REGULATORY ACCOUNTS 2009

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OUR BUSINESS

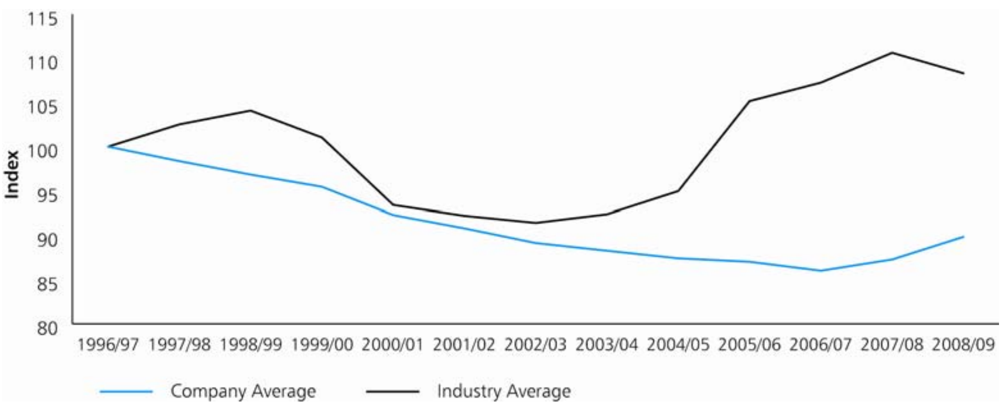
Portsmouth Water provides water to 301,000 homes and businesses in an area covering 868 square kilometres from the River Meon in Hampshire to the River Arun in West Sussex. The Company serves the cities and towns of Portsmouth, Chichester, Fareham, Gosport, Havant and Bognor Regis. On average, each day it supplies approximately 178 million litres of water through a network of over 3,200 kilometres of underground mains. Water supplied, which is generally of high quality, 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 nearly 30% of the total supply, are thought to be the largest group of springs used for public supplies in Europe.

Source	**Actual 2008/09 Abstraction (Million Litres)**	**% of Supply 2008/09**	**% of Supply 2007/08**
Springs at Havant & Bedhampton	19,352	29	30
River Itchen	6,868	10	13
Boreholes, Wells & Adits	40,421	61	57
Totals	**66,641**	**100**	**100**

Water from the springs at Havant and Bedhampton is treated at the Farlington treatment works and there are also treatment works at the River Itchen, Lovedean, Soberton and Fishbourne. The last three works accounted for approximately 7% of supplies in 2008/09. 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 11.6% over the last 13 years. This compares with a real increase of 11% 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 December 2004 for the period 2005 to 2010. 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 next determination of price limits will be in November 2009 and the Company submitted its Business Plan in April 2009 to Ofwat.
Portsmouth Water is recognised as one of the most efficient water companies in England and Wales (Source - Water and Sewerage Service Unit Costs and Relative Efficiency 2007/08 Report - published by Ofwat), and this has benefited customers through lower bills over many years, as shown above.

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. A twenty five year Water Resources Plan is also produced at each Periodic Review. The plan is reviewed annually and enables the Company to balance supplies with forecast demand even at times of dry conditions. A new Draft Water Resources Management Plan looking at required resources through to 2035 was published for consultation in April 2008.

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 maintain services to customers at the highest level
- To balance the provision of water supply with the needs of the environment
- To maintain the health and welfare of employees
- To ensure that customers continue to enjoy secure and reliable water supplies
- To meet present and future water quality obligations
- To maintain its leadership position at the water industry efficiency frontier
- To maintain the ability to finance its function

The strategy will be achieved by focusing on four 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
- 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 against these objectives 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

Profit before tax

Turnover for the year increased by 4.4% to £35.4m. This reflected the 6.7% overall tariff increase implemented in July 2008, which was partially offset by a reduction in consumption by non-household customers of 2.1% and £0.3m in income from new property connections, and other non-tariff work.

Despite the increase in turnover, operating profit fell by £0.3m as analysed below:

	2008/09	**2007/08**
	£m	**£m**
Operating profit before depreciation and FRS17	16.3	16.2
Depreciation (including renewals)	7.7	6.7
FRS17 Pension Charge	1.7	2.3
Total Operating Profit	**6.9**	7.2

Operating costs, excluding depreciation and the FRS17 pension charge rose by £1.6m (9.0%). There were a number of significant elements to this increase. A new electricity contract took effect from November 2008 and increased costs by £0.25m. The provision for bad debt was increased by £0.2m reflecting a sharp rise in the level of unpaid bills. Activities associated with the 2009 price review accounted for £0.2m and abstraction charges and chemicals showed significant increases above inflation. The current service cost for the pension scheme reduced by £0.6m to £1.7m following a review by the Actuaries under FRS 17. Depreciation on infrastructure assets rose by £0.8m as a result of a re-assessment of the charge based on the projected expenditure included in the Company's Business Plan submitted to Ofwat in April 2009.

Interest receivable at £4.5m (2008 - £4.3m) relates mainly to interest received from group companies and is based on Libor plus 1%.

A reduction in other finance income of £1.2m represents a fall in the expected return on Pension Fund assets following a review by the actuaries under FRS 17.

Interest payable at £7.3m (2008 - £6.2m) includes a £4.0m indexation of the loan provided by Artesian Finance plc (2008 - £2.9m). Interest on the capital sum amounted to £3.0m (2008 - £2.8m). The indexation of the loan for 2009 was based on July 2008 RPI, which was 5.0%.

As a result primarily of the increased depreciation charge and lower potential income from the pension fund investments, profit before tax reduced to £5.8m (2008 - £8.4m).

Taxation

The taxation charge at £1.7m was £1.5m higher than last year when there was a large adjustment in respect of deferred tax arising from the effect of the removal of industrial buildings allowances and changes to corporation tax and capital allowance rates.

Dividends

The dividends paid during the year amounted to £4.664m (2008 - £4.209m). Dividends are paid up to the parent company and largely used to service debt held by the group.

Cashflow and Balance Sheet

Net cashflow from operations at £16.7m (2008 - £16.0m) increased marginally as a result of movement in working capital. Net cash outlay on fixed assets at £10.6m (2008 - £12.1m) reflected further progress on the mains renewal programme and work on a number of capital maintenance projects. Most of the large quality projects for AMP4 have been completed.

Net debt at £82.9m (2008 - £79.0m) increased during the year as a result of the indexation of the £66.5m Index Linked Loan of £4.0m. At the year end, net debt to regulatory capital value (RCV) was 77.4% (2008 - 72.3%). Although both the Index Linked Loan and the RCV are indexed with RPI, the year end loan position is indexed at the previous year's July RPI which was 5% and the year end RCV was indexed at the March RPI which was -0.4%.

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 (subject to the above comments on the timing of 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 2009 was £82.6m (2008 - £78.6m).

The Company seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs through an appropriate borrowing structure and to invest cash assets safely and profitably on the short term market. In 2008/09 all of the short term cash was deposited with the Company's bankers, RBS. Short term liquidity is achieved through a £15m working capital facility and an overdraft arrangement. At the end of the year, £4.0m of this facility had been drawn (2008 - £4.0m), while the overdraft arrangement remained unutilised.

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

The capital structure is set at a level which provides an appropriate risk profile to ensure the Company can obtain finance at competitive levels. As is common in the water industry the Company monitors capital in the ratio of debt to Regulatory Capital Value (RCV). RCV is a measure of the Company's asset value used in the setting of prices in the water industry. The level of RCV is published by the regulator (Ofwat) on an annual basis. The ratio achieved for 2008/09 is shown below, and the details of the calculation are shown on page 43.

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

Accounting Policies

The accounts have been prepared in accordance with the accounting policies described in note 1 to the accounts on pages 17 to 18 and with UK GAAP.

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

Pensions

The Company accounts for the Brockhampton Pension Scheme in which it is the principal employer, in accordance with FRS17. The latest actuarial valuation carried out for the purposes of FRS17 showed a surplus after deferred tax of £12.2m (2008 - £21.6m).

Key Financial Performance Indicators

Gearing (net debt/regulatory capital value) and cash interest cover are recognised as key indicators for the Company. Performance in 2009 against the target ratios is shown in the table below.

KPI - 1[1]	**Target**	**Performance 2008/09**	**Performance 2007/08**
Gearing - Debt/RCV[2]	<83%	77.4%	72.3%
Cash interest cover[2]	>2.2	2.56	2.53

[1] Each KPI is defined in the Appendix on page 43
[2] Definition of terms is contained in the Appendix on page 43

Customer Service

The Company measures its services to customers in three key areas:

– The Overall Performance Assessment provided by Ofwat
– The DG indicators provided by Ofwat
– Drinking Water Quality

KPI - 2 The Overall Performance Assessment

Target	**Performance 2007/08**
To be in the upper quartile of performance for all water companies	Placed 11th out of 22 companies

The Overall Performance Assessment for 2008/09 will be published by Ofwat after the Report and Accounts have been completed and therefore the performance shown above is for 2007/08. The position was adversely impacted by a fine of £10,000 for a pollution incident which occurred in 2007. This moved the Company from 4th to 11th place.

KPI - 3 DG Service Indicators

The DG service indicators data shown below is as recorded by the Company for 2008/09 and will be reported to Ofwat in the annual regulatory June Return.

DG Service Indicator	**Target**	**Performance 2008/09**	**Performance 2007/08**
DG2 No. of properties at risk of inadequate pressure	≤ 120	66	66
DG3 Unplanned interruptions to supply	≤ 0.3	0.05	0.14
DG4 Population subject to hosepipe bans	Nil	Nil	Nil
DG6 Billing contacts - answered within 5 days	100%	100%	100%
DG7 Written complaints - answered within 10 days	100%	99%	100%
DG8 Bills for metered customers - no. receiving bill based on meter reading	100%	100%	100%
DG9 Telephone contact - no. of calls abandoned	≤ 2.5%	2.8%	4.2%
- all lines busy	≤ 0.7%	0.4%	0.3%

In all categories Ofwat assessed the Company as having good performance for 2007/08. The Ofwat assessments for 2008/09 will not be published until September, but the results recorded by the Company meet the criteria for being assessed as good.

KPI - 4 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 2008**	**Performance 2007**
Compliance samples passing standards	99.95%	99.96%	99.97%

The water quality performance indicator relates to the calendar year.

Operating Efficiency

Ofwat publishes a report each year which includes its assessment of the comparative operating efficiency of all water companies in England and Wales using econometric modelling. Companies are put in bands A to E according to their performance for operating efficiency, A being the top band. The latest report published is for the financial year 2007/08, which showed that Portsmouth Water was assessed as the top performing company. In the medium term this benefits customers through relatively lower prices and the Company intends to maintain its position in the efficiency rankings.

KPI - 5 Efficiency

Target	**Performance 2007/08**
To be ranked in Band A for Operating Efficiency	Operating Efficiency Band A

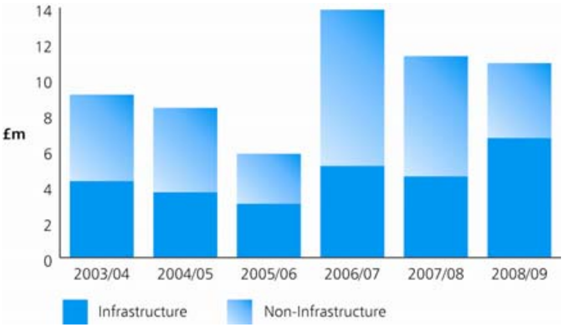
Capital Investment

The Company made good progress with the five year capital programme agreed with the Regulator for the period 2005 to 2010. Details of progress are shown in the table below:

Capital Programme Agreed	**Outcome**
Infrastructure Assets	
– Renewal of 25km of mains each year	Since April 2005, the Company has renewed an average of 24.6km per year
Water Quality	
Installation of membrane filtration plants to minimise the risk of cryptosporidium at	
– River Itchen	Completed Summer 2007
– Soberton	Completed 2008
– Fishbourne	Completed 2008
Remedial work on trunk mains in the Company's largest supply area to reduce the risk of discoloured water incidents	Completed Spring 2009
The installation of blending facilities at sources at risk from increasing nitrate levels	Will be completed by 2010
Optional Water Meters	
It was anticipated that 2,200 domestic customers would wish to switch from an unmeasured to a measured supply	In the 4 years to March 2009, over 18,000 customers had opted to switch, an average of 4,500 per year

Gross capital investment during the year was £11.8m (2008 - £12.0m) and included £5.2m (2008 - £4.8m) on infrastructure renewals. After receiving capital contributions and infrastructure charges of £0.9m, net capital expenditure was £10.9m (2008 - £11.2m). The chart below shows the level of net capital investment over a six year period in outturn prices.

Net Capital Expenditure



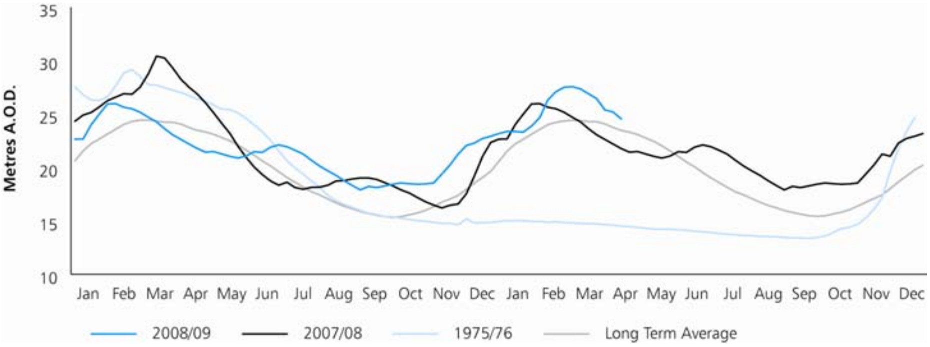
The major elements of expenditure in the year related to:

- Mains renewed - 24.9km (2008 - 27.0km) were renewed at a cost of £5.2m. The programme allowed for at the last Determination is now close to being met
- Membrane plants - now in service. Limited expenditure during the year
- Nitrate Blending Scheme - will be completed by 2010, expenditure in 2008/09 £2.2m
- Havant Thicket Winter Storage Reservoir - the Company has made good progress with the preparatory work for a winter storage reservoir at Havant Thicket, which should help ensure security of water supplies well into the future. A stakeholder group consisting of interested local bodies and interested parties is well established and we believe that there is strong local support. In order to obtain planning permission for this scheme, considerable environmental studies and public consultation has to be undertaken, which requires a range of design options and impact assessments. In 2008/09 this work resulted in expenditure of £0.7m

Water Resources - Outlook for 2009

As detailed on page 1, 90% 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 2009, groundwater levels were close to the long term average as outlined on the two year graph below, which includes the thirty year long term average and the drought year of 1976, when the Company last imposed a hosepipe ban.

Idsworth Well



Water resources are therefore expected to be sufficient to meet peak demands in the summer of 2009 and a hosepipe ban is not expected in our area of supply. However, the Company has used its newsletter, website and press releases to stress to customers the need to be conservative in their use of water.

Long Term Resource Planning

In April 2008, the Company published its Draft Water Resources Management Plan for public consultation. The plan examined the likely key influences on the demand for water from customers and on the Company's ability to meet that demand. The plan also identified the actions required to ensure that the supply/demand balance is met. Following representation from stakeholders, the Company has revised its plans and informed the Secretary of State of its proposed actions. The Secretary of State will consider the proposed actions and will advise in due course whether they are acceptable. Our plans are heavily influenced by the impact of climate change and we are awaiting the publication of new evidence by the UK Climate Change programme. It is unlikely that the Secretary of State will make a decision on our proposal until this evidence is available.

Leakage

Leakage for the year was recorded at an average of 30.4Ml/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 2004.

KPI - 6 Leakage

Target	Performance 2008/09
Average leakage of 29.7 Ml/d	Average leakage of 30.4 Mld

Average leakage for the report year at 30.4Ml/d was above the target of 29.7Ml/d. This was due mainly to a high incidence of bursts as a result of the cold weather conditions in December 2008 and January 2009. Over the last three years, however, the average leakage rate is 29.7Ml/d and therefore at the target level.

Employees

The Company employs 218 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 Institution of Water Officers (IWO). The IWO 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 IWO and gain the benefit for both their personal and professional development by attending these events.

Staff turnover, excluding retirees was 7.5% in 2009 (2008 - 8.1%), which compares favourably with the national average which was 15.7% in 2007 (Source – EEF Absence and Rehabilitation Survey 2008).

Total absence (days per employee per year) is just under 4.1. This figure compares with 4.48 for last year and is below the average for private companies of the same size at 7.1 (Source: CIPD: Annual Survey Report 2008).

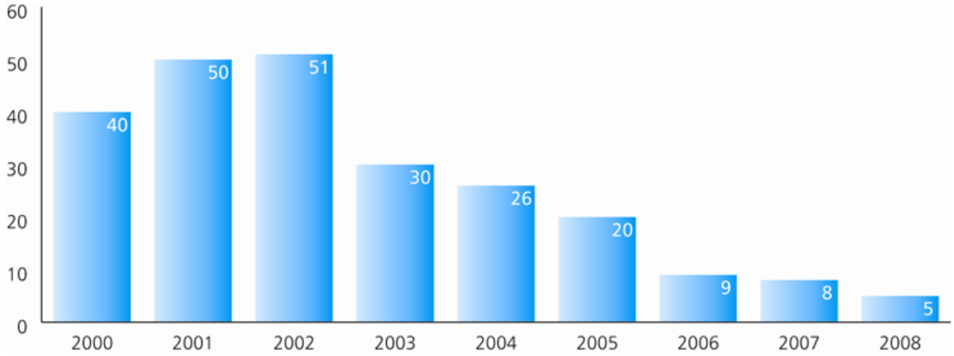
Health and Safety

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. It has been 5 years since the Company embarked on a mission to improve its health and safety culture and therefore the record in this area. To achieve the initial step change the Company put health and safety at the top of the agenda and from the Board down has made it a high priority.

Last year saw the Company implement a number of campaigns and initiatives, aimed at increasing staff awareness of health and safety issues.

The graph below portrays a positive picture in respect of the improvement in the Company's health and safety performance, notably a fall of over 80% in the number of total accidents compared with the number in 2003. The improvement since 2003 reinforces the Company's decision to revitalise health and safety and the commitment of time and resources into that area.

Total Accidents



It is pleasing to report that our efforts have again been recognised externally through the RoSPA Health and Safety Award Scheme. The Company has, for the last three years, been awarded the Gold award. 2009 saw the Company enter the prestigious health and safety sector awards and we were awarded the second place of 'highly commends' in the industry sector.

CORPORATE RESPONSIBILITY

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.

Biodiversity Action Plan

The Company's policy is to conserve and enhance the natural environment of its land and water areas 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. Where possible, the Company explores opportunities to encourage recreational use.

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.

Specific Environmental Projects

The Company has been involved in three environmental investigations into the impact of water abstraction on species identified by the Habitats Directive. The investigations at the River Itchen, Chichester Harbour and Langstone Harbour are covered in more detail on page 10.

Water Efficiency

The Company has continued, through various channels of communication such as its newsletter and website, to promote the need for the efficient use of water, both by domestic and commercial customers. Specific initiatives have included:

Cistern Devices

Approximately 14,200 'Save-a-Flush' bags were issued to customers during the year.

Measured Customers

All new properties are charged on the basis of a metered supply and all customers opting to install a meter received a leaflet, 'Saving Water at Home,' to ensure that customers most likely to benefit from water efficiency are reminded of the advantages, and each customer receives two 'Save-a-Flush' bags.

Commercial Water Audits

A leaflet entitled 'Saving Water in Your Business' is included on the Company website.

In-House Efficiency Study

A series of initiatives at the Company's Head Office has resulted in an overall saving since 2004 of 50% of previous water usage.

Work in the Community

Amenities and Recreation

In September 2004 Portsmouth Water entered into Educational Partnership with Staunton Country Park. This was initially a three year partnership but it has been extended by a further 3 years and is now due to end in August 2010.

This partnership has seen the creation of a curriculum linked water themed programme, 'Water is Life', suitable for primary school children. The 'Water is Life' programmes cover all aspects of water from its role in the planet, the water cycle as well as the treatment and supply process. A key element of water Conservation underpins the whole programme. This is supported by water boxes (an educational source full of simple water related experiments), information sheets and activity instructions for teachers to use as a resource at school. The programmes are available by having pre-arranged school trips and are guided with the help of the Park's education officer.

Since its launch nearly 5,000 school children have completed either the complete water is life programme or elements of the programme contained within their visit.

2008 also saw Staunton provide a Schools Water Festival Fortnight offering all Havant and Portsmouth schools a free ‘Water is Life’ session. One school which participated was for special needs teenagers and this provided the education team with the first opportunity to deliver the session to this type of audience. During this fortnight all school groups completed the water trail for free and were able to participate in activities from the Water Box. There was a total of 27 school visits (750 children).

Other new themes in 2008 saw the addition of a water element to the already established ‘eco-ranger’ trail at the park which is now available to school trips or birthday parties as an activity for younger children to complete.

As part of the Hampshire Water Festival a ‘Water is Life’ week has been created for visitors to participate in as part of their visit to the park. 2008 was the most successful so far with 24 volunteers from the Company assisting the Park’s staff allowing over 2,000 visitors to participate in a variety of water experiments and activities.

Charitable Trust Fund

Since 2004 the Company has been supporting a Charitable Trust Fund, which aims to provide assistance for customers who have difficulty paying their bills.

Drinking Water Bottles

‘Be Cool, Stay Cool, Drink Tap Water at School’

The Company has continued to promote the benefits to children of drinking water and as part of our ‘Water for Health’ initiative we have offered a drinking water bottle at the subsidised cost of 30p per bottle for every child in local primary, infant and junior schools.

The Water Bottles for Schools offer has gone from strength to strength with 30,000 delivered last year and which has seen nearly 190,000 water bottles through the schools being delivered to our local children over the last five years.

Community Talks

Employees continue to give community talks to local schools, colleges, clubs and groups such as Age Concern, Rotary and the Women’s Institute. To cope with the increasing demand for talks, a community talk team has been set up with volunteers from the Company.

Festivals and Fairs

The Company once again sponsored the Primary Schools Science Fair which is promoted by the Portsmouth and South East Hampshire Business and Education partnership. The three-day event held within the historic Dockyard utilising the HMS Warrior and Action Stations to house the exhibitor’s stands saw over 1,200 children from local schools visiting the exhibits.

The Company’s demonstrations this year included water treatment and how different filters work, the sampling process, and finished off with a short session on the need for all of us to conserve water.

FUTURE DEVELOPMENT AND PERFORMANCE

Cautionary statement regarding forward-looking statements

This section should be read in conjunction with the financial statements and notes thereto included elsewhere in this Annual Report. This Annual Report contains certain forward-looking statements with respect to the financial condition, results of operation and business of Portsmouth Water.

Statements that are not historical facts, including statements about Portsmouth Water’s beliefs and expectations, are forward-looking statements. Words such as ‘believes’, ‘anticipates’, ‘expects’, ‘intends’, ‘seeks’ and ‘plans’ and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. These statements are based on current plans, estimates and projections and, therefore, undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been revised or updated in the light of new information or future events.

The Company will continue to focus on service delivery to customers and will aim to remain at the efficiency frontier for operating and capital maintenance expenditure.

For 2009/10, overall charges to customers will increase by 4% from July 2009.

Energy costs will increase further as the full year effect of the 40% price increase for electricity set in 2009 is felt. Electricity represents 11% of total operating costs.

Gross capital expenditure in 2009/10 will be £14.5m (2009 - £11.8m), a relatively high figure as the Company completes its AMP4 capital programme. Mains renewals will account for £5.4m and completion of blending facilities at £1.8m are also included.

As a result of these factors, the Company anticipates that debt will rise from the March 2009 level of £82.9m to £86.4m in 2010. The increase in debt will be met by existing loan facilities. It is anticipated that, by 2010, net debt to RCV will be approximately 80.5%. These projections assume negative RPI for much of 2009, which will reduce the value of the index linked debt and the regulatory capital value.

Performance beyond 2010 is dependent on the outcome of the periodic review process and Ofwat's final determination of price limits scheduled for November 2009. In April 2009, the Company submitted its Final Business Plan which called for price increases of 2.1% for each of the 5 years to 2015. The key drivers of these proposals were energy costs, charges for abstraction of water imposed by the Environment Agency and business rates.

Since the water and sewerage companies were privatised in 1989, the allowed weighted average cost of capital (WACC) has included a premium for water only companies to reflect the higher cost of securing finance, both debt and equity. At the last price review, Portsmouth Water was allowed a premium of 0.7% on the WACC. Ofwat have indicated that they do not believe such a premium is necessary, but have asked for evidence to support its retention. Evidence has been provided by the water only companies and it is for Ofwat to consider it.

RISKS AND UNCERTAINTIES

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.

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.

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 DWI standards. Furthermore, a telemetry system linked to all treatment works provides an alarm 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.

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. 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.

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 European Habitats Directive and the Water Framework Directive. Investigations have been carried out into the impact of abstraction by the Company at a number of sites covered by the Habitats Directive.

A study into the sustainability of abstraction from the River Itchen is complete and options have been reviewed with the EA and Southern Water for minimising the potential impact of abstraction on salmon migration, southern damselfly and invertebrates. The EA have made their decisions on the changes they require in the abstraction of water by both Portsmouth Water and Southern Water who also have an abstraction upstream of the Portsmouth facility. As a result of these changes, the Company will lose 10 Ml/day of abstraction from the river at the time of peak demand. This equates to 22% of the available abstraction for the river. The Company has published its plans for addressing this reduction in its Water Resources Management Plan.

Chichester and Langstone Harbours are Special Protection Areas (SPA) under the Habitats Directive. A comprehensive ecological and hydrological study carried out by the Company examined the effects on Chichester Harbour and its wildlife of operating the Company's Fishbourne source within the existing abstraction licence. The study has focused particularly on the significance of an adequate freshwater flow into the Harbour for wading birds and on maintaining a habitat for the rare Desmoulins Whorl Snail. Another study conducted by the EA considered the importance of freshwater flows into Langstone Harbour from the Springs at Havant and Bedhampton. The EA has announced its conclusions on these licences and the Company believes the required changes will have little impact on its ability to match supply and demand.

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 in its Final Business Plan to remedy those sites where there is a risk of damage as a result of flooding.

Regulatory risk relates to decisions taken by Ofwat at the five yearly price review and the potential failure to meet the monitoring plan agreed with Ofwat, containing targets for the period 2005 to 2010 for the capital programme, customer service and leakage. Failure to meet the monitoring plan targets could result in Ofwat taking action, including financial penalties. The last price review was completed in 2004, for the period 2005 to 2010, and the next review will be in 2009, for the period 2010 to 2015. The price review is conducted in an open and transparent manner and the Company actively participates in the process. The performance against the monitoring plan is reviewed on a monthly basis by the Board or the Executive Directors. The performance against the measures in the monitoring plan are discussed on pages 4 to 5.

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
- 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**

25 June 2009

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 and the Listing Rules of the Financial Services Authority.

Information not subject to audit

Remuneration Committee

The Remuneration Committee met only 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 M.B.E. 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, did not include a performance related element. From April 2009 their salary will include a performance related element, which will be based upon the achievement of agreed financial and customer service targets for the whole of the previous year.

All four executive Directors have one year service contracts with the Company, which are in accordance with 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.

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:

	2009 £000	**2008 £000**
Total remuneration	578	558
Highest paid Director	160	153

Remuneration is analysed by Director below:

	Salary/Fees £000	**Benefits £000**	**Total 2009 £000**	**Total 2008 £000**
Executive:				
J. E. Cogley	102	12	114	110
A. R. Neve	102	9	111	107
N. J. Roadnight	144	16	160	153
N. Smith	108	14	122	118
Non-executive:				
T. M. Lazenby M.B.E. (Chairman)	31	-	31	30
R. L. Sullivan	20	-	20	20
R. J. Tennant	20	-	20	20
	527	51	578	558

Fees paid in respect of Mr. T. M. Lazenby M.B.E. are paid to Seamab Consultancy Ltd.
Benefits comprise company cars and medical insurance.

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' 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
J. E. Cogley	30
A. R. Neve	30
N. J. Roadnight	48
N. Smith	42

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 2009 £000	Transfer Value of Increase £000	Accumulated Accrued Pension at 31 March 2009 £000	Accumulated Accrued Pension at 31 March 2008 £000
J. E. Cogley	1	25	68	64
A. R. Neve	1	23	69	64
N. J. Roadnight	3	47	93	86
N. Smith	2	27	56	52

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.

The increase in accrued pension excludes any increase for inflation.

The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The transfer value of the increase (excluding inflation) is then reduced by the amount of each member's contribution paid during the year.

BY ORDER OF THE BOARD

T. M. LAZENBY M.B.E.
CHAIRMAN
HAVANT
25 JUNE 2009

HISTORICAL COST PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2009

	Notes	Appointed 2009 £000	Non Appointed 2009 £000	Total 2009 £000	Appointed 2008 £000	Non Appointed 2008 £000	Total 2008 £000
TURNOVER	2	35,384	20	35,404	33,852	54	33,906
Operating costs	3	(25,188)	(19)	(25,207)	(23,462)	(36)	(23,498)
Historical cost depreciation		(3,264)	-	(3,264)	(3,027)	-	(3,027)
Operating income	4	(37)	-	(37)	(183)	-	(183)
OPERATING PROFIT		6,895	1	6,896	7,180	18	7,198
Other income	5	-	56	56	-	204	204
Interest receivable	6	4,537	-	4,537	4,331	-	4,331
Other finance income	20	1,676	-	1,676	2,851	-	2,851
Interest payable and similar charges	7	(7,351)	-	(7,351)	(6,215)	-	(6,215)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		5,757	57	5,814	8,147	222	8,369
Taxation	8						
- Current Tax		(892)	(16)	(908)	(1,877)	(67)	(1,944)
- Deferred Tax		(775)	-	(775)	1,797	-	1,797
PROFIT FOR THE FINANCIAL YEAR		4,090	41	4,131	8,067	155	8,222
Dividends	9	(4,623)	(41)	(4,664)	(4,054)	(155)	(4,209)
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR		(533)	-	(533)	4,013	-	4,013

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2009

	Notes	Appointed 2009 £000	Non Appointed 2009 £000	Total 2009 £000	Appointed 2008 £000	Non Appointed 2008 £000	Total 2008 £000
Profit for the financial year		4,090	41	4,131	8,067	155	8,222
Actuarial (loss)/gain on pension scheme	20	(13,020)	-	(13,020)	7,602	-	7,602
Deferred tax relating to actuarial loss/(gain) on pension scheme	18	3,646	-	3,646	(2,129)	-	(2,129)
Effect of change to corporation tax rate on pension asset		-	-	-	(292)	-	(292)
Total recognised gains and losses relating to the year		(5,284)	41	(5,243)	13,248	155	13,403

As at 31 March 2009

	Notes	Appointed 2009 £000	Non Appointed 2009 £000	Total 2009 £000	Appointed 2008 £000	Non Appointed 2008 £000	Total 2008 £000
FIXED ASSETS							
Tangible	10	88,068	-	88,068	85,564	-	85,564
Investments							
- Loan to group company	11	60,633	-	60,633	60,478	-	60,478
- Other	13	4	-	4	4	-	4
		148,705	-	148,705	146,046	-	146,046
CURRENT ASSETS							
Stores		415	-	415	468	-	468
Debtors	12	4,032	-	4,032	4,049	-	4,049
Cash and short-term deposits	14	2,604	-	2,604	2,427	67	2,494
Infrastructure renewals prepayment		919	-	919	272	-	272
		7,970	-	7,970	7,216	67	7,283
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR							
Borrowings	15	(4,284)	-	(4,284)	(4,284)	-	(4,284)
Corporation tax payable		-	-	-	(928)	(67)	(995)
Unpaid dividend		(1,875)	-	(1,875)	(2,290)	-	(2,290)
Creditors	16	(10,895)	-	(10,895)	(10,447)	-	(10,447)
NET CURRENT LIABILITIES		(9,084)	-	(9,084)	(10,733)	-	(10,733)
TOTAL ASSETS LESS CURRENT LIABILITIES		139,621	-	139,621	135,313	-	135,313
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR							
Borrowings	17	(81,263)	-	(81,263)	(77,239)	-	(77,239)
PROVISIONS FOR LIABILITIES							
Deferred Taxation	18	(9,131)	-	(9,131)	(8,344)	-	(8,344)
NET ASSETS EXCLUDING PENSION ASSET		49,227	-	49,227	49,730	-	49,730
Pension asset	20	12,180	-	12,180	21,584	-	21,584
NET ASSETS INCLUDING PENSION ASSET		61,407	-	61,407	71,314	-	71,314
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	55,540	-	55,540	65,447	-	65,447
		61,407	-	61,407	71,314	-	71,314

For the year ended 31 March 2009

	Statutory UK GAAP £m	Regulatory £m	Commentaries
PROFIT AND LOSS ACCOUNT			
Operating profit	6,989	6,896	See a) below
BALANCE SHEET			
Tangible fixed assets (net book value)	90,459	88,068	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 (£0.037m) 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 £0.056m. In the Regulatory Accounts the amount shown includes the (£0.037m) 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 1985, 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.

(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.

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

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 22. In accordance with the Companies Act 1985 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 those of the deferred tax liabilities.

(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 26 to 28.

(i) Financial instruments

The Company's financial instruments consist of loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments.

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 using the effective rate method.

Other financial assets consist of short term bank deposits and are classified as financial assets at fair value through the profit and loss account. They are measured at fair value.

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 financial liabilities and are measured at amortised cost. There are also variable rate loans which are measured at fair value.

2. TURNOVER

	Appointed 2009 £000	Non Appointed 2009 £000	Total 2009 £000	Appointed 2008 £000	Non Appointed 2008 £000	Total 2008 £000
Unmeasured supplies	22,242	-	22,242	21,396	-	21,396
Measured supplies	9,438	-	9,438	8,530	-	8,530
Measured large users	2,079	-	2,079	2,106	-	2,106
SWS Bulk Supply	518	-	518	530	-	530
Third party services	982	20	1,002	1,140	54	1,194
Other sources	125	-	125	150	-	150
	35,384	20	35,404	33,852	54	33,906

3. ANALYSIS OF OPERATING COSTS

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

	Appointed 2009 £000	Non Appointed 2009 £000	Total 2009 £000	Appointed 2008 £000	Non Appointed 2008 £000	Total 2008 £000
Manpower costs	7,883	15	7,898	8,450	26	8,476
Other costs of employment	182	-	182	198	-	198
Power	1,984	-	1,984	1,734	-	1,734
Rates	2,390	-	2,390	2,287	-	2,287
Hired and contracted services	3,902	-	3,902	3,543	5	3,548
Materials and consumables	1,475	4	1,479	1,326	5	1,331
Service charges	1,865	-	1,865	1,718	-	1,718
Infrastructure renewals charge	4,420	-	4,420	3,633	-	3,633
Provision for bad and doubtful debts	589	-	589	396	-	396
Other operating costs	498	-	498	177	-	177
	25,188	19	25,207	23,462	36	23,498

Other operating costs include payments made to the EOS Foundation, which is a charitable trust used to assist customers in debt. A donation of £25,000 was made in the year (2008 - Nil).

4. OPERATING INCOME

	Appointed 2009 £000	Non Appointed 2009 £000	Total 2009 £000	Appointed 2008 £000	Non Appointed 2008 £000	Total 2008 £000
(Loss) arising on disposal of fixed assets	(37)	-	(37)	(183)	-	(183)

5. OTHER INCOME

	Appointed 2009 £000	Non Appointed 2009 £000	Total 2009 £000	Appointed 2008 £000	Non Appointed 2008 £000	Total 2008 £000
Rents	-	51	51	-	72	72
Commission from Southern Water Services	-	-	-	-	126	126
Home Assistance Service	-	5	5	-	6	6
	-	56	56	-	204	204

6. INTEREST RECEIVABLE

	2009 £000	2008 £000
Loan to Group Company	4,303	4,223
Repayment interest	138	-
Interest on short term deposits	81	78
Other interest receivable	15	30
	4,537	4,331

			2009 £000	2008 £000
7.	**INTEREST PAYABLE AND SIMILAR CHARGES**			
	£66.5m loan	- interest	2,956	2,827
		- indexation	3,967	2,900
		- amortisation of fees	57	57
		- administration expenses	22	22
			7,002	5,806
	Other bank loans and overdraft		312	384
	Debenture stocks		10	10
	Other interest payable		27	15
			7,351	6,215

		2009 £000	2008 £000
8.	**TAXATION**		
	Current tax		
	United Kingdom corporation tax at 28% (2008 - 30%)	1,430	1,951
	Adjustment in respect of prior periods	(522)	(7)
		908	1,944
	Deferred tax		
	Origination and reversal of timing differences 915		644
	Decrease/(Increase) in discount	143	(141)
	Effect of removal of IBA's	-	(1,403)
	Effect of changes to corporation tax and capital allowance rates	-	(592)
	Difference between pension cost charge and pension cost relief	(12)	153
	Effect of change to corporation tax rate on pension asset	-	(729)
		775	(1,797)
	Tax on profit on ordinary activities	1,683	147

The adjustment in respect of prior periods relates to a tax refund received following a change in the tax treatment of infrastructure renewals expenditure.

The tax charge for the year is lower (2008 - lower) than the standard rate of corporation tax in the UK of 28% (2008 - 30%). The difference is explained as follows:

	2009	2008
Profit on ordinary activities before tax	5,814	8,369
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008 - 30%)	1,628	2,511
Effect of:		
Expenses not deductible for tax purposes	23	69
Depreciation for the period in excess of capital allowances	(447)	(671)
Revenue items charged to capital	214	206
Difference between pension cost charge and pension cost relief	12	(164)
Adjustments to tax charge in respect of prior periods	(522)	(7)
Current tax charge for year	908	1,944

9. DIVIDENDS

	2009 £000	2008 £000
Equity: Ordinary/'A' Ordinary		
- interim paid	2,576	2,422
- final paid	2,088	1,640
- special paid	-	147
	4,664	4,209

The Directors are proposing the payment of a final dividend of £2.613m for the year ended 31 March 2009. This dividend has not been accounted for within the current year financial statements as it has yet to be approved.

Part of the total dividend paid by the Company is attributable to the income received from the inter-company loan to South Downs. This element should be excluded to show the dividend attributable to the ongoing operation of the business. The dividends therefore comprise:

	2009 £000	2008 £000
Dividend attributable to the operations of the business	1,697	1,699
Net benefit from interest received on the inter-company loan	3,008	2,518
Special dividend	-	147
	4,705	4,364
Less dividend attributable to non-appointed business	(41)	(155)
	4,664	4,209

The policy for the Company is to grow the dividend attributable to operations through to 2010 in real terms by 2.0% per annum subject to operating cost outperformance and the timing of the cashflow over the reporting year. This is consistent with the approach taken by Ofwat at the Final Determination.

10. TANGIBLE FIXED ASSETS

	Operational Assets £000	Infrastructure Assets £000	Other Tangible Assets £000	Total £000
HISTORICAL COST				
At 1 April 2008	74,881	41,441	10,851	127,173
Additions	2,444	2,519	1,751	6,714
Disposals	(9)	-	(740)	(749)
At 31 March 2009	77,316	43,960	11,862	133,138
DEPRECIATION				
At 1 April 2008	16,624	-	7,097	23,721
Charge for year	2,173	-	1,091	3,264
Disposals during year	(2)	-	(691)	(693)
At 31 March 2009	18,795	-	7,497	26,292
NET BOOK VALUE				
At 31 March 2009	58,521	43,960	4,365	106,846
At 1 April 2008	58,257	41,441	3,754	103,452
CAPITAL CONTRIBUTIONS				
At 1 April 2008	-	17,888	-	17,888
Received during year	-	890	-	890
At 31 March 2009	-	18,778	-	18,778
NET BOOK VALUE AFTER DEDUCTING CAPITAL CONTRIBUTIONS				
At 31 March 2009	58,521	25,182	4,365	88,068
At 1 April 2008	58,257	23,553	3,754	85,564

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. A reconciliation to the balance sheet shown in the Statutory Accounts is provided below:

	Infrastructure Assets £000
COST	
Cost at 31 March 2009 per Regulatory Accounts	43,960
Adjustment to opening balance	31,136
Infrastructure renewals expenditure capitalised since 1 April 1999	36,399
Disposals since 1 April 1999	(2,116)
Cost at 31 March 2009 per Statutory Accounts	109,379
DEPRECIATION	
At 31 March 2009 per Regulatory Accounts	-
Adjustment to opening balance	31,136
Depreciation charge for infrastructure renewals since 1 April 1999	34,008
Disposals	(2,116)
At 31 March 2009 per Statutory Accounts	63,028
NET BOOK VALUE	
At 31 March 2009 per Regulatory Accounts	43,960
Adjustments for infrastructure renewals accounting since 1 April 1999	2,391
At 31 March 2009 per Statutory Accounts	46,351

11. FIXED ASSET INVESTMENT

	Loan to Group Undertakings
At 1 April 2008	60,478
Addition	155
At 31 March 2009	60,633

12. DEBTORS

	2009 £000	2008 £000
Trade debtors	1,133	1,064
Amounts owed by Group companies	26	66
Prepayments and accrued income	2,749	2,811
Other debtors	124	108
	4,032	4,049

All of the above amounts fall due within one year

As at 31 March 2009, trade debtors with a carrying value of £2.919m (2008 - £2.573m) were provided for. The amount of the provision was £2.042m as at 31 March 2009 (2008 - £1.794m).

The ageing of these debtors was as follows:

	2009 £000	2008 £000
Up to 12 months	1,137	976
Over 12 months	1,782	1,597
	2,919	2,573

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:

	2009 £000	2008 £000
As at 1 April 2008	1,794	1,607
Provision for bad debt required in the year	589	396
Debt written off in the year as uncollectable	(341)	(209)
As at 31 March 2009	2,042	1,794

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

	2009 £000	2008 £000
Unlisted investments	4	4

14. CASH AT BANK AND IN HAND

Of the total amount shown of £2.604m, £1.464m (2008 - £1.463m) is held specifically for the payment of the next half yearly loan interest charges.

15. BORROWINGS: DUE WITHIN ONE YEAR

	2009 £000	2008 £000
3% Perpetual debenture stock	60	60
3½% Perpetual debenture stock	185	185
4% Perpetual debenture stock	39	39
Bank loan	4,000	4,000
	4,284	4,284

The £4m bank loan is part of a five year £15m working capital facility, which is secured upon the assets of the Company and bears interest at London Interbank rates.

16. OTHER CREDITORS	**Appointed 2009 £000**	**Non Appointed 2009 £000**	**Total 2009 £000**	**Appointed 2008 £000**	**Non Appointed 2008 £000**	**Total 2008 £000**
Payments received on account	972	-	972	1,273	-	1,273
Trade creditors	920	-	920	714	-	714
Amounts owed to Group companies	725	-	725	725	-	725
Social security and other taxation	215	-	215	208	-	208
Other creditors	2,431	-	2,431	2,203	-	2,203
Accruals	574	-	574	463	-	463
Water rates in advance	5,058	-	5,058	4,861	-	4,861
	10,895	-	10,895	10,447	-	10,447

17. BORROWINGS: DUE AFTER ONE YEAR	**2009 £000**	**2008 £000**
Bank loan	82,600	78,633
Less: deferred arrangement costs	1,337	1,394
	81,263	77,239

The thirty year £66.5m index-linked loan was issued on 26 June 2002 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	**2009 £000**	**2008 £000**
DEFERRED TAXATION:		
At 1 April 2008	8,344	9,565
Provided during the year in profit and loss account	787	(1,221)
At 31 March 2009	9,131	8,344

The total deferred tax balance before the effect of discounting is £10.069m (2008 - £9.426m). The amount provided for deferred taxation represents timing differences caused by the excess of tax allowances over depreciation.

	2009 £000	**2008 £000**
Deferred tax excluding that relating to pension asset:		
Accelerated capital allowances	9,131	8,344
Pension asset (note 20)	4,736	8,394
Total provision for deferred tax	13,867	16,738
At 1 April 2008	16,738	16,114
Deferred tax charge in profit and loss account (note 8)	775	(1,797)
Deferred tax charged to the statement of total recognised gains and losses	(3,646)	2,421
At 31 March 2009	13,867	16,738

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 £0.694m (2008 - £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
As 1 April 2008	1,539	3,250	65,447
Profit for financial year	-	-	4,131
Dividends	-	-	(4,664)
Actuarial loss on pension scheme	-	-	(13,020)
Movement on deferred tax relating to pension scheme	-	-	3,646
As 31 March 2009	1,539	3,250	55,540

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.

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

	2009 % per annum	2008 % per annum	2007 % per annum
Price inflation	3.2	3.7	3.2
Discount rate	6.9	6.7	5.2
Pension increases (RPI)	3.2	3.7	3.2
Salary growth	5.45	6.45	5.95

On the basis of the assumptions used for life expectancy, a male pensioner currently aged 60 would be expected to live for a further 28.6 years (2008 - 26.8 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:

	2009 Expected Return % per annum	2009 Fair Value £000	2008 Expected Return % per annum	2008 Fair Value £000	2007 Expected Return % per annum	2007 Fair Value £000
Equities	8.0	53,382	7.7	66,777	7.8	76,283
Bonds	4.2	29,017	4.5	33,139	4.5	27,670
Other	1.9	4,325	3.9	7,780	5.4	4,758
	6.4	86,724	6.4	107,696	6.9	108,711

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

	2009 £000	2008 £000
Total fair value of scheme assets	86,724	107,696
FRS 17 value of scheme liabilities	69,808	77,718
Gross pension asset	16,916	29,978
Related deferred tax liability	4,736	8,394
Net pension asset	12,180	21,584

Under FRS 17, the scheme is represented on the balance sheet at 31 March 2009 as an asset of £16.916m (2008 - £29.978m), which amounts to £12.180m net of deferred tax (2008 - £21.584m).

The Company remains on a contribution holiday at the present time, although it has agreed to begin paying contributions from 1 April 2010 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:

	2009 £000	2008 £000
Opening scheme liabilities	77,718	86,882
Employer's part of current service cost	1,718	2,304
Interest cost	5,175	4,500
Contributions by scheme participants	277	177
Benefits paid	(2,968)	(3,161)
Actuarial gain	(12,112)	(12,984)
Closing scheme liabilities	69,808	77,718

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

	2009 £000	2008 £000
Opening fair value of scheme assets	107,696	108,711
Expected return on assets	6,851	7,351
Contributions by scheme participants	277	177
Benefits paid	(2,968)	(3,161)
Actuarial loss	(25,132)	(5,382)
Closing fair value of scheme assets	86,724	107,696

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

	2009 £000	2008 £000
Current service cost (employer's part only)	1,718	2,304
Past service credit	-	-
Total operating charge	1,718	2,304

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

	2009 £000	2008 £000
Expected return on pension scheme assets	6,851	7,351
Interest on post retirement liabilities	(5,175)	(4,500)
Net return	1,676	2,851
Total (expense)/credit recognised in the profit and loss account	(42)	547

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

	2009	2008
Actual return less expected return on scheme assets	(25,132)	(5,382)
Experience gains arising on scheme liabilities	4,722	-
Gain due to changes in assumptions underlying the FRS 17 value of scheme liabilities	7,390	12,984
Actuarial (loss)/gain recognised in the STRGL	(13,020)	7,602

The actual return on plan assets was a loss of £18.281m in the year to 31 March 2009 (2007 - gain of £1.969m).

The history of experience gains and losses is:

	2009	2008	2007	2006	2005
Present value of scheme liabilities (£000)	(69,808)	(77,718)	(86,882)	(84,086)	(71,593)
Total fair value of scheme assets (£000)	86,724	107,696	108,711	104,899	87,984
Surplus (£000)	16,916	29,978	21,829	20,813	16,391
Actual return less expected return on scheme assets (£000)	(25,132)	(5,382)	(535)	13,587	3,565
Percentage of scheme's assets	(29%)	(5)%	0%	13%	4%
Experience gains arising on scheme's liabilities (£000)	4,722	-	-	65	61
Percentage of the FRS 17 value of the scheme's liabilities	7%	-	-	-	-
Total amount recognised in the STRGL (£000)	(13,020)	7,602	(519)	4,527	2,237
Percentage of the FRS 17 value of the scheme's liabilities	19%	10%	0%	5%	3%

The cumulative amount recognised in the STRGL as at 31 March 2009 was a loss of £19.997m (2008 - loss of £6.977m).

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 2009

	Notes	2009 £000	2008 £000
TURNOVER	2	35,384	33,852
Current cost operating costs	3	(29,901)	(28,011)
Operating income	2	(48)	(631)
		5,435	5,210
Working capital adjustment	4	(21)	330
CURRENT COST OPERATING PROFIT		5,414	5,540
Interest receivable		4,537	4,331
Other finance income		1,676	2,851
Interest payable and similar charges		(7,351)	(6,215)
Financing adjustment	4	(13)	68
CURRENT COST PROFIT BEFORE TAXATION		4,263	6,575
Taxation			
- Current Tax		(892)	(1,877)
- Deferred Tax		(775)	1,797
CURRENT COST PROFIT FOR THE FINANCIAL YEAR		2,596	6,495
Dividends		(4,623)	(4,054)
CURRENT COST (LOSS)/PROFIT RETAINED		(2,027)	2,441

CURRENT COST BALANCE SHEET
FOR THE APPOINTED BUSINESS

As at 31 March 2009

	Notes	2009 £000	2008 £000
FIXED ASSETS			
Tangible fixed assets	5	719,233	720,014
Third party contributions since 1989/90		(20,202)	(19,390)
		699,031	700,624
Working capital	6	(5,891)	(5,302)
Cash		1,144	967
Short term deposits		1,460	1,460
Infrastructure renewals prepayment		919	272
NET OPERATING ASSETS		696,663	698,021
NON OPERATING ASSETS AND LIABILITIES			
Borrowings		(4,284)	(4,284)
Non-trade debtors		152	58
Non-trade creditors: amounts falling due within one year		(711)	(687)
Investment - loan to group company		60,633	60,478
- other		4	4
Corporation tax payable		-	(928)
Dividends		(1,875)	(2,290)
TOTAL NON OPERATING ASSETS AND LIABILITIES		750,582	750,372
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR			
Borrowings		(81,263)	(77,239)
PROVISIONS FOR LIABILITIES AND CHARGES		669,319	673,133
Deferred tax provision		(9,131)	(8,344)
NET ASSETS EXCLUDING PENSION ASSET		660,188	664,789
Pension asset		12,180	21,584
NET ASSETS INCLUDING PENSION ASSET		672,368	686,373
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	20,849	32,250
Current cost reserve	8	645,652	648,256
		672,368	686,373

For the year ended 31 March 2009

	Notes	Appointed 2009 £000	Non Appointed 2009 £000	Total 2009 £000	Appointed 2008 £000	Non Appointed 2008 £000	Total 2008 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	9	16,662	57	16,719	15,774	222	15,996
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE							
Interest received		4,417	-	4,417	3,780	-	3,780
Interest paid		(3,327)	-	(3,327)	(3,257)	-	(3,257)
NET CASHFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE		1,090	-	1,090	523	-	523
TAXATION							
UK corporation tax paid		(1,925)	(83)	(2,008)	(1,866)	(44)	(1,910)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT							
Purchase of tangible fixed assets		(6,454)	-	(6,454)	(8,139)	-	(8,139)
Receipt of contributions		890	-	890	753	-	753
Infrastructure renewals expenditure		(5,067)	-	(5,067)	(4,775)	-	(4,775)
Sale of tangible fixed assets		19	-	19	32	-	32
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(10,612)	-	(10,612)	(12,129)	-	(12,129)
EQUITY DIVIDENDS PAID		(5,038)	(41)	(5,079)	(4,791)	(155)	(4,946)
CASH INFLOW/(OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		177	(67)	110	(2,489)	23	(2,466)
MANAGEMENT OF LIQUID RESOURCES							
(Purchase) of short term deposits		-	-	-	(60)	-	(60)
NET CASHFLOW BEFORE FINANCING		177	(67)	110	(2,549)	23	(2,526)
FINANCING							
New loans		-	-	-	2,500	-	2,500
INCREASE/(DECREASE) IN CASH IN THE YEAR	10	177	(67)	110	(49)	23	(26)

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 and 18, 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.

2. TURNOVER

	2009 £000	2008 £000
Unmeasured supplies	22,242	21,396
Measured supplies	9,438	8,530
Measured large users	2,079	2,106
SWS bulk supply	518	530
Third party services	982	1,140
Other sources	125	150
	35,384	33,852

OPERATING INCOME

	2009 £000	2008 £000
Current cost loss on disposal of fixed assets	(48)	(631)
Working capital adjustment	(21)	330

3. CURRENT COST OPERATING COSTS

	2009 £000	2008 £000
Operating costs per historical cost accounts	28,452	26,489
Current cost depreciation adjustment (note 1)	1,449	1,522
	29,901	28,011

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 2008	182,405	595,984	13,367	791,756
RPI adjustment	(688)	(2,248)	(47)	(2,983)
Disposals	-	-	(1,011)	(1,011)
Additions	2,444	2,519	1,752	6,715
At 31 March 2009	184,161	596,255	14,061	794,477
DEPRECIATION				
At 1 April 2008	62,492	-	9,250	71,742
RPI adjustment	(236)	-	(31)	(267)
Disposals during year	-	-	(944)	(944)
Charge for year	3,561	-	1,152	4,713
At 31 March 2009	65,817	-	9,427	75,244
NET BOOK VALUE				
At 31 March 2009	118,344	596,255	4,634	719,233
At 1 April 2008	119,913	595,984	4,117	720,014

The RPI adjustment relates to the decrease of the current cost valuations in line with inflation.

6. WORKING CAPITAL

		2009 £000	2008 £000
Stores		415	468
Trade debtors	- measured household	26	11
	- unmeasured household	1,268	1,137
	- measured non-household	295	280
	- unmeasured non-household	11	12
	- other	256	285
Measured income accrual		2,453	2,274
Prepayments and other debtors		168	538
Trade creditors		(920)	(714)
Deferred income - customer advance receipts		(1,696)	(1,936)
Capital creditors		(2,037)	(1,777)
Accruals and other creditors		(6,130)	(5,880)
TOTAL WORKING CAPITAL		(5,891)	(5,302)

7. PROFIT AND LOSS ACCOUNT

	£000
As 1 April 2008	32,250
Loss for the financial year	(2,027)
Actuarial loss on pension scheme	(13,020)
Movement on deferred tax relating to pension scheme	3,646
As 31 March 2009	20,849

8. CURRENT COST RESERVE

	£000
As 1 April 2008	648,256
RPI adjustments:-	
Fixed assets	(2,716)
Working capital adjustment	21
Net finance adjustment	13
Third party contributions	78
At 31 March 2009	645,652

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

	2009 £000	2008 £000
Current cost operating profit	5,414	5,540
Working capital adjustment	21	(330)
Increase/(decrease) in working capital	94	(758)
Other finance income	1,718	2,304
Current cost depreciation	4,713	4,549
Current cost loss on sale of fixed assets	48	631
Infrastructure renewals charge	4,420	3,633
Movement in provisions	234	205
NET CASHFLOW FROM OPERATING ACTIVITIES	16,662	15,774

10. ANALYSIS OF NET DEBT

	As at 1 April 2008 £000	Cash Flow £000	Non Cash Movements £000	As at 31 March 2009 £000
Cash at bank and in hand	967	177	-	1,144
Loans due after one year	(77,239)	-	(4,024)	(81,263)
Loans due within one year	(4,284)	-	-	(4,284)
	(81,523)	-	(4,024)	(85,547)
Short term deposits	1,460	-	-	1,460
Current asset equity investments	4	-	-	4
	1,464	-	-	1,464
	(79,092)	177	(4,024)	(82,939)

INTEREST RATE RISK PROFILE

	Fixed rate £000	Floating Rate £000	Index linked £000	Total £000
MATURITY PROFILE				
Less than one year	(284)	(4,000)	-	(4,284)
Between one and two years	-	-	-	-
Between two and five years	-	-	-	-
Between five and twenty years	-	-	-	-
In more than twenty years	-	-	(81,263)	(81,263)
TOTAL BORROWINGS	(284)	(4,000)	(81,263)	(85,547)
Cash and investments				1,148
Short term deposits				1,460
NET DEBT				(82,939)

	Resources & Treatment £000	Distribution £000	Water Supply Subtotal £000
Direct Costs			
Employment costs	185	2,708	2,893
Power	996	871	1,867
Hired and contracted services	8	544	552
Materials and consumables	392	381	773
Service charges	1,865	-	1,865
Other direct costs	33	42	75
Total direct costs	3,479	4,546	8,025
General and support expenditure	2,369	3,211	5,580
Total functional expenditure	5,848	7,757	13,605
Business Activities			
Customer services			1,790
Scientific services			1,030
Other business activities			690
Business activities subtotal			3,510
Local authority rates			2,360
Doubtful debts			589
Total opex less third party services			20,064
Third party services - opex			704
Total operating expenditure			20,768
Capital Maintenance			
Infrastructure renewals charge	-	4,420	4,420
Current cost depreciation			
- service activities	1,849	2,806	4,655
- business activities			58
Total capital maintenance			9,133
Total operating costs			29,901
CCA (MEA) Values			
Service activities	46,437	671,479	717,916
Business activities			1,317
Service totals			719,233
Services for the third parties			-
Total			719,233

Regulatory Capital Value at 2008/09 prices

	£000
Opening Regulatory Capital Value as at 1 April 2008	108,896
Capital Expenditure (excluding infrastructure renewals)	3,965
Infrastructure renewals expenditure	4,458
Infrastructure renewals charge	(4,225)
Capital contributions	(1,369)
Current cost depreciation	(4,565)
Outperformance of regulatory assumptions (5 years in arrears)	(2,506)
Closing Regulatory Capital Value as at 31 March 2009	104,654
Average Regulatory Capital Value for the year	108,544

Explanatory Note

The Table shown above gives the build up of the Regulatory Capital Value for the financial year ended 31 March 2009 that was used by the Office of Water Services in setting price limits for the current period in the 2004 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 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 2004 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 2004 Final Determination will 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 2010 onwards.

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 1985;
- 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 25 June 2009 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 2009
- the current level of gearing
- the projected level of gearing through to 2010, based on its own internal budget projections
- the Company's available bank and overdraft facilities through to 2010
- the headroom between the projected key operating ratios (gearing and interest cover) and its loan covenants through to 2010

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 ....

J. E. Cogley ....

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 £60.633m. 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 21 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 £1,284,259.

Supply of Services

Details of services supplied to the Appointee by associates during the year are disclosed below. No services of a material value were provided by the Appointee to associates.

Service	Associate Company	Turnover of Associate (£000's)	Terms of Supply	Value (£000's)
Rent of operational sites	Brockhampton Holdings Limited	234	Market Tested	82
Management Charge	South Downs Limited	-	Turnover	55

There is a recharge of Directors salaries amounting to £20,062, paid to Portsmouth Water Limited by Brockhampton Holdings Limited, which represents the time spent by Portsmouth Water Executive Directors on Group matters.

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 Ltd on pages 14 to 38 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, the historical cost reconciliation between statutory and regulatory accounts and the related notes to the historical cost financial statements; 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.

This report is made, on terms that have been agreed, solely to the Company and the Water Services Regulation Authority (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 undertaker under the Water Industry Act 1991 (the Regulatory Licence). 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 the Company's Instrument of Appointment 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.

Basis of Preparation

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. There are differences between United Kingdom Generally Accepted Accounting Principles (UK GAAP) and the basis of preparation of information provided in the regulatory accounts because the Regulatory Accounting Guidelines specify alternative treatment or disclosure in certain respects. Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed. Financial information other than that prepared wholly on the basis of UK GAAP may not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 1985.

Respective Responsibilities of the WSRA, Directors and Auditors

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 assessment.

The Directors' responsibilities for preparing the Regulatory Accounts in accordance with Regulatory Accounting Guidelines are set out in the statement of directors' responsibilities for regulatory information on page 39.

Our responsibility is to audit the Regulatory Accounts in accordance with International Standards on auditing (UK and Ireland) issued by the Auditing Practices Board, except at stated in the "Basis of audit opinion", below and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities'.

We report to you our opinion as to whether the regulatory historical cost accounting statements present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guideline 2.03 (Guideline for the classification of expenditure), Regulatory Accounting Guideline 3.06 (Guideline for the contents of regulatory accounts) and Regulatory Accounting Guideline 4.03 (Guideline for the analysis of operating costs and assets); and whether the regulatory current cost accounting statements on pages 29 to 39 have been properly prepared in accordance with Regulatory Accounting Guideline 1.04 (Guideline for accounting for current costs and regulatory capital values), Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03. We also report to you if, in our opinion, the Company has not kept proper accounting records as required by paragraph 3 of Condition F and whether the information is in agreement with the appointees' accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1.04, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.06, and Regulatory Accounting Guideline 4.03.

We read the other information contained in the Regulatory Accounts, including any supplementary schedules on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts. The other information comprises the operating and financial review, the notes on regulatory information, and the additional information required by the licence.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on auditing (UK and Ireland) issued by the Auditing Practices Board except as noted below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the regulatory accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Regulatory Accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, 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 opinion under Auditing Standards.

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our "Statutory" audit) was made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

The regulatory historical cost accounting statements on pages 14 to 28 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 Principles, and a reconciliation of the balance sheet drawn up on this basis with that drawn up under Companies Act 1985 is given on page 23.

Opinion

In our opinion the Regulatory Accounts of the Company for the year ended 31 March 2009 fairly present in accordance with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water undertaker under the Water Industry Act 1991, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on pages 17 to 18 and page 32, the state of the Company's affairs at 31 March 2009 on an historical cost and current cost basis, the historical cost and current cost profit for the year and the current cost cash flow for the year and have been properly prepared in accordance with those conditions, guidelines and accounting policies.

In respect of this information we report that in our opinion:

(a) proper accounting records have been kept by the Appointee as required by paragraph 3 of Condition 'F' of the Instrument;

(b) the information is in agreement with the Appointee's accounting records, and has been properly prepared in accordance with the requirements of Condition 'F' and, as appropriate, Regulatory Accounting Guideline 1.04, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03 issued by the WSRA;

(c) the regulatory historical cost accounting statements on pages 14 to 28 present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the Appointee and its Appointed Business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03 issued by the WSRA; and

(d) the regulatory current cost accounting statements on pages 29 to 39 have been properly prepared in accordance with Regulatory Accounting Guideline 1.04, Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03 issued by the WSRA.

SAFFERY CHAMPNESS
CHARTERED ACCOUNTANTS
REGISTERED AUDITORS
LION HOUSE RED LION STREET
LONDON
25 JUNE 2009

		2009 £000	2008 £000
KPI - 1			
a)	**Gearing - Debt/RCV**		
(i)	Debt		
	Bank loan (note 17, page 25)	82,600	78,633
	Bank loan (note 15, page 24)	4,000	4,000
	Debenture stock (note 15, page 24)	284	284
	Cash at bank and in hand	(2,604)	(2,494)
		84,280	80,423

For the purposes of this ratio, debt excludes the deferred arrangement costs of £1.337m (note 17, on page 25) and the current asset investment of £0.004m (note 13, on page 24).

(ii) Regulatory Capital Value (RCV)

Value established by Ofwat in Final Determination in 2004

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.

		2009 £000	2008 £000
	Regulatory capital value indexed to 31 March	108,896	111,172
(iii)	Gearing - Debt/RCV ratio (i) ÷ (ii)	77.4%	72.3%

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 31 and is calculated as follows:

		2009 £000	2008 £000
	Net cashflow from operating activities	16,719	15,996
	Interest received	4,417	3,780
	Taxation	(2,008)	(1,910)
	Capital expenditure	(10,612)	(12,129)
	New borrowings	-	2,500
		8,516	8,237
(ii)	Interest paid	3,327	3,257
(iii)	Cash interest cover ratio (i) ÷ (ii)	2.56	2.53

KPI - 2 and 3 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 - 4 Water Quality

This indicator is based on figures reported to the DWI.

KPI - 5 Efficiency

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

KPI - 6 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 2008/09 have been supplied to Ofwat, but will not be confirmed in the Ofwat document until later in 2009.