	(260)	-	156
Loans due after one year	(80,136)	-	(3,947)	(84,083)
Loans due within one year	(6,284)	1,500	-	(4,784)
	(86,420)	1,500	(3,947)	(88,867)
Short term deposits	1,515	75	-	1,590
Current asset equity investments	4	-	-	4
	1,519	75	-	1,594
	(84,485)	1,315	(3,947)	(87,117)

INTEREST RATE RISK PROFILE

	Fixed rate £000	Floating Rate £000	Index linked £000	Total £000
MATURITY PROFILE	(284)	(4,500)	-	(4,784)
Less than one year			-	
Between one and two years	-	-	-	-
Between two and five years	-	-	-	-
Between five and twenty years	-	-	-	-
In more than twenty years	-	-	(84,083)	(84,083)
TOTAL BORROWINGS	(284)	(4,500)	(84,083)	(88,867)
Cash and investments				160
Short term deposits				1,590
NET DEBT				(87,117)

CURRENT COST ACTIVITY COST TABLE

	Resources & Treatment £000	Distribution £000	Water Supply Subtotal £000
Direct Costs			
Employment costs	327	2,174	2,501
Power	1,180	1,134	2,314
Hired and contracted services	13	588	601
Materials and consumables	298	337	635
Service charges	1,953	-	1,953
Other direct costs	64	32	96
Total direct costs	3,835	4,265	8,100
General and support expenditure	2,537	2,783	5,320
Total functional expenditure	6,372	7,048	13,420
Business Activities			
Customer services			3,207
Scientific services			668
Other business activities			285
Business activities subtotal			4,160
Local authority rates			2,338
Doubtful debts			519
Total opex less third party services			20,437
Third party services - opex			732
Total operating expenditure			21,169
Capital Maintenance			
Infrastructure renewals charge	-	4,747	4,747
Current cost depreciation			
- service activities	2,822	1,316	4,138
- business activities			1,040
Total capital maintenance			9,925
Total operating costs			31,094
CCA (MEA) Values			
Service activities			1,021,606
Business activities			6,033
Service totals			1,027,639
Services for the third parties			-
Total			1,027,639

Explanatory Note: For the purpose of activity costing analysis, costs are allocated between service areas using the Company's management information reports. These reports allow costs to be identified for each cost centre in the Company and therefore the costs of each service area (e.g. Resources/Treatment) can be built up using the reports and by following the RAG guidance on cost centre areas to be included for each service.

Regulatory Capital Value at 2010/11 prices

	£000
Opening Regulatory Capital Value as at 1 April 2010	117,297
Capital Expenditure (excluding infrastructure renewals)	5,634
Infrastructure renewals expenditure	4,808
Infrastructure renewals charge	(4,829)
Capital contributions	(1,181)
Current cost depreciation	(4,755)
Outperformance of regulatory assumptions (5 years in arrears)	(1,777)
Closing Regulatory Capital Value as at 31 March 2011	115,197
Average Regulatory Capital Value for the year	113,322

Explanatory Note

The Table shown above gives the build up of the Regulatory Capital Value for the financial year ended 31 March 2011 that was used by the Office of Water Services in setting price limits for the AMP5 period in the 2009 Final Determination of price limits.

The Regulatory Capital Value is the capital base for the Company on which it is allowed to earn a rate of return at the given cost of capital.

The opening Regulatory Capital Value for the year, after indexation by year end RPI, is adjusted to take account of net new investment (being new capital expenditure less capital contributions received) and the current cost depreciation charge for the year, as allowed in the 2009 Final Determination of price limits.

There is also a further adjustment made to reflect past outperformance of regulatory assumptions for the previous price setting period. This relates to capital expenditure efficiencies which were achieved in that period and which have been retained by the Company for five years, under the Office of Water Services' approach to Regulatory Capital Values.

Any differences in actual capital expenditure and depreciation charges from those allowed in the 2009 Final Determination do not affect price limits in the current period. These differences, including any capital efficiencies achieved, will be taken into account in the calculation of the Regulatory Capital Value for the next price review period from 2015 onwards.

For the purposes of the KPI indicator reported in the Operating and Financial Review on page 4, we have used this opening value as at 1 April 2011 for the Debt to Regulatory Capital Value Ratio, following the price determination.

The Directors are responsible, under Condition F of the Instrument of Appointment by the Secretary of State for the Environment, Food and Rural Affairs (Defra) and as a water undertaker under the Water Industry Act 1991, for preparing the financial statements for each financial year that give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

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

The Directors are responsible for:

- keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 2006;
- safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities; and
- the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Certificate of Compliance with Licence Condition F6A

In arriving at the certificate provided below, the Board met on 23 June 2011 to consider the Appointee's financial and management requirements over the next 12 months and the available resources. The Directors reviewed the following information:

- the latest financial position of the Company through its latest Report and Accounts
- the Management Accounts for May 2011
- the current level of gearing
- the projected level of gearing through to 2012, based on its own internal budget projections
- the Company's available bank and overdraft facilities through to 2012
- the headroom between the projected key operating ratios (gearing and interest cover) and its loan covenants through to 2012 under a number of scenarios.

The Board were satisfied that sufficient resources existed and that they could provide the necessary assurance. In addition, compliance with the relevant sections of RAG 5.04 was also reviewed.

As required by the Water Services Regulation Authority the Board hereby certifies:

- that, in the opinion of the Directors, Portsmouth Water Limited will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment); and
- that, in the opinion of the Directors, the Appointee will, for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out those functions; and
- that, in the opinion of the Directors, all contracts entered into with any Associated Company include all necessary provisions and requirements concerning the standard of service to be supplied to the Appointee, to ensure that it is able to meet all its obligations as a water undertaker; and
- in accordance with its Instrument of Appointment under the Water Industry Act 1991, the Directors are of the opinion that the Company is in compliance with paragraph 3.1 of Condition 'K' of that Instrument.

Signed by:

T. M. Lazenby M.B.E. ....

N. J. Roadnight ....

N. Smith ....

A. R. Neve ....

R. L. Sullivan ....

R. J. Tennant ....

The transactions required to be disclosed under Condition F of the Company's Instrument of Appointment are set out below:

Borrowings or Sums Lent

There is a loan outstanding made to a Group Company, South Downs Limited, in June 2002. The balance of the loan, consisting of the principal amount and accrued interest to date, amounts to £59.468m. This loan was made as a part of the refinancing package which was carried out in the financial year 2002/03. The interest rate for the loan is based on LIBOR plus a margin.

Dividends paid to Associated Undertakings

The dividends paid to the holding company, Portsmouth Water Holdings Limited, are shown in note 9 on page 22 of these Regulatory Accounts. The dividend policy is also covered within this note.

Payments for Tax Losses

Payments relating to the surrender of tax losses to Portsmouth Water Limited, from Group Companies, made to South Downs Limited amounting to £163,914.

Supply of Services

Details of services supplied to the Appointee by associates during the year are disclosed below.

Service	Associate Company	Turnover of Associate (£000's)	Terms of Supply	Value (£000's)
Rent of operational sites	Brockhampton Holdings Limited	165	Market Tested	83
Management Charge	South Downs Limited	-	Turnover	58

There is a recharge of Directors salaries amounting to £20,381 paid to Portsmouth Water Limited by Brockhampton Holdings Limited, which represents the time spent by Portsmouth Water Executive Directors on Group matters.

There was also a payment made by Brockhampton Holdings Limited to Portsmouth Water Limited of £163,600 in respect of mains diversionary work carried out for the associated company. This was in addition to the sum of £545,500 paid in the previous year, making a total recharge of £709,100.

Statement by Board of Directors

To the best of their knowledge, the Directors of the Company declare that all appropriate transactions with associated companies have been disclosed.

REPORT OF THE INDEPENDENT AUDITOR TO THE WATER SERVICES REGULATION AUTHORITY AND DIRECTORS OF PORTSMOUTH WATER LIMITED

We have audited the Regulatory Accounts of Portsmouth Water Limited for the year ended 31 March 2011 on pages 13 to 39 which comprise:

- the regulatory historical cost accounting statements, comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between statutory and regulatory accounts; and
- the regulatory current cost accounting statements for the appointed business, comprising the current cost profit and loss account, the current cost balance sheet, the current cost cash flow statement and the related notes to the current cost financial statements, including the statement of accounting policies.

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies.

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewerage undertaker under the Water Industry Act 1991. Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the WSRA, the Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 41, the Directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the Regulatory Accounts. In addition, we read all the financial and non-financial information in the Regulatory Accounts to identify material inconsistencies with the audited Regulatory Accounts. If we become aware of any apparent misstatements or inconsistencies, we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit option under International Standards on Auditing (UK & Ireland).

Opinion on Regulatory Accounts

In our opinion, the Regulatory Accounts:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on page 17 to 19 and page 34, the state of the Company's affairs at 31 March 2011 on an historical cost and current cost basis, and its historical cost and current cost profit and its current cost cash flow for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies.

Basis of preparation

Without modifying our opinion, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ('UK GAAP'). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. Furthermore, the regulatory historical cost accounting statements on pages 13 to 30 have been drawn up in accordance with Regulatory Accounting Guideline 3.06, in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly, that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 is given on page 24.

Opinion on other matters prescribed by Condition F

Under the terms of our contract, we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

Other matters

The nature, form and content of Regulatory Accounts are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment.

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2011 on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our 'statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

NICHOLAS KELSEY
Senior Statutory Auditor
For and on behalf of
SAFFERY CHAMPNESS
CHARTERED ACCOUNTANTS
REGISTERED AUDITORS
LION HOUSE RED LION STREET
LONDON
23 JUNE 2011

	2011 £000	2010 £000
KPI - 1		
a) Gearing - Debt/RCV		
(i) Debt		
Bank loan (note 17, page 26)	85,306	81,416
Bank loan (note 15, page 25)	4,500	6,000
Debenture stock (note 15, page 25)	284	284
Cash at bank and in hand	(1,746)	(1,931)
	88,344	85,769

For the purposes of this ratio, debt excludes the deferred arrangement costs of £1.223m (note 17, on page 26) and the current asset investment of £0.004m (note 13, on page 25).

(ii) Regulatory Capital Value (RCV)

Value established by Ofwat in Final Determination in 2009

One of the elements considered by Ofwat in assessing revenues required by the Company is a return on the capital investment in the business. The value of the capital base of each company for the purposes of setting price limits is the RCV. The RCV is widely used by the investment community as a proxy for the market value of the regulated business. For Portsmouth Water the RCV is a key element of its bond covenants.

	2011 £000	2010 £000
Regulatory capital value indexed to 31 March	115,197	111,417
(iii) Gearing - Debt/RCV ratio (i) ÷ (ii)	76.7%	77.0%

b) Cash interest cover

This ratio represents the number of times cashflow of the business covers interest payments.

(i) Cashflow before interest paid is derived from the cashflow statement on page 33 and is calculated as follows:

	2011 £000	2010 £000 (Restated)
Net cashflow from operating activities	17,556	17,153
Interest received, excluding amounts for inter-company loan	17	23
Taxation, excluding payments for group relief	(858)	(965)
Capital expenditure	(9,728)	(12,915)
(Repayment of loans)/new borrowings	(1,500)	2,000
	5,487	5,296
(ii) Interest paid	3,283	3,071
(iii) Cash interest cover ratio (i) ÷ (ii)	1.67	1.72

KPI - 2 Customer Service Measures

Indicators are based on information supplied to Ofwat and confirmed in the Ofwat publication ‘Levels of Service for the Water Industry in England and Wales Report’

KPI - 3 Water Quality

This indicator is based on figures reported to the DWI.

KPI - 4 Efficiency

The results for this indicator are provided by Ofwat in its publication ‘Water and Sewerage Unit Costs and Efficiency’.

KPI - 5 Leakage

This indicator is based on figures supplied to Ofwat and confirmed in its report ‘Security of Supply, Leakage and the Efficient Use of Water’. The figures for 2010/11 have been supplied to Ofwat, but will not be confirmed in the Ofwat document until later in 2011.