

PORTSMOUTH WATER LIMITED



**Unaudited interim results
for the six months ended
30 September 2010**

CHAIRMAN'S STATEMENT

The Company continues to deliver a high standard of performance for its customers, delivering a combination of value for money and excellent levels of service. This performance was reflected in a report published by Ofwat which showed the Levels of Service achieved by water companies in 2009/10 and contained the following information:

- In the Overall Performance Assessment conducted by Ofwat the Company was placed 3rd out of 22 companies.
- Portsmouth Water had the lowest number of customer complaints at 7 per 10,000 customers.
- Portsmouth Water had the second lowest level of unplanned interruptions to supplies to customers.
- Portsmouth Water met its leakage target despite the cold winter which increased the number of burst pipes.
- Ofwat considers the company's network of pipes to be in a stable condition.

This level of performance has been maintained in the first 6 months of 2010/11 and water supplies were maintained to customers during the summer without the need for restrictions.

Each water company in England and Wales is required to publish a Water Resources Management Plan (WRMP) which considers the requirement for public water supplies covering the next 25 years and how any shortfall in resources must be met. The plans are subject to public consultation and must be approved by the Secretary of State for the Environment, Food and Rural Affairs (DEFRA). In the Company's Annual Report and Accounts for 2010 I reported that the Secretary of

State had decided that there were a number of matters within Portsmouth Water's draft WRMP which warranted a further review and that it should be subject to a Public Inquiry under the auspices of the Planning Inspectorate.

However, following discussions with DEFRA and the Environment Agency, the Public Inquiry was cancelled and an updated draft WRMP was issued for public consultation. The consultation closed on 26 November and the Company will now consider the responses received and is required to provide to DEFRA a revised draft WRMP taking into account those responses by April 2011. The outcome of the process does not have an effect on either the Investment Programme or services to customers through to 2015, and given that a new 25 year draft WRMP will be required in 2014, the Company does not believe that a Public Inquiry in relation to the current draft WRMP would provide value for money.

Until the outcome of the public consultation is known there is uncertainty as to when the Havant Thicket Reservoir would be required, and a long delay would likely mean that much of the environmental work carried out to date and held in fixed assets would have to be revalidated at a later date. Included within fixed assets on the summarised balance sheet is an amount of £2.2m.

The Final Determination of prices published by Ofwat in November 2009, which included a real reduction of 4.8% in charges to customers for 2010/11 will result in a rebalancing of turnover and profitability from the level achieved in 2009/10. The impact on the interim results to September 2010 has been limited as the Company's billing year begins in July, and therefore the reductions in charges have only been in effect for half of the period. As a result, turnover fell by 0.7% to £18.0m and with operating costs increasing by 2.1% to £14.4m. (2009: £14.1m.), operating profit was down 11.0% at £3.6m (2009: £4.1m). The increase in operating costs arose from

higher wage costs and higher costs of pumping to meet demand in the relatively dry summer of 2010.

Interest receivable was reduced by £0.3m as a result of the current very low interest rates, but interest payable was £2.7m higher, principally as a result of the year on year difference in the indexation of the principal on the Index Linked Loan which is calculated using RPI. The relevant RPI for 2010 was 4.8% and for 2009 was minus 1.4%.

As a result of the higher interest charges profit before tax was £3.3m lower at £1.6m (2009: £4.9m).

Net cash flow from Operating activities rose by £1.6m to £8.5m (2009: £6.9m) largely as a result of the following movements in working capital.

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

Capital Expenditure at £4.9m (2009: £6.6m) is in line with the AMP5 programme. The 2009 expenditure was high because of the need to complete AMP4 projects.

Net Debt at 30 September 2010 was £86.8m. (2009: £84.9m) with the increase being due to the Indexation of the Index Linked Loan. A conventional measure of debt within the Water Industry is as a percentage of Regulatory Capital Value (RCV).

At September 2010, the ratio of debt to RCV was 78.2% (2009: 78.1%), an increase from the March 2010 year end ratio of 77.0%.

The Board is committed to providing a safe and healthy environment for its employees and is proud of the ongoing progress being made by staff in safety matters.

The high standards of customer service, financial performance and health and safety depend on the commitment and support of everyone in the Company and the Board would like to congratulate its employees for their achievements.

T M LAZENBY

Chairman

25 November 2010

**UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS
ENDED 30 SEPTEMBER 2010**

	6 months ended 30.9.10 <u>£000</u>	6 months ended 30.9.09 (restated) * <u>£000</u>	12 months ended 31.3.10 (restated) * <u>£000</u>
TURNOVER	18,023	18,147	37,342
OPERATING PROFIT	3,640	4,092	8,870
Profit/(Loss) on sale of fixed assets	4	-	(22)
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST	3,644	4,092	8,848
Interest receivable	569	885	1,405
Other finance income	1,000	850	714
	5,213	5,827	10,967
Interest payable and similar charges	(3,621)	(970)	(1,944)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1,592	4,857	9,023
Taxation on profit on ordinary activities	(900)	(1,360)	(3,199)
PROFIT FOR THE FINANCIAL PERIOD	692	3,497	5,824

* Refer to Note 2

**SUMMARISED BALANCE SHEET
AS AT 30 SEPTEMBER 2010**

	6 months ended 30.9.10 <u>£000</u>	6 months ended 30.9.09 (restated) * <u>£000</u>	12 months ended 31.3.10 (restated) * <u>£000</u>
FIXED ASSETS	155,811	153,009	156,056
CURRENT ASSETS	7,175	7,620	7,423
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	(19,292)	(18,915)	(20,703)
NET CURRENT LIABILITIES	(12,117)	(11,295)	(13,280)
TOTAL ASSETS LESS CURRENT LIABILITIES	143,694	141,714	142,776
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR	(82,111)	(80,700)	(80,136)
PROVISIONS FOR LIABILITIES	(10,672)	(9,431)	(10,272)
NET ASSETS EXCLUDING PENSION ASSET	50,911	51,583	52,368
PENSION ASSET	10,038	12,180	9,774
NET ASSETS INCLUDING PENSION ASSET	<u>60,949</u>	<u>63,763</u>	<u>62,142</u>
CALLED UP SHARE CAPITAL	1,078	1,078	1,078
RESERVES	59,871	62,685	61,064
SHAREHOLDERS' FUNDS	<u>60,949</u>	<u>63,763</u>	<u>62,142</u>

* Refer to Note 2

**SUMMARISED CASH FLOW STATEMENT FOR THE
SIX MONTHS ENDED 30 SEPTEMBER 2010**

	6 months ended 30.9.10 <u>£000</u>	6 months ended 30.9.09 (restated) * <u>£000</u>	12 months ended 31.3.10 (restated) * <u>£000</u>
NET CASH INFLOW FROM OPERATING ACTIVITIES	8,452	6,899	17,157
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(1,077)	(627)	(1,651)
TAXATION	(906)	(738)	(1,762)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(4,929)	(6,626)	(12,919)
EQUITY DIVIDENDS PAID	(1,885)	(2,613)	(4,663)
	<u> </u>	<u> </u>	<u> </u>
CASH (OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING	(345)	(3,705)	(3,838)
MANAGEMENT OF LIQUID RESOURCES	(40)	(25)	(55)
FINANCING	-	3,165	3,165
	<u> </u>	<u> </u>	<u> </u>
(DECREASE) IN CASH	<u>(385)</u>	<u>(565)</u>	<u>(728)</u>

* Refer to Note 2

NOTES

1. The interim results for the six months to 30 September 2010 have been prepared on the basis of accounting policies consistent with those adopted for the year ended 31 March 2010, with the exception of the treatment of the cost of capital works engineering staff, as covered in 2. below.

The interim financial information is unaudited and does not constitute statutory accounts as defined in s.434 of the Companies Act 2006. The results for the year to 31 March 2010 have been extracted from the latest published accounts, which have been filed with the Registrar of Companies and on which the report of the auditors was unqualified.

2. The cost of capital works engineering staff and the related departmental overheads for the six months ended 30 September 2010 have been charged to fixed assets. These costs have in the past been charged to operating costs in the profit and loss account. The effect of the change is to increase fixed assets in the balance sheet by £0.246m. (2009: £0.288m.) and increase profit for the period in the profit and loss account by £0.177m. (2009: £0.207m.). Comparative figures for both the six months and 12 month periods have been restated accordingly.
3. The tax charge is based on the estimated effective rate of tax, including deferred tax, for the full year to 31 March 2011.

4. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	6 months ended 30.9.10 <u>£000</u>	6 months ended 30.9.09 (restated) <u>£000</u>	12 months ended 31.3.10 (restated) <u>£000</u>
Profit for the financial period	692	3,497	5,824
Dividends	(1,885)	(2,613)	(4,663)
	<u>(1,193)</u>	<u>884</u>	<u>1,161</u>
Actuarial loss on pension scheme (net of deferred tax)	-	-	(1,898)
Net addition/(reduction) to shareholders' funds	<u>(1,193)</u>	<u>884</u>	<u>(737)</u>
Opening shareholders' funds	<u>62,142</u>	<u>62,879</u>	<u>62,879</u>
Closing shareholders' funds	<u><u>60,949</u></u>	<u><u>63,763</u></u>	<u><u>62,142</u></u>

5. Copies of the interim report are available to the public from the Company's Registered Office, P O Box 8, West Street, Havant, Hants. PO9 1LG.

For further information please contact:

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