PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2012

Portsmouth Water Limited, a supplier of water to Hampshire and West Sussex, announced its results for the year to 31 March 2012.

HIGHLIGHTS

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

- 2nd highest performing Company in the Ofwat qualitative assessment
- Achieved the leakage target
- RoSPA Gold Medal for health and safety

Operating profits up despite a fall in water demand from commercial customers, due to increase in non-water income and close control of operating costs.

Our commitment to providing the highest levels of customer service is illustrated by:

- The Ofwat Qualitative Service Incentive Mechanism customer survey result, which ranks us joint second highest performing Company in the industry in terms of service received by customers
- Only 8 written complaints per 10,000 connected properties, compared with an industry average of 61

	2012	2011
Turnover	**£36.7m**	£35.5m
Operating profit	**£6.5m**	£6.1m
Profit before taxation	**£2.7m**	£0.9m
Net debt	**£87.1m**	£87.1m
Capital expenditure	**£8.1m**	£9.6m

CHAIRMAN'S STATEMENT

I am pleased to report that Portsmouth Water has continued its excellent performance in delivering customer service. Over the last year Ofwat have been undertaking a quarterly telephone questionnaire on a sample of customers who have contacted their water company in order to establish the quality of the response to that contact. This is part of a new approach to measuring customer service and is known as the Service Incentive Mechanism. The results of the survey for 2011 show that Portsmouth Water was ranked joint second in performance out of 22 companies. In addition, the Consumer Council for Water has reported that for 2011/12, the Company received only 8 written complaints per 10,000 connections, compared to an industry average of 61.

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

The Drought declared in the South East of England has dominated press coverage of the industry in the last few months. Portsmouth Water has not had to impose temporary use bans this year, largely because there was significant rainfall in the area in December which did provide some recharge to groundwater levels. The record April rainfall has also unusually, further improved groundwater levels which are now close to normal and therefore temporary use bans are unlikely for the rest of this year. We have, however asked our customers to be careful with their use of water and we do have plans to cope with a dry autumn and winter for 2012/13. The current drought has, in the Board's view, highlighted the need for storage of winter water with bulk transfers across the South East region as well as water efficiency and demand management. The Company had proposed the construction of a winter storage reservoir by 2022 in its Draft Water Resources Management Plan in 2008, but this was subsequently delayed until 2033 as a result of discussions with the Environment Agency. The Board would argue that these plans should be revisited and that the proposal could help with the water resource position across the South East.

In December 2011 the Government published its White Paper, "Water for Life" which set out its long term objectives for the industry and proposed some far reaching changes to meet the challenges of the future such as population growth and climate change. These objectives will be reflected in a draft Water Bill which will be brought forward this year. The Company is fully engaged in this process and will consider the implications of the changes for its future strategy.

Also in December 2011, Ofwat issued a consultation document inviting comments on their proposal to modify certain conditions of the Licence of Appointment of all appointed water and sewerage companies. Ofwat are seeking to increase substantially the scope of discretion in relation to the price control elements of the licence. The Company does not support the modifications and has argued that to accept Ofwat proposals would be to relinquish a key element of the Water Industry Act that gives protection to Companies and Investors and that this would not be in the public interest. Should Ofwat and the Company fail to agree on the proposed changes, Ofwat can ask the Competition Commission to review and decide whether they should be implemented. The Company along with the rest of the Industry has continued discussions with Ofwat to find a way forward, but Ofwat are keen to resolve the issue by the spring of 2013 before it releases the methodology for the next price review.

In the financial results for the year, turnover rose by £1.15m (3.2%) to £36.7m and operating profit before exceptional items rose by £0.4m (6.4%). The increase in turnover included a £0.8m increase in non-water tariff income, mainly related to diversion of water mains. For water tariff income an increase in charges of 2.6% was partially offset by a fall in consumption by commercial customers of 5%. Operating costs excluding depreciation increased by £0.4m (2.1%), this despite RPI at an average of about 5% and the introduction of the Carbon Reduction Commitment Levy of £0.2m which is effectively a tax on our energy usage. Operating costs show an outperformance against the level assumed in the Final Determination by Ofwat.

Capital Expenditure in the year to March 2012 was £8.1m, (2011 - £9.6m) and included £3.9m, (2011 - £5.0m) on mains renewals. This was lower than usual as a major scheme to reduce the risk of water quality and security issues at the River Itchen Treatment Works was delayed whilst planning permission for the work was obtained. The reduction in the expenditure on mains renewals is the result of the Company increasing the use of 'no dig' techniques which are less expensive than the conventional methods of renewals. The length of mains renewed met the target included in the Final Determination. The scheme at the River Itchen at approximately £5m will largely be completed in 2012/13, and therefore overall Capital Expenditure in this year will be much higher.

In the last year there have been significant changes to the Board with the retirements of the Managing Director, Nick Roadnight in December 2011 and of the Engineering Director, Andy Neve in April 2012. I was pleased that Neville Smith, our Finance Director for 14 years was promoted to Managing Director and Rod Porteous the Supply and Investment Manager was promoted to Engineering Director. Nick Sheeran joined us from November as Finance and Regulation Director. I would like to pay tribute to Nick and Andy for their major contribution to the Company over many years, both having served over 30 years, and I wish them a long and happy retirement.

The high level of performance demonstrated in this report is due to the dedication and commitment of the employees and I would like to thank them for their efforts. The management have risen to the challenges arising from the last price determination and I am confident that the new Executive Team will continue to deliver good value for the customer and shareholders.

T. M. Lazenby MBE
Chairman

Financial Performance
The results for 2011/12 reflect the 2009 Price Determination, made by Ofwat which included a real reduction in charges for customers in the year of 2.1%. The Company has also experienced a 5% reduction in demand from commercial customers during the period. However these impacts have been offset by an increase in non water tariff income, mainly related to diversion of water mains.

Profit before tax
Turnover for the year increased by 3.2% to £36.7m. This reflected the 2009 Price Determination and an increase in income from mains diversion work of £0.8m and, largely as a result of these factors, operating profit increased to £6.5m from £6.1m in 2011 as analysed below:

	2011/12 £m	2010/11 £m
Turnover	36.7	35.5
Operating costs excluding depreciation and the FRS17 pension charge	19.3	18.8
Operating profit before depreciation and FRS17 pension charge	17.4	16.7
Depreciation (including renewals)	8.6	8.3
FRS17 pension charge	2.3	2.3
Total Operating Profit	**6.5**	**6.1**

Operating costs, excluding depreciation and the FRS17 pension charge, increased by £0.5m (2.1%) in the year despite RPI at an average of about 5% and the introduction of the Carbon Reduction Commitment Levy of £0.2m which is effectively a tax on our energy usage.

Interest receivable at £1.3m (2011 - £1.2m) relates mainly to interest received from group companies and is based on Libor plus 1%. An increase in other finance income of £0.6m to £2.5m represents a decrease in interest on pension scheme liabilities.

Interest payable at £7.7m (2011 - £7.2m) includes £4.2m for indexation of the loan provided by Artesian Finance plc (2011 - £3.9m). The indexation of the loan for 2011 was based on RPI for July 2011 of 5%, whereas RPI for July 2010 was 4.8%. Interest on the capital sum amounted to £3.2m (2011 - £3.1m).

As a result of these factors, profit before tax increased to £2.7m (2011 - £0.9m). The profit before tax in 2011 included an exceptional charge of £1.1m in respect of an impairment loss on the asset value of the Havant Thicket Winter Storage Reservoir.

Taxation
The taxation credit of £1.0m was £1.2m lower than the previous year's charge of £0.2m due to the effects of higher reliefs against the taxable profits for the year and refunds received in respect of prior year charges. The deferred tax liability also reduced during the year as a result of the proposed 2% reduction to corporate tax rates resulting in a credit to the profit and loss account of £0.9m.

Dividends
The dividends paid during the year amounted to £2.496m (2011 - £3.385m). Dividends are paid up to the parent company and largely used to service debt held by the group.

Cashflow and Balance Sheet
Despite the increase in operating profit net cashflow from operations was £1.9m lower at £15.7m. (2011 - £17.6m). This was the result of the following movements in working capital:

– An increase in the debtor for unbilled measured income of £0.65m as a result of timing differences in the billing cycle.
– An increase in mains diversionary work in progress of £0.95m due to the very high level of activity in this area during the year.

Net debt (excluding deferred arrangement costs) at £88.3m (2011 - £88.3m) includes an index linked loan with a value of £89.5m. (2011 - £85.3m). The value is indexed each year by the previous July's recorded RPI. The increase in debt for the year is a result of this indexation. The level of gearing is an important ratio in the Company's loan covenants and is measured by the ratio of net debt to the Company's Regulatory Capital Value (RCV) which is determined by Ofwat at the 2009 Price Determination. The RCV is also indexed by RPI but at the March (year end) figure. The ratio is known as the Regulatory Asset Ratio. At the year end, the ratio was 76.2% (2011 - 76.7%).

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

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

Pensions
The Company takes account of the Brockhampton Pension Scheme, in which it is the principal employer, under the principles of FRS17. The latest actuarial valuation carried out for the purposes of FRS17 showed a surplus after deferred tax of £14.7m (2011 - £21.0m). The actual loss before deferred tax of £10.2m which is shown in the Statement of Total Recognised Gains and Losses (STRGL) on page 27 results primarily due to changes in assumptions underlying the FRS17 value of scheme liabilities.

In the most recent triennial actuarial valuation conducted at March 2011, the Scheme had a surplus of £21.2m. Until March 2010, the Company had not made contributions for a number of years. For the year ended 31 March 2012, the Company made contributions of £0.9m this being at a rate of 12.4% of earnings.

During the year the Company concluded a consultation with its employees regarding proposals to reduce the level of future benefits in the Scheme. Under the proposals, which were implemented in August 2011, new employees will receive a pension on a defined contribution basis although for existing employees their future benefit will remain on a defined benefit basis, although on a career average basis. The changes were made to reduce the long term cost of providing pensions and to reduce the risks to the Company associated with defined benefits pensions.

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2012

	Notes	2012 £000	2011 £000
Turnover	2	**36,665**	35,515
Cost of sales		**(20,301)**	(19,708)
Gross profit		**16,364**	15,807
Net operating expenses	3	**(9,850)**	(9,699)
Operating profit		**6,514**	6,108
(Loss) on sale of fixed assets		**(21)**	(8)
Profit on ordinary activities before exceptional item		**6,493**	6,100
Exceptional item		**-**	(1,086)
Profit on ordinary activities before interest		**6,493**	5,014
Interest receivable	5	**1,317**	1,178
Other finance income	28	**2,492**	1,897
		10,302	8,089
Interest payable and similar charges	6	**(7,652)**	(7,221)
Profit on ordinary activities before taxation	7	**2,650**	868
Taxation on profit on ordinary activities	8	**1,016**	(180)
Profit for the financial year	20	**3,666**	688

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 March 2012

	Notes	2012 £000	2011 £000
Profit for the financial year		**3,666**	688
Actuarial (loss)/gain on pension scheme	28	**(10,245)**	14,904
Deferred tax relating to actuarial loss/(gain) on pension scheme	17	**2,561**	(4,024)
Effect of change to corporation tax rate on pension asset		**(155)**	(226)
Total recognised gains and losses relating to the year		**(4,173)**	11,342
Prior year adjustment		**-**	389
Total gains and losses recognised since last financial statements		**(4,173)**	11,731

The accompanying notes form an integral part of these accounts.

BALANCE SHEET
As at 31 March 2012

	Note	**2012 £000**	**2012 £000**	2011 £000	2011 £000
Fixed assets					
Tangible assets	10	**94,469**		95,876	
Investments	11	**59,468**	**153,937**	59,468	155,344
Current assets					
Stocks		**596**		520	
Debtors	12	**6,516**		4,698	
Investments	13	**4**		4	
Cash at bank and in hand	14	**2,563**		1,746	
		9,679		6,968	
Creditors: amounts falling due within one year	15	**(15,546)**		(17,243)	
Net current liabilities			**(5,867)**		(10,275)
Total assets less current liabilities			**148,070**		145,069
Creditors: amounts falling due after more than one year	16		**(88,924)**		(85,070)
Provisions for liabilities	17		**(9,940)**		(10,419)
Net assets excluding pension asset			**49,206**		49,580
Pension asset	28		**14,674**		20,969
Net assets including pension asset			**63,880**		70,549
Capital and reserves					
Called up share capital	19		**1,078**		1,078
Share premium account	20		**1,539**		1,539
Capital redemption reserve	20		**3,250**		3,250
Profit and loss account	20		**58,013**		64,682
Shareholders' funds	21		**63,880**		70,549

The accompanying notes form an integral part of these accounts.
The accounts were authorised for issue and approved by the Board on 24 May 2012, and signed on its behalf by;

T. M. Lazenby MBE
Chairman

Company Number: 2536455

CASH FLOW STATEMENT
For the year ended 31 March 2012

	Notes	**2012 £000**	**2012 £000**	2011 £000	2011 £000
Net cash inflow from operating activities	22		**15,718**		17,556
Returns on investments and servicing of finance					
Interest received		**1,312**		1,177	
Interest paid		**(3,354)**	**(2,042)**	(3,283)	(2,106)
Taxation					
UK corporation tax paid		**(14)**		(858)	
Payments for group relief		**(179)**	**(193)**	(164)	(1,022)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(7,593)**		(10,626)	
Sale of tangible fixed assets		**6**		21	
Capital contributions received		**917**	**(6,670)**	877	(9,728)
Equity dividends paid			**(2,496)**		(3,385)
Cash inflow before management of liquid resources and financing			**4,317**		1,315
Management of liquid resources					
(Purchase) of short term deposits			**(65)**		(75)
Financing					
Repayment of loans			**(3,500)**		(1,500)
Increase/(decrease) in cash in the year	23		**752**		(260)

The accompanying notes form an integral part of these accounts.

NOTES

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

2. Statutory accounts for the Company for the financial year ended 31 March 2011, upon which the auditors of the Company have given an unqualified report, have been delivered to the Registrar of Companies. Statutory accounts for the Company for the financial year ended 31 March 2012 will be delivered to the Registrar of Companies as soon as practicable after approval at the next Annual General Meeting.

For further information, please contact:

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