

Portsmouth Water Limited
ANNUAL REPORT & ACCOUNTS 2011



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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 survey
- Lowest number of complaints in the industry
- Achieved the leakage target
- RoSPA Gold Medal for health and safety

- Financial performance impacted by:
 - 2009 Ofwat price Determination of a negative 4.8% price limit
 - Exceptional charge of £1.1m in respect of an impairment provision on Havant Thicket Winter Storage Reservoir Project

Turnover £m

£35.52m

2008	33.91
2009	35.40
2010	37.34
2011	35.52

Operating profit £m

£6.11m

2008	7.59
2009	6.99
2010	8.86
2011	6.11

Operating profit before depreciation £m

£14.37m

2008	14.25
2009	14.67
2010	16.76
2011	14.37

Operating cashflow £m

£17.56m

2008	16.00
2009	16.72
2010	17.15
2011	17.56

Capital expenditure £m

£9.55m

2008	12.03
2009	11.78
2010	14.61
2011	9.55

BOARD OF DIRECTORS

Executive



Nicholas John Roadnight

F.C.A. ³

Managing Director

Joined in 1978. Previously with Thornton Baker. Appointed to the Board in October 1994 and appointed Managing Director in July 1997.



Andrew Richard Neve

B.Sc., C.Eng., M.I.C.E., M.C.M.I.

Engineering Director

Joined in 1981. Previously with Thames Water. Appointed to the Board in June 1997.



Neville Smith

B.A., F.C.M.A.

Finance and Regulation Director

Joined and appointed to the Board in February 1998. Previously with Smiths Industries and GEC.

Non-Executive



Terence Michael Lazenby MBE

FR.Eng. ¹²³

**Independent Non-Executive Chairman
Chairman of the Nomination Committee**

Joined in June 2002 and appointed Chairman in January 2003. Chairman of the Engineering Construction Industry Training Board. Previously non-executive director of MTL Instruments Group plc and Expro International plc, before which he held a number of senior executive positions with British Petroleum.



Robert Leonard Sullivan

B.Sc. ¹²³

**Independent Non-Executive Director
Chairman of the Remuneration Committee**

Joined in June 2002. Previously held senior executive positions with Scapa Group plc, Sellotape Group and SmithKline Beecham.



Raymond John Tennant

B.A., F.C.C.A., C.P.F.A. ¹²³

**Independent Non-Executive Director
Chairman of the Audit Committee**

Joined in June 2002. Former Managing Director of South East Water plc and SAUR Water Services plc. Former Chairman of the Water Companies Association and WTI Training Group Ltd.

¹ Member of the Audit Committee

² Member of the Remuneration Committee

³ Member of the Nomination Committee

CHAIRMAN'S STATEMENT

In the last year Portsmouth Water has continued to be recognised for excellent customer service and for its record on health and safety. A significant element of management time has, however, been focused on the Draft Water Resources Management Plan. In last year's report I advised that the Secretary of State at Defra had announced that the plan should be subject to a public inquiry. Following discussions with Defra and further revisions to the Plan, the inquiry was cancelled, but Defra advised that the revised plan was to be subject to a further public consultation. This consultation closed in November 2010 and after reflecting the representations to the consultation, the revised draft plan was submitted to the Secretary of State who is currently considering whether she will approve its publication.

A major revision in the Draft Water Resources Management Plan was the deferral of Havant Thicket Winter Storage Reservoir from its original completion date of 2021 to 2035. As part of its regulated price determination in 2004 the Company was allowed investment to undertake the preliminary planning and environmental studies for the construction of the reservoir. It was anticipated that a planning application would be made in 2010. The deferral of the project means that much of the work undertaken to date, particularly the environmental elements, will have to be repeated at the later date. The cost of the work undertaken to date is held as an asset, but in these circumstances the Board have decided to make an impairment provision against the value of that asset and as I indicated in my Interim Statement, an exceptional charge has been made in the financial results for 2011 of £1.1m.

In the financial results for the year, turnover fell by £1.8m (4.9%) to £35.5m and operating profit fell by £2.8m to £6.1m. This was principally due to the 2009 Price Determination which included a real reduction in charges for 2010/11 of 4.8%. Operating profit was further reduced by an increase of £0.9m in the pension service charge as calculated under FRS17. Operating costs excluding the FRS17 pension charge and depreciation reduced by 1.6%, this despite RPI at an average of 5% for the year, and shows out-performance against the level assumed in the Final Determination by Ofwat. Despite the reduction in profit, cashflow remained strong, with net cashflow from operations being £0.4m higher at £17.6m.

Capital Expenditure in the year to 2011 was £9.6m (2010 - £14.6m), and included £5.0m on mains renewals. This reduction reflects the reduced Capital Programme for the AMP5 period and that expenditure in 2010 was above the normal level as the AMP4 programme was completed.

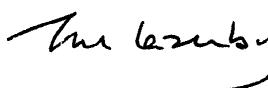
I am pleased to report that Portsmouth Water has continued its excellent performance in delivering customer service. Over the last year Ofwat have been undertaking a quarterly telephone questionnaire on a sample of customers who have contacted their water company in order to establish the quality of the response to that contact. This is part of a new approach to measuring customer service and is known as the Service Incentive Mechanism. Part of this approach includes a qualitative survey of customers regarding the quality of service received and, in results published for 2010/11, Portsmouth Water was ranked joint second in performance out of 22 companies. In addition, the Consumer Council for Water has reported that for 2009/10, the Company received only 7 written complaints per 10,000 connections, compared to an industry average of 64. The level of complaints received was maintained at the same level for 2010/11.

Despite the dry weather in March and April this year, the groundwater aquifers which provide our water resources received sufficient recharge in the Autumn and Winter and therefore no restrictions are anticipated this summer. The winter of 2010/11 was regarded as one of the coldest for many years, and although the number of burst pipes increased in December and January, the Company again met its leakage target. Compliance with drinking water standards remains at a high level of 99.96%.

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 five Gold Awards and an industry sector award in the last five years.

Over the last year, Ofwat have opened a debate about the future of regulation of the industry, how it can be improved and on the possible approaches to Market Reform. We support their efforts to move towards a risk based approach to regulation based on outcomes, rather than a micro management approach which has led to increasing information requirements and a process that has become overly complex. We do, however, have concerns at Ofwat proposals to have separate price limits for the retail and wholesale elements of the business at the next price review. We believe that this will considerably increase the burden on small companies without delivering any real benefits for the customer. Market Reform is still on Ofwat's agenda, but it needs the Government to specify and then legislate for the direction it wants the industry to take. A Water White Paper is expected in the Autumn in which the Government will give its views on the Cave Report on Market Reform which was published in 2009 and which advocated the careful introduction of competition into the industry.

The high level of performance achieved is a testament to the dedication and commitment of the employees and I would like to thank everyone for their efforts. A demanding price determination and the changing regulatory environment will present the Company with challenges, but we have made a good start, with excellent customer service performance and strong control of operating costs. I am confident that the management and employees can rise to the challenges ahead.



T. M. Lazenby MBE
Chairman

OPERATING AND FINANCIAL REVIEW

Our Business

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

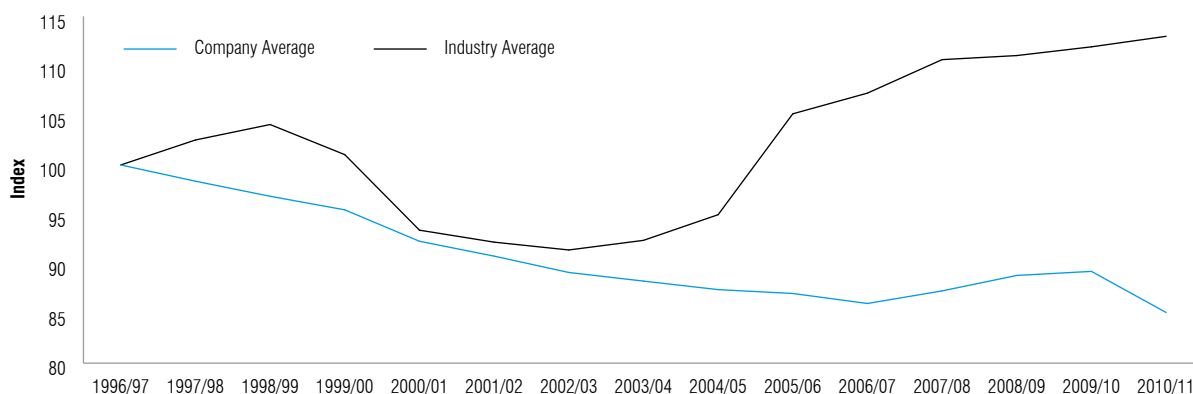
Source	Actual 2010/11 Abstraction (Million Litres)	% of Supply 2010/11	% of Supply 2009/10
Springs at Havant & Bedhampton	18,689	27	26
River Itchen	8,335	12	13
Boreholes, Wells & Adits	41,400	61	61
Totals	68,424	100	100

A map showing the Company's area of supply and the location of its sources and treatment works is shown on page 17.

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

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

Comparison of Average Household Bills with Average Industry Tariffs



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

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

OPERATING AND FINANCIAL REVIEW

Our Business

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

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

Long Term Resource Planning

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

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

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

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

RIGHT
Children at the annual Schools
Science Fair co-sponsored
by the Company



FAR RIGHT
The drought garden at Head
Office, July 2010



BELOW
Replacing a borehole headworks cover
at World's End Water Treatment Works



OPERATING AND FINANCIAL REVIEW

Business Strategy

Mission Statement

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

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

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

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

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

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



Presentation of RoSPA 2011 Gold Medal Award for Occupational Health and Safety to the Company's Managing Director, Mr Nicholas Roadnight

OPERATING AND FINANCIAL REVIEW

Current Development and Performance

Financial Performance

The results for 2010/11 have been materially affected by the Price Determination by Ofwat published in November 2009 and the impairment of part of the investment in the Havant Thicket Winter Storage Reservoir following a revision to the Company's draft Water Resources Management Plan. The Price Determination included a real reduction of 4.8% in charges for customers for 2010/11 and this has resulted in a rebalancing of turnover and operating profit from the level achieved in 2009/10.



Children at the Hampshire Water Festival, held at Staunton Country Park

Profit before tax

Turnover for the year reduced by 4.9% to £35.5m. This reflected the 2009 Price Determination and a reduction in income from mains diversion work of £0.3m. and, largely as a result of these factors, operating profit reduced to £6.1m. from £8.9m. in 2010 as analysed below:

	2010/11 £m	2009/10 £m
Turnover	35.5	37.3
Operating costs excluding depreciation and the FRS17 pension charge	18.8	19.1
Operating profit before depreciation and FRS17 pension charge	16.7	18.2
Depreciation (including renewals)	8.3	7.9
FRS17 pension charge	2.3	1.4
Total Operating Profit	6.1	8.9

Operating costs, excluding depreciation and the FRS17 pension charge fell despite inflation (RPI) over the period of 5%. This was largely due to a fall in business rates following a re-evaluation in 2009 and a reduction in the amount provided for doubtful debts. The current service cost for the pension scheme increased by £0.9m. to £2.3m. reflecting the effect of falling bond yields on the calculation of the scheme's liabilities.

An exceptional charge of £1.1m. was made in respect of an impairment loss on the asset value of Havant Thicket Winter Storage Reservoir. At the Final Determination in 2004, the Company was provided with investment to undertake the preliminary planning and environmental studies for the construction of a reservoir at Havant Thicket. It was anticipated that this work would allow a planning application for the reservoir to be made in 2010. Total expenditure to date on this project amounts to £1.9m. This cost is held on the balance sheet as an asset. The current draft of the Water Resources Management Plan, on which a consultation was completed in November 2010 and is now with the Secretary of State for consideration, assumes the reservoir will not be required until 2033/34. Work on the reservoir is therefore now not expected to be started until 2025 and by that time a large element of the work undertaken to date will have to be redone, particularly the environmental studies. Under these circumstances it is not appropriate to carry the cost of this work as an asset and therefore an element of this has been impaired and written down.

Interest receivable at £1.2m (2010 - £1.4m) relates mainly to interest received from group companies and is based on Libor plus 1%. An increase in other finance income of £1.2m. to £1.9m. represents an increase in the expected return on Pension Fund assets.

Interest payable at £7.2m (2010 - £1.9m) includes £3.9m for indexation of the loan provided by Artesian Finance plc (2010 - negative £1.2m). The indexation of the loan for 2010 was based on RPI for July 2010 of 4.8%, whereas, RPI for July 2009 was negative 0.4%. Interest on the capital sum amounted to £3.1m. (2010 - £2.9m).

As a result of these factors, profit before tax reduced to £0.9m (2010 - £9.0m).

Taxation

The taxation charge at £0.2m was £3.0m lower due to the fall in pre-tax profit and the impact of the change in Corporation Tax rates on the deferred tax liabilities.

Dividends

The dividends paid during the year amounted to £3.385m (2010 - £4.663m). Dividends are paid up to the parent company and largely used to service debt held by the group.

OPERATING AND FINANCIAL REVIEW

Current Development and Performance

Cashflow and Balance Sheet

Despite the reduction in Operating Profit net cashflow from operations was £0.4m. higher at £17.6m (2010 - £17.2m). This was the result of the following movements in Working Capital:

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

Net debt (excluding deferred arrangement costs) at £88.3m (2010 - £85.8m) includes an index linked loan with a value of £85.3m. (2010: £81.4m.) The value is indexed each year by the previous July's recorded RPI. The increase in debt for the year is a result of this indexation. The level of gearing is an important ratio in the Company's loan covenants and is measured by the ratio of net debt to the Company's Regulatory Capital Value (RCV) which is determined by Ofwat at the 2009 Price Determination. The RCV is also indexed by RPI but at the March (year end) figure. The ratio is known as the Regulatory Asset Ratio. At the year end, the ratio was 76.7%.

Accounting Policies

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

The Company has changed its policy in respect of capitalisation of fixed assets, in that the employment costs and related overheads of the Capital Works department are allocated to the specific capital projects to which they are attributable. This is in line with the treatment by other water companies and the change has been made to provide more accurate reporting to Ofwat as part of Accounting Separation. The previous year's results shown in this respect have been restated to reflect this change.

Pensions

The Company accounts for the Brockhampton Pension Scheme in which it is the principal employer, in accordance with FRS17. The latest actuarial valuation carried out for the purposes of FRS17 showed a surplus after deferred tax of £21.0m (2010 - £9.8m). The actual gain before deferred tax of £14.9m. which is shown in the Statement of Total Recognised Gains and Losses (STRGL) on page 27 results partly from the statutory change in indexing pensions in payment from RPI to CPI and partly from the rise in asset values during the year.

In the most recent triennial actuarial valuation conducted at March 2008, the Scheme had a surplus of £17.1m. Until March 2010, the Company had not made contributions for a number of years. For the year ended 31 March 2011, the Company made contributions of £0.7m. this being at a rate of 12.4% of earnings.

The Company is currently in discussions with its employees regarding proposals to reduce the level of future benefits in the scheme. Under the proposals, new employees will receive a pension on a defined contribution basis although for existing employees their future benefit will remain on a defined benefit basis. The changes are being proposed to reduce the long term cost of providing pensions and to reduce the risks to the Company associated with defined benefits pensions.

Key Financial Performance Indicators

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



Staff from the Blendworth Centre, who carry out grounds maintenance at various Company sites

OPERATING AND FINANCIAL REVIEW

Current Development and Performance

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

¹ Each KPI is defined in the Appendix on page 43

² Definition of terms is contained in the Appendix on page 43

Customer Service

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

KPI - 2 Customer Service Measures

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

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

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

KPI - 3 Water Quality

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

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

The water quality performance indicator relates to the calendar year.

Operating Efficiency

For many years Ofwat have published a report which included its assessment of the comparative operating efficiency of all water companies in England and Wales using econometric modelling. Portsmouth Water has always been ranked in Band A (mostly the



Sample being tested for water quality at the Company's laboratory

OPERATING AND FINANCIAL REVIEW

Current Development and Performance

highest or 2nd highest performing company). This benefited customers through relatively lower prices. Ofwat do not intend to publish this assessment in future, however they did use this relative performance to set efficiency targets for the 5 year period to 2015. As a result, Ofwat set an efficiency target of 0.25% per annum. The table below shows the outcome against this target.

KPI - 4 Efficiency

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



Changing a borehole pump at Lavant Water Treatment Works

Capital Investment

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

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

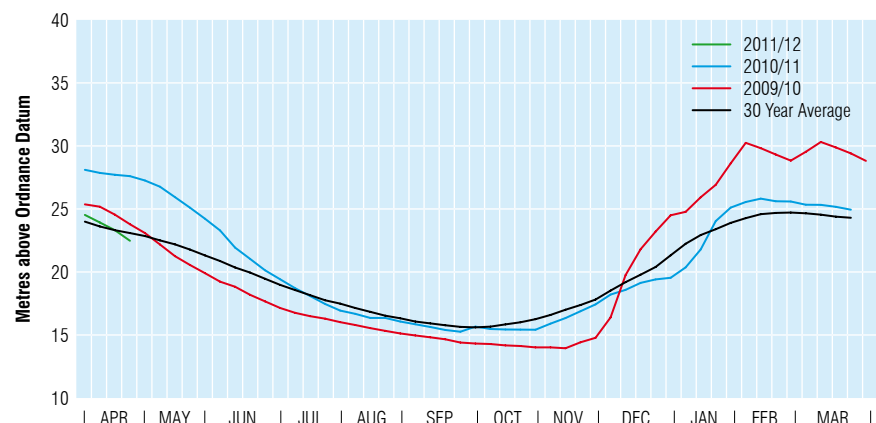
Gross expenditure on above ground assets at £4.6m included £0.8m for installing domestic meter options and £0.5m on the implementation of a new billing system. The remainder was on relatively small projects. In the Final Determination the Company was given an allowance of 5,000 domestic meter options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

Water Resources - Outlook for 2011

As detailed on page 5, 88% of water supplied to customers is from groundwater springs, boreholes and wells which abstract from the underground chalk of the South Downs. Groundwater levels are therefore critical to maintaining supplies to customers. The Company has for many years monitored the groundwater level at Idsworth Well, Rowlands Castle, which is unaffected by abstraction and is representative of groundwater conditions in the South Downs chalk.

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

Idsworth Well



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

OPERATING AND FINANCIAL REVIEW

Current Development and Performance



Leakage detection work at Gunwharf Quays, Portsmouth

Leakage

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

KPI - 5 Leakage

Target	Performance 2010/11
Average leakage of 29.7MI/d	Average leakage of 29.6MI/d

Employees

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

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

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

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

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

Total Accidents and Reportable Accidents



Health and Safety

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

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

Total Accidents and Reportable Accidents

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

OPERATING AND FINANCIAL REVIEW

Corporate Responsibility

Water Efficiency

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

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

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

Catchment Management

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

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

Work in the community

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

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

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

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

nearly 260,000 water bottles delivered to local school children over a number of years.

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

WaterAid

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

Environmental Performance

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

Conservation

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

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

Biodiversity Action Plan

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

Sustainable Procurement

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



School children with water bottles, part of the Company's 'Water for Health' initiative

OPERATING AND FINANCIAL REVIEW

Risks and Uncertainties

Risk Management

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

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

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

Operational Risk

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

Water Quality Risk

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

Financial Risk

Interest Rate, Liquidity, Capital and Credit Risk

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

The Company's exposure to interest rate fluctuations is now limited by the fixed interest rate applicable to the index-linked loan drawn in 2002, with inflation risks on the cost of the loan being effectively hedged against regulated revenues which are also linked to the RPI. Interest is charged at a fixed rate of 3.635% on the indexed amount of the loan. The indexed value of the loan at 31 March 2011 was £85.3m (2010 - £81.4m).

The Company seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs through an appropriate borrowing structure and to invest cash assets safely and profitably on the short term market. In 2010/11 all of the short term cash was deposited with the Company's Bankers, RBS. Short term liquidity is achieved through a £10m working capital facility and an overdraft arrangement. At the end of the year, £4.5m. of this facility had been drawn (2010 - £6.0m), while the overdraft arrangement remained unutilised. The £10m facility, which terminates in August 2013, was arranged in August 2010 and replaced a £15m facility that was due for renewal.

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

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

Financial Loss

The risk of financial loss is addressed through comprehensive insurance cover for a range of risks, including damage to property, public and employee liability, fraud and terrorism. A system of internal controls is in place to manage the risks, the details of which are included in the Statement on Corporate Governance on pages 23 to 25. In early 2007, the Auditors conducted a special review of the Company's internal control systems. The review did not reveal any significant weaknesses and it has recently been updated to reflect system changes. A disaster recovery plan is also in place to enable the Company to operate in the event of an incident disrupting its computer systems. At a remote site ten miles from its Head Office, the Company has an additional mainframe computer, which is 'backed up' every evening, and several workstations for employees to operate.

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

Environmental Risk

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

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

Regulatory Risk

Regulatory risk relates to decisions taken by Ofwat at the five yearly price review and the potential failure to meet the level of service and capital programme agreed with Ofwat for the AMP 5 period, which

OPERATING AND FINANCIAL REVIEW

Risks and Uncertainties

could result in Ofwat taking action, including financial penalties. The price review is conducted in an open and transparent manner and the Company actively participates in the process. The performance against the regulatory targets is reviewed on a monthly basis by the Board or the Executive Directors. The annual performance against the targets is discussed on pages 10 to 11.

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

Competition in the Water Industry

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

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

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

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

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

Health and Safety

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

These include:

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



N. J. Roadnight
Managing Director



N. Smith
Finance Director

27 May 2011

COMPANY INFORMATION

Registered Office

PO Box 8
West Street
Havant
Hampshire
PO9 1LG

Telephone: 023 9249 9888
Facsimile: 023 9245 3632
Website: www.portsmouthwater.co.uk

Company Number: 2536455
Company Secretary: Christopher Hardyman ACIS

Facts and Figures

Area of Supply	868 km ²
Population	660,000
Number of Properties Served	304,000
Length of Mains	3,270 km
Average Daily Output	179 MI

Auditors

Saffery Champness
Lion House
Red Lion Street
London WC1R 4GB

Bankers

National Westminster Bank plc
PO Box 34
15 Bishopsgate
London EC2P 2AP

Insurance Brokers

Heath Lambert Group
27-31 Fleet Street
Swindon
Wiltshire SN1 1RG

AREA OF SUPPLY



Portsmouth Water has been supplying water to Portsmouth and the surrounding area since 1857. The area supplied by the Company extends through South East Hampshire and West Sussex from the River Meon in the West to the River Arun in the East encompassing 868 square kilometres.

The Company provides high quality public water supplies to a domestic population of 642,000, as well as many important industries, large defence establishments and varied commercial businesses.

DIRECTORS' REPORT

The Directors have pleasure in presenting their Report and Accounts for the year ended 31 March 2011.

Principal Activity and Business Review

The Company is a water supplier operating under an Instrument of Appointment granted by the Secretary of State for the Environment under the Water Industry Act 1991.

Water is supplied to 660,000 domestic and commercial customers in an area of 868 square kilometres in Hampshire and West Sussex through a mains network of 3,270 kilometres.

The Company's Area of Supply is shown on page 17 of this report.

A detailed review of operations for the year is provided in the Chairman's Statement and the Operating and Financial Review on pages 4 to 15.

Financial Risk Management Objectives and Policies

A detailed review of the Company's financial risk management objectives and the policies employed are set out in the Operating and Financial Review on page 14 and in note 18 to the accounts on page 37.

Financial Results and Dividends

The Company's profit before taxation amounts to £0.868m (2010 - £9.009m). After deducting £0.180m for taxation (2010 - £3.198m), a profit of £0.688m has been transferred to reserves (2010 - £5.811m).

The Directors are recommending the payment of a final dividend of £1.192m (2010 - £1.885m).

Fixed Assets

Capital expenditure on tangible fixed assets was £9.552m (2010 - £14.608m), including £5.014m on infrastructure renewals (2010 - £6.966m). Information relating to these and other changes in fixed assets is shown in note 10 to the accounts on page 34.

The Directors are of the opinion that the current market value of the land and buildings included in tangible fixed assets is in excess of the value shown in the balance sheet.

As they are held for operational purposes, no professional valuation has been obtained and the excess has not, therefore, been quantified.

Board of Directors

The Directors who held office at 31 March 2011, all of whom served throughout the year, are shown on page 3.

Mr R. L. Sullivan and Mr. A. R. Neve who retire by rotation, offer themselves for re-election. Mr A. R. Neve has a one year service contract with the Company.

The interests of the Directors in Group shares are detailed in the Report on Remuneration on page 23.

The Company maintains appropriate Directors' indemnity insurance.

Creditor Payment Policy

The Company does not intend to follow any specific code or standard in relation to payment practice. In the absence of dispute, bills will be

settled in accordance with the suppliers' terms. Where such terms are considered unreasonable, the Company will seek to agree alternative payment arrangements to suit both parties. At 31 March 2011, the Company's creditor days were 16 (2010 - 11).

Substantial Shareholder

At 31 March 2011, Portsmouth Water Holdings Limited owned the entire voting capital of the Company.

Regulatory Accounts

A set of accounts for regulatory purposes is required by the Water Services Regulation Authority. These accounts relate solely to the regulated water supply business and copies may be obtained on request from the Registered Office.

Employees

Direct communication with employees is maintained through the Company in-house newsletter. In addition, Joint Consultative Committees meet regularly and ensure effective communication with employee representatives.

The Directors consider health and safety to be an important issue within the Company, with the active participation of employee safety representatives taking place through the safety committee. During the year, a number of initiatives were undertaken, which ensured that health and safety continues to maintain its high profile throughout the organisation.

The Company has, for the last five years, been awarded the Gold award in the RoSPA Occupational Health and Safety Awards and was also awarded an Industry Sector Award in 2009.

The Company has adopted a policy which complies with the Disability Discrimination Act 1995. Every consideration is given to applications for employment from disabled persons, where the job requirements may be adequately covered by a handicapped or disabled person. Employees who become disabled during employment are given continued employment where possible and opportunities for training and career development are provided for all disabled employees.

The pension scheme to which the Company's employees belong makes provision for retirement due to ill-health or disablement.

Environment

The Company is most aware of its obligations to both customers and the environment. In recent years, it has adopted an active approach to environmental issues and further information is set out in the Operating and Financial Review on pages 5 to 15.

Donations

The Company actively supports the Water Industry charity WaterAid and, during the year, customers were invited to make donations to WaterAid at the time of paying their water bills. The Company has also made donations to a Charitable Trust Fund, which aimed to provide assistance for customers who have difficulty paying their bills. The trust is no longer in existence and therefore no donations were made during the year (2010 - £25,000).

Licence Requirement

In accordance with its Instrument of Appointment under the Water Industry Act 1991, the Directors are of the opinion that the

DIRECTORS' REPORT

Company is in compliance with paragraph 3.1 of Condition 'K' of that Instrument.

Auditors

The Auditors, Saffery Champness, have expressed their willingness to continue in office and a resolution providing for their reappointment will be proposed at the Annual General Meeting.

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.

By order of the Board

C. Hardyman ACIS

Secretary

Havant

27 May 2011

CORPORATE GOVERNANCE

The Directors are committed to high standards of corporate governance and support the principles set out in the 2008 version of the UK Corporate Governance Code (the 'Combined Code'). This report and the Report on Remuneration describe how the Company complies with those principles.

COMPLIANCE

The Company has complied throughout the year with the provisions of the Combined Code, other than as indicated below:

As the ultimate shareholders of the Company have representation at Board meetings, it is not therefore considered necessary to have a senior independent non-executive Director (code provision A.3.3).

In accordance with the Company's Articles of Association, the Managing Director is not required to retire by rotation and seek re-election (code provision A.7.1).

DIRECTORS

The Board

The Board of Directors retains full and effective control of the Company and is collectively responsible for setting its strategy, ensuring appropriate resources are in place to meet objectives and monitoring performance.

The non-executive Directors play a full part by constructively challenging and contributing to the development of strategy. They are responsible for determining appropriate levels of remuneration for the executive Directors and for recommending new appointments to the Board.

The members of the Board and the roles of each Director are shown on page 3, together with biographical notes. The Chairman is Mr. T. M. Lazenby MBE and the Managing Director is Mr. N. J. Roadnight. The Board has not appointed a senior independent non-executive Director.

The Board meets monthly and has a schedule of matters specifically reserved to it for decision. It has control of the Company, but delegates the day to day conduct of business to the executive Directors and their senior management colleagues. However, there are a number of matters which must only be decided by the Board as a whole, including strategy, all contracts over £150,000, dividend policy and certain regulatory matters.

Committee membership, number of formal meetings held during the year and attendance are shown in the following table:

	Number of meetings held	Number of meetings attended
Audit		
R. J. Tennant (Chairman)	3	3
T. M. Lazenby MBE	3	3
R. L. Sullivan	3	3
Nomination		
T. M. Lazenby MBE (Chairman)	1	1
R. L. Sullivan	1	1
R. J. Tennant	1	1
N. J. Roadnight	1	1
Remuneration		
R. L. Sullivan (Chairman)	1	1
T. M. Lazenby MBE	1	1
R. J. Tennant	1	1
Full Board		
T. M. Lazenby MBE (Chairman)	11	11
A. R. Neve	11	11
N. J. Roadnight	11	11
N. Smith	11	11
R. L. Sullivan	11	10
R. J. Tennant	11	11

The Chairman talks with and holds meetings on an informal basis with the other non-executive Directors without the executives present. The non-executive Directors meet without the Chairman present annually to appraise his performance.

There were no circumstances arising during the year where it was necessary to record unresolved concerns in the Board minutes.

Chairman and Managing Director

The roles of Chairman and Managing Director are separate with a clear division of responsibilities between them.

The Chairman is responsible for leading the Board and ensuring its effectiveness. He facilitates the contribution of the non-executive Directors and the relationship between them and the executive Directors.

Board Balance and Independence

The Board comprises a non-executive Chairman, three executive Directors and two other non-executive Directors. The non-executive Directors bring a wide range of experience and knowledge to the Board, which complements the expertise of their executive Director colleagues. They are all considered to be independent of management.

The Board considers that its structure achieves an appropriate balance of authority at the head of the Company, such that no one individual has an unfettered power of decision.

Appointments to the Board

The Nomination Committee comprises the Managing Director, Mr. N. J. Roadnight, and the three independent non-executive Directors, Mr. T. M. Lazenby MBE (Chairman), Mr. R. L. Sullivan and Mr. R. J. Tennant. It is responsible for recommending new appointments to the Board. Decisions regarding the appointment of Directors are taken by

CORPORATE GOVERNANCE

the Board as a whole. The Nomination Committee met once during the year.

The terms and conditions of appointment of non-executive Directors are available for inspection.

Information and Professional Development

Information is circulated to the Board in a timely fashion to ensure that all Directors are fully briefed on all issues arising at Board meetings. They are free to seek any further information considered necessary.

All Directors have access to the services of the Company Secretary and may take independent professional advice at the Company's expense in the furtherance of their duties.

Performance Evaluation

During the year, a formal performance evaluation of the Board, its committees and its Directors was undertaken. Each Director was required to complete a questionnaire, the responses to which were reviewed by the Board as a whole. The non-executive Directors also met without the executives to consider the performance of the Board and its committees, and without the Chairman to appraise his performance. The executive Directors are subject to a formal appraisal of performance which is reviewed by the Chairman. The Chairman also meets with each non-executive Director to review individual performance. The evaluation concluded that the Board and its committees operated effectively, and that each Director demonstrated commitment to the role and performed effectively.

Re-Election

In accordance with the Company's Articles of Association, all Directors, with the exception of the Managing Director, are required to retire by rotation and one third of the Board must seek re-election each year. All Directors are subject to election at the first Annual General Meeting after their appointment.

REMUNERATION

Policy and practice in relation to Directors' remuneration is dealt with in full in the Report on Remuneration on pages 23 and 24.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board believes that the Annual Report and Accounts play an important part in presenting a clear, balanced and understandable assessment of the Company's position and prospects. This is supported by the Chairman's Statement, together with a more detailed analysis of operations and financial matters in the Operating and Financial Review.

Internal Control

The Directors are responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to minimise rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. There has been no significant changes in the system of internal control during the year.

The Board is of the view that there is an ongoing process for identifying, evaluating and managing the Company's significant risks, that it has been in place for the year ended 31 March 2011 and up to the date of approval of the Annual Report and Accounts, that it is

regularly reviewed by the Directors and that it accords with the internal control guidance for Directors in the Combined Code on Corporate Governance.

The key procedures, which have been established with a view to providing effective internal control, are as follows:

Organisation

The Company's activities are operated through a Board of Directors with clearly defined reporting lines and delegation of authority. The Directors meet at least monthly to consider a schedule of matters required to be brought to them for decision. A standing sub-committee of the Board meets fortnightly for the purpose of ensuring that full and effective control is maintained over appropriate financial, regulatory and operational issues.

Budgetary Control

Each year the Directors approve an annual plan produced from a comprehensive budgeting system. Actual results are reported against the approved plan on a monthly basis to provide a timely and regular monitoring of performance.

Investment Appraisal

The Company has a clearly defined framework for assessing capital expenditure needs and options, while post project appraisal looks at relevant improvement in the internal control procedures. Board approval is required for any project exceeding a quantified expenditure level.

Business, Operational and Compliance Risks

The Company assesses the risks facing its business on an ongoing basis and has identified them under six main headings - operational, water quality, financial, environmental, regulatory and health and safety of employees. They are subject to regular reporting to the Directors. The Board reviews the controls established to mitigate these risks and its insurance requirement on an annual basis. The Directors also receive reports from independent regulatory bodies, which comment on the performance of the core water business.

At the April 2011 Board meeting, the Directors carried out their annual assessment for the year to 31 March 2011, including consideration of events since the year end.

Audit Committee and Auditors

The Audit Committee comprises the three non-executive Directors Mr. R. J. Tennant (Chairman), Mr. T. M. Lazenby MBE and Mr. R. L. Sullivan.

It meets at least three times during the year. The purpose of the Committee is to ensure the preservation of good financial practices throughout the Company, to monitor that controls are in force to ensure the integrity of those practices, to review the interim and annual financial statements and to provide, by way of timely meetings, a line of communication between the Board and the external auditors.

The Committee has formal Terms of Reference, which deal with its authorities and duties. It has primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors. It also reviews annually arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

CORPORATE GOVERNANCE

The Committee reviews the independence and objectivity of the external auditors. This includes reviewing the nature and extent of non-audit services supplied by the external auditors to the Company, seeking to balance objectivity and value for money. The only non-audit services provided during the year were those expected to be provided by the external auditors.

The Committee does not consider that an internal audit function is required for the Company due to the size and nature of the business. This recommendation is reviewed annually.

GOING CONCERN

The Operating and Financial Review on pages 5 to 15 along with note 18 to the accounts sets out the Company's financial position; cash flows; liquidity position; borrowing facilities; objectives, policies and processes for managing capital; financial risk management objectives; exposures to credit and liquidity risk.

As highlighted on page 14 the Company meets its day-to-day working capital requirements through a £10m working capital facility that was arranged in August 2010, and terminates in August 2013.

The Company's financial projections, taking into account expected changes in trading performance show that the Company is forecast to operate within the level of its current facility.

Therefore the Directors report that, following the above review, they have a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future. Accordingly they continue to adopt the going concern basis of accounting in preparing the accounts.

REPORT ON REMUNERATION

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

INFORMATION NOT SUBJECT TO AUDIT

Remuneration Committee

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

The Level and Make-up of Remuneration

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

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

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

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

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

No Director is involved in deciding his own remuneration.

INFORMATION SUBJECT TO AUDIT

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

Remuneration is analysed by Director below:

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

In the comparative year 2010 Mr N. Smith and Mr A. R. Neve received bonus payments of £6,000 and £3,000 respectively. This is included in salary/fees above.

Fees paid in respect of Mr. T. M. Lazenby MBE are paid to Seamab Consultancy Limited.

Benefits comprise company cars and medical insurance.

Mr J. E. Cogley left service on the 31 August 2009.

Long-term incentive schemes

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

REPORT ON REMUNERATION

Share options

The Company does not operate an Executive Share Option Scheme.

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

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

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

Pensions

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

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

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

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

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

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

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

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

By order of the Board

T. M. Lazenby MBE

Chairman

Havant

27 May 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit and loss of the Company for that period. In preparing those financial statements, the Directors are required to:

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

The Directors are responsible for:

- keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 2006;
- safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities; and
- under applicable law and regulations, including the Disclosure and Transparency Rules, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with the requirements of that law and those regulations. In relation to the latter, the Directors represent that, to the best of their knowledge and belief:
 - the financial statements give a true and fair view of the assets, liabilities, financial position and financial result for the year ended 31 March 2011; and
 - the Directors' Report and information referenced therein, taken together, includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

The Directors are responsible for 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.

By order of the Board

C.Hardyman ACIS
Secretary
Havant
27 May 2011

AUDIT REPORT

Independent Auditors' report to the members of Portsmouth Water Limited

We have audited the financial statements of Portsmouth Water Limited for the year ended 31 March 2011, which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' Report 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 Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements, and the part of the Report on Remuneration to be audited, in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the company as at 31 March 2011 and its profit for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year

for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Nicholas Kelsey

Senior Statutory Auditor

For and on behalf of

Saffery Champness

Chartered Accountants
Statutory Auditors
Lion House
Red Lion Street
London
WC1R 4GB
27 May 2011

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2011

	Notes	2011 £000	2010 £000
			(restated)
Turnover	2	35,515	37,342
Cost of sales		(19,708)	(19,493)
Gross profit		15,807	17,849
Net operating expenses	3	(9,699)	(8,993)
Operating profit		6,108	8,856
(Loss) on sale of fixed assets		(8)	(22)
Profit on ordinary activities before exceptional item		6,100	8,834
Exceptional item	10	(1,086)	-
Profit on ordinary activities before interest		5,014	8,834
Interest receivable	5	1,178	1,405
Other finance income	28	1,897	714
		8,089	10,953
Interest payable and similar charges	6	(7,221)	(1,944)
Profit on ordinary activities before taxation	7	868	9,009
Taxation on profit on ordinary activities	8	(180)	(3,198)
Profit for the financial year	20	688	5,811

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 2011

	Notes	2011 £000	2010 £000
			(restated)
Profit for the financial year		688	5,811
Actuarial gain/(loss) on pension scheme	28	14,904	(2,636)
Deferred tax relating to actuarial (gain)/loss on pension scheme	17	(4,024)	738
Effect of change to corporation tax rate on pension asset		(226)	-
Total recognised gains and losses relating to the year		11,342	3,913
Prior year adjustment		389	-
Total gains and losses recognised since last financial statements		11,731	3,913

The prior year adjustment results from a change in accounting policy in respect of the capitalisation of fixed assets, as detailed in note 1 to the accounts.

The accompanying notes form an integral part of these accounts.

BALANCE SHEET

As at 31 March 2011

	Note	2011 £000	2011 £000	2010 £000 (restated)	2010 £000 (restated)
Fixed assets					
Tangible assets	10	95,876		96,574	
Investments	11	59,468	155,344	59,468	156,042
Current assets					
Stocks		520		553	
Debtors	12	4,698		4,935	
Investments	13	4		4	
Cash at bank and in hand	14	1,746		1,931	
		6,968		7,423	
Creditors: amounts falling due within one year	15	(17,243)		(20,702)	
Net current liabilities			(10,275)		(13,279)
Total assets less current liabilities			145,069		142,763
Creditors: amounts falling due after more than one year	16		(85,070)		(80,136)
Provisions for liabilities	17		(10,419)		(10,272)
Net assets excluding pension asset			49,580		52,355
Pension asset	28		20,969		9,774
Net assets including pension asset			70,549		62,129
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		64,682		56,262
Shareholders' funds	21		70,549		62,129

The accompanying notes form an integral part of these accounts.

The accounts were authorised for issue and approved by the Board on 27 May 2011, and signed on its behalf by;

T. M. Lazenby MBE
Chairman

Company Number: 2536455

CASH FLOW STATEMENT

For the year ended 31 March 2011

	Notes	2011 £000	2011 £000	2010 £000	2010 £000
Net cash inflow from operating activities	22		17,556	(restated)	(restated) 17,153
Returns on investments and servicing of finance					
Interest received		1,177		1,420	
Interest paid		(3,283)	(2,106)	(3,071)	(1,651)
Taxation					
UK corporation tax paid		(858)		(965)	
Payments for group relief		(164)	(1,022)	(797)	(1,762)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(10,626)		(13,479)	
Sale of tangible fixed assets		21		12	
Capital contributions received		877	(9,728)	552	(12,915)
Equity dividends paid			(3,385)		(4,663)
Cash inflow/(outflow) before management of liquid resources and financing			1,315		(3,838)
Management of liquid resources					
(Purchase) of short term deposits			(75)		(55)
Financing					
(Repayment of)/new loans		(1,500)		2,000	
Loan repayments from Group company		-	(1,500)	1,165	3,165
(Decrease) in cash in the year	23		(260)		(728)

The accompanying notes form an integral part of these accounts.

NOTES TO THE ACCOUNTS

1 Accounting Policies

The accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and with the provisions of the Companies Act 2006, except for the treatment of capital contributions as detailed in note 1.(c).

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.

(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 and on maintaining the operating capability of the network in accordance with defined standards of service is treated as an addition and included in tangible fixed assets at cost. The cost of infrastructure assets is their purchase cost together with incidental expenses of acquisition and directly attributable labour costs which are incremental to the Company.

The depreciation charge on infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network, based on an independently certified asset management plan.

(ii) Other assets

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

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

(c) Capital contributions

(i) Mains contributions

In certain circumstances third parties make non-returnable contributions towards the cost of specific infrastructure assets. They are treated as capital contributions and the Directors consider it appropriate that, in order to present a true and fair view, they should be deducted from fixed assets, as shown in note 10 to the accounts on page 34. In accordance with the Companies Act 2006 requirement to include fixed assets at cost, such contributions would normally be treated as deferred income and released to the profit and loss account over the useful life of the corresponding assets. However, the assets to which they relate do not have determinable finite lives and, accordingly, no basis exists on which to recognise those contributions as deferred income.

(ii) Infrastructure charges

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

(d) Investments

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

NOTES TO THE ACCOUNTS

(e) Stocks

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

(f) Deferred taxation

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

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

(g) Leases

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

(h) Pension costs and other post retirement benefits

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

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

Pension scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted to their present value using the AA corporate bond rate. Pension scheme assets are valued at market value at the balance sheet date. The pension scheme surplus is recognised in full on the balance sheet.

The deferred tax relating to a defined benefit asset is offset against the defined benefit asset and not included with other deferred tax liabilities. Detailed information regarding the surplus and actuarial position of the scheme is given in note 28 to the accounts on pages 40 and 41.

(i) Financial instruments

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

Fixed asset investments consist of loans to Group undertakings, which earn interest based on London Interbank rates and are classified as loans and receivables. They are measured at amortised cost. Other financial assets consist of short term bank deposits and debtors and are classified as loans and receivables. They are measured at amortised cost.

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

Change in accounting policy

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

The effect of this change in accounting policy was to:

- (i) Decrease cost of sales by £0.462m (2010 - £0.544m).
- (ii) Increase profits after taxation by £0.329m (2010 - £0.389m).
- (iii) Increase fixed assets by £0.462m (2010 - £0.544m).
- (iv) Increase taxation creditor by £0.133m (2010 - £0.155m).
- (v) Increase profit and loss account reserve by £0.329m (2010 - £0.389m).

NOTES TO THE ACCOUNTS

2 Turnover	2011	2010
	£000	£000
Unmeasured supplies	21,295	22,671
Measured supplies	12,542	12,740
Bulk supply to Southern Water Services	561	518
Chargeable work	1,117	1,413
	35,515	37,342

Turnover is wholly attributable to water supply and related activities in the United Kingdom.

3 Net operating expenses	2011	2010
	£000	£000
Administrative expenses	9,980	9,233
Other operating income	(281)	(240)
	9,699	8,993

4 Directors and employees	2011	2010
Employment costs:	£000	£000
		(restated)
Wages and salaries	6,069	6,116
Social security costs	478	478
Other pension costs (note 28)	2,345	1,419
	8,892	8,013
Transferred to capital schemes	(481)	(594)
Net employment costs charged to the profit and loss account	8,411	7,419

Average numbers employed during year:	2011	2010
	Number	Number
Operations	144	148
Administration	80	78
	224	226

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

Further details relating to Directors' remuneration are set out in the Report on Remuneration on pages 23 and 24. The information set out in that Report which is subject to audit forms part of these financial statements.

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

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

NOTES TO THE ACCOUNTS

7 Profit on ordinary activities before taxation	2011	2010
	£000	£000
		(restated)
Profit on ordinary activities is after charging:		
Depreciation		
- infrastructure assets	4,747	4,561
- non infrastructure assets	3,511	3,339
Rates	2,338	2,475
Water abstraction charges	1,953	1,804
Auditors' remuneration:		
Audit services	31	29
Non-audit services	23	23
- regulatory reporting	23	23
- taxation	3	3
- general advice	4	5
Fees in respect of the Brockhampton Pension Scheme		
- statutory audit*	2	2
Hire of plant and machinery	8	10
Other operating leases	340	340

* These fees are not paid by Portsmouth Water Limited.

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

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

	2011	2010
	£000	£000
		(restated)
Profit on ordinary activities before tax	868	9,009
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2010 - 28%)	243	2,523
Effect of:		
Expenses not deductible for tax purposes	316	19
Capital allowances for the period in excess of depreciation	(343)	(606)
Revenue items charged to capital	186	124
Difference between pension cost charge and pension cost relief	(68)	197
Adjustments to tax charge in respect of prior periods	(5)	(3)
Current tax charge for year	329	2,254

9 Dividends	2011	2010
	£000	£000
Equity: Ordinary/'A' Ordinary		
Interim paid	1,037	2,050
Final paid	1,885	2,613
	2,922	4,663

The Directors are proposing the payment of a final dividend of £1.192m for the year ended 31 March 2011. This dividend has not been accounted for within the current year financial statements, as it has yet to be approved.

NOTES TO THE ACCOUNTS

10 Tangible fixed assets	Freehold land, buildings & reservoirs £000	Mains £000	Pumping plant £000	Vehicles, mobile plant & office equipment £000	Total £000
Cost					
At 1 April 2010	45,550	117,862	35,705	12,729	211,846
Prior year adjustment - capital works department	72	260	222	-	554
At 1 April 2010 restated	45,622	118,122	35,927	12,729	212,400
Additions	(49)	6,388	1,452	1,761	9,552
Disposals	(18)	(288)	(169)	(221)	(696)
At 31 March 2011	45,555	124,222	37,210	14,269	221,256
Depreciation					
At 1 April 2010	7,646	67,310	13,309	8,221	96,486
Prior year adjustment - capital works department	1	-	9	-	10
At 1 April 2010 restated	7,647	67,310	13,318	8,221	96,496
Charge for year	460	4,747	1,804	1,247	8,258
Impairment loss	1,086	-	-	-	1,086
Disposals during year	(1)	(288)	(167)	(211)	(667)
At 31 March 2011	9,192	71,769	14,955	9,257	105,173
Net book value					
At 31 March 2011	36,363	52,453	22,255	5,012	116,083
At 31 March 2010 (restated)	37,975	50,812	22,609	4,508	115,904
Capital contributions					
At 1 April 2010	-	19,330	-	-	19,330
Received during year	-	877	-	-	877
At 31 March 2011	-	20,207	-	-	20,207
Net book value after deducting capital contributions					
At 31 March 2011	36,363	32,246	22,255	5,012	95,876
At 31 March 2010 (restated)	37,975	31,482	22,609	4,508	96,574

Included within freehold land, buildings and reservoirs at cost was an amount of £1.897m relating to a capital project involving the design and construction of a winter storage reservoir at Havant Thicket. Costs incurred to date were in respect of initial design, planning application and environmental impact studies. This project is not now expected to be started until 2025 and therefore it was considered appropriate to make an impairment provision in respect of those elements of the project which will have to be redone in the future. The impairment loss amounts to £1.086m and has been shown as an exceptional item in the profit and loss account on page 27.

11 Fixed asset investments

11 Fixed asset investments	Loans to Group undertakings £000
At 1 April 2010 and 31 March 2011	59,468

NOTES TO THE ACCOUNTS

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

All of the above amounts fall due within one year.

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

The ageing of these debtors was as follows:

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

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

Movements on the provision for bad debt are as follows:

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

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

13 Current asset investments

Unlisted investments: £4,000 (2010 - £4,000).

14 Cash at bank and in hand

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

15 Creditors: amounts falling due within one year	2011	2010
	£000	£000
3% Perpetual debenture stock	60	60
3½% Perpetual debenture stock	185	185
4% Perpetual debenture stock	39	39
Bank loan	4,500	6,000
Payments received on account	2,060	1,502
Trade creditors	1,132	1,050
Amounts owed to Group companies	1,635	2,078
Corporation tax	189	897
Social security and other taxation	211	209
Other creditors	1,949	3,083
Accruals	418	422
Water rates in advance	4,865	5,177
	17,243	20,702

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

NOTES TO THE ACCOUNTS

16 Creditors: amounts falling due after more than one year	2011	2010
	£000	£000
Due within one to two years:		
Payments received on account	439	-
Due within two to five years:		
Payments received on account	548	-
In five years or more:		
Bank loan	85,306	81,416
Less: deferred arrangement costs	1,223	1,280
	84,083	80,136
	85,070	80,136

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

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

17 Provisions for liabilities	2011	2010
	£000	£000
Deferred taxation:		
At 1 April 2010	10,272	9,131
Provided during the year in profit and loss account	147	1,141
At 31 March 2011	10,419	10,272

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

	2011	2010
	£000	£000
Deferred tax excluding that relating to pension asset:		
Accelerated capital allowances	10,419	10,272
Pension asset (note 28)	7,755	3,801
Total provision for deferred tax	18,174	14,073
At 1 April 2010	14,073	13,867
Deferred tax charge in profit and loss account (note 8)	(149)	944
Deferred tax charged to the statement of total recognised gains and losses	4,250	(738)
At 31 March 2011	18,174	14,073

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

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

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

If all the changes had been enacted at the balance sheet date the deferred tax liability of £10.419m (see note 17) would have been reduced by £1.487m to £8.932m and the deferred tax liability relating to the pension asset of £7.755m (see note 28) would have been reduced by £1.148m to £6.607m. The reduction in the deferred tax liability would have been dealt with in the profit and loss account. The reduction in the deferred tax liability relating to the pension asset would have been dealt with in the statement of total recognised gains and losses. The reductions in deferred tax are expected to be implemented over the period to 2014 in line with legislative changes.

No provision has been made for deferred tax on gains recognised on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided for is £0.669m. (2010 - £0.694m.). At present it is not envisaged that any tax will become payable in the foreseeable future.

NOTES TO THE ACCOUNTS

18 Financial instruments

The Financial Review on page 8 provides an explanation of the objectives and policies for holding financial instruments. The numerical disclosures in this note deal with financial assets and liabilities. Short term debtors and creditors have been excluded from all disclosures. The fair value of all financial instruments is not materially different to the book value.

Financial assets

The financial assets of the Company are detailed below. The fixed asset investment earns interest based on London Interbank rates. Cash at bank and in hand includes a sterling cash deposit of £1.590m., which is placed on the money market at a six monthly rate and is held specifically for the payment of the next half yearly loan interest charges. The remaining cash balances on bank accounts receive interest at commercial rates.

Financial liabilities

The Company has no foreign currency contracts. The interest rate profile of its financial liabilities at 31 March 2011 is detailed below:

Sterling	2011 £000	2010 £000
Assets		
Fixed asset investment	59,468	59,468
Current asset investments	4	4
Cash at bank and in hand	1,746	1,931
	61,218	61,403

Sterling	Fixed Rate 2011 £000	Fixed Rate 2010 £000	Floating Rate 2011 £000	Floating Rate 2010 £000	Total 2011 £000	Total 2010 £000
Liabilities						
Bank loans and overdraft	84,083	80,136	4,500	6,000	88,583	86,136
Debenture stock	284	284	-	-	284	284
	84,367	80,420	4,500	6,000	88,867	86,420

Fixed rate	Weighted Average Interest Rate %	Weighted Average Interest Rate %	Weighted Average Period for which Rate is Fixed Years	Weighted Average Period for which Rate is Fixed Years
Sterling	2011	2010	2011	2010
	3.6	3.6	21	22

Interest on the floating rate financial liability is based on London Interbank rates.

The maturity profile of the Company's financial liabilities at 31 March 2011 is detailed below:

	2011 £000	2010 £000
In one year or less	4,784	6,284
In more than five years	84,083	80,136
	88,867	86,420

The Company had undrawn committed borrowing facilities at 31 March 2011, in respect of which all conditions precedent had been met, as follows:

	2011 £000	2010 £000
Expiring in one year or less	-	9,000
Expiring between one and two years	-	-
Expiring in more than two years	9,500	2,000
	9,500	11,000

The carrying amounts of the financial assets and liabilities shown above approximate their fair value.

NOTES TO THE ACCOUNTS

19 Called up share capital	2011	2010
	£000	£000
Authorised:		
Equity:		
6,000,000 Ordinary Shares of 10p each	600	600
10,500,000 'A' Ordinary Shares of 10p each	1,050	1,050
	1,650	1,650
Non-equity:		
3,250,000 Redeemable Preference Shares of £1 each	3,250	3,250
	4,900	4,900
Allotted, called up and fully paid:		
Equity:		
4,265,177 Ordinary Shares of 10p each	427	427
6,509,162 'A' Ordinary Shares of 10p each	651	651
	1,078	1,078

The Ordinary and 'A' Ordinary Shareholders are entitled to receive dividends pari passu according to the amount paid up or credited as paid up on their shares. The Ordinary Shares are the only class of share to carry voting rights.

In a distribution on the winding up of the Company, the Ordinary and 'A' Ordinary Shareholders are entitled to share the balance of any surplus assets pari passu according to the amount paid up or credited as paid up on their shares.

20 Reserves	Share Premium £000	Capital Redemption £000	Profit and Loss £000
At 1 April 2010, as previously reported	1,539	3,250	55,873
Prior year adjustment - capital works department	-	-	389
At 1 April 2010, restated	1,539	3,250	56,262
Profit for the financial year	-	-	688
Dividends	-	-	(2,922)
Actuarial gain on pension scheme	-	-	14,904
Movement on deferred tax relating to pension scheme	-	-	(4,024)
Effect of change to corporation tax rate on pension asset	-	-	(226)
At 31 March 2011	1,539	3,250	64,682

21 Reconciliation of movements in shareholders' funds	2011	2010
	£000	£000
Profit for the financial year	688	5,811 (restated)
Dividends	(2,922)	(4,663)
	(2,234)	1,148
Actuarial gain/(loss) on pension scheme	14,904	(2,636)
Movement on deferred tax relating to pension scheme	(4,024)	738
Effect of change to corporation tax rate on pension asset	(226)	-
Net addition/(reduction) to shareholders' funds	8,420	(750)
Opening shareholders' funds	62,129	62,879
Closing shareholders' funds	70,549	62,129

22 Reconciliation of operating profit to net cash inflow from operating activities	2011	2010
	£000	£000
Operating profit	6,108	8,856 (restated)
Notional pension costs	1,652	1,419
Depreciation charge	8,258	7,900
Loss on disposal of asset	-	7
Decrease/(increase) in stocks	33	(138)
Decrease/(increase) in debtors	238	(1,046)
Increase in creditors	1,267	155
Net cash inflow from operating activities	17,556	17,153

NOTES TO THE ACCOUNTS

23 Reconciliation of net cash flow to movement in net debt	2011	2010
	£000	£000
(Decrease) in cash in the year	(260)	(728)
Cash outflow from increase in liquid resources	75	55
Cash outflow/(inflow) from decrease/(increase) in debt	1,500	(2,000)
Change in net debt resulting from cash flows	1,315	(2,673)
Non cash movement	(3,947)	1,127
Movement in net debt in the year	(2,632)	(1,546)
Net debt at 1 April 2010	(84,485)	(82,939)
Net debt at 31 March 2011	(87,117)	(84,485)

The Company includes as liquid resources term deposits of less than one year and current asset equity investments.

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

The non cash movement relates to the annual indexation of the loan and the amortisation of the issue fees.

25 Capital commitments	2011	2010
	£000	£000
Contracted for but not provided in these financial statements	1,651	1,054

The Company has a further commitment under operating leases relating to computer hardware and associated software of £0.339m. per annum (2010 - £0.339m.) which expire as set out below:

	2011	2010
	£000	£000
Within two to five years	339	339

26 Contingent liabilities

There were no reportable contingent liabilities at 31 March 2011 or at 31 March 2010.

27 Ultimate parent undertaking

Portsmouth Water Limited is a wholly-owned subsidiary of Portsmouth Water Holdings Limited and has, therefore, taken advantage of the exemption under FRS 8 : Related Party Disclosures not to provide information on related party transactions with other undertakings within the Group. The ultimate parent undertaking is South Downs Capital Limited and is the largest and smallest company for which Group accounts are prepared. Copies of these accounts can be obtained on request from the Registered Office.

NOTES TO THE ACCOUNTS

28 Pensions

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

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

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

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

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

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

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

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

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

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

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

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

The Company remained on a contribution holiday until 31 March 2010 and then began paying contributions on 1 April 2010 at a rate of 12.4% of earnings. Members pay contributions at a rate of 5% of earnings.

NOTES TO THE ACCOUNTS

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

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

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

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

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

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

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

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

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

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

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

The history of experience gains and losses is:

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

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

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

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Portsmouth Water Limited will be held at the Company's Registered Office, PO Box 8, West Street, Havant, Hants, at 11.00 am on Thursday, the 28th day of July 2011, on the following business:

1. To receive and consider the Directors' Report and Accounts for the year ended 31 March 2011 and the Auditors' Report thereon.
2. To re-elect Mr. A. R. Neve a Director of the Company.
3. To re-elect Mr. R. L. Sullivan a Director of the Company.
4. To reappoint Saffery Champness as Company Auditors and to authorise the Directors to fix their remuneration.

Registered Office

PO Box 8
West Street Havant
Hants PO9 1LG
27 May 2011

By order of the Board
C. Hardyman ACIS
Secretary

Notes:

- i) Debenture holders are reminded that the holding of debenture stock does not entitle them to attend or vote at the meeting.
- ii) Shareholders are reminded that no voting rights attach to the 'A' Ordinary Shares. 'A' Ordinary Shareholders are not entitled to attend the meeting.
- iii) A proxy form is enclosed for Shareholders entitled to vote at the meeting.
- iv) To be valid proxies must reach the Company's Registered Office not later than forty-eight hours before the time fixed for the meeting.

APPENDIX - KEY PERFORMANCE INDICATORS

KPI - 1	2011	2010
a) Gearing - Debt/RCV	£000	£000
(i) Debt		
Bank loan (note 16)	85,306	81,416
Bank loan (note 15)	4,500	6,000
Debenture stock (note 15)	284	284
Cash at bank and in hand	(1,746)	(1,931)
	88,344	85,769

For the purposes of this ratio, debt excludes the deferred arrangement costs of £1.223m (note 16) and the current asset investment of £0.004m (note 13).

(ii) Regulatory Capital Value (RCV)

Value established by Ofwat in Final Determination in 2009

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

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

b) Cash interest cover

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

(i) Cashflow before interest paid is derived from the cashflow statement on page 29 and is calculated as follows:

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

KPI - 2 Customer Service Measures

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

KPI - 3 Water Quality

This indicator is based on figures reported to the DWI.

KPI - 4 Efficiency

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

KPI - 5 Leakage

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

