PORTSMOUTH WATER LIMITED

Unaudited interim results for the six months ended 30 September 2011

CHAIRMAN'S STATEMENT

The Company continues to deliver a high standard of performance for its customers, delivering both value for money and excellent levels of service.

Financial Results

In the six months to 30 September 2011 turnover fell by 1.3% to £17.8m (2010: £18.0m). In the first quarter to 30 June 2011 bills on average were 6.7 % less than the previous year. In the second quarter, following the start of the new billing year on 1 July, bills were 5.6% higher due to the RPI + charging formula and a high RPI figure. In addition, consumption from non domestic customers was down 3% on the previous year.

Operating profit reduced to £2.9m from £3.6m as analysed below:

	2011 £m	2010 £m
Turnover	**17.8**	**18.0**
Operating cost excluding depreciation and FRS17 pension charge	9.5	9.4
Operating Profit before depreciation and FRS17 pension charge	**8.3**	**8.6**
Depreciation (including renewals)	4.2	4.0
FRS17 pension charge	1.2	1.0
Total Operating Profit	**2.9**	**3.6**

Operating costs excluding depreciation and the FRS17 pension charge increased by less than 1% despite inflation running at approximately 5% throughout this period. This was largely due to a fall in business rates, following a revaluation in 2009, a reduction in the amount provided for doubtful debts and the impact of a voluntary severance scheme in 2010. Operating costs are below the level assumed by Ofwat at the Final Determination. The FRS17 pension charge is an estimate based on the full year charge to March 2011, which was higher than the previous year as a consequence of the effect of falling bond yields on the calculation of the scheme's liabilities. This charge, which represents the cost of a one year accrual of pension liabilities is largely notional as the actual contribution to the pension scheme in the period was £0.4m (2010: £0.4m).

Interest payable at £3.8m (2010: £3.6m) includes £2.1m for the indexation of the loan provided by Artesian Finance (2010: £1.9m).

As a result of the above factors profit before tax reduced to £0.7m (2010: £1.6m).

Taxation for the period was £0.8m lower than the previous year, partly as a result of the lower profit and a reduced Corporation Tax rate, but in addition the Company received a repayment of tax following agreement with HMRC on its treatment of infrastructure charge receipts.

Net cash flow from operating activities fell by £1.6m to £6.8m (2010: £8.4m). The previous year was high as a result of two significant payments received in 2010 which were as follows:

- 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 a Bulk Supply agreement.

Capital expenditure at £3.4m (2010: £4.9m) included £1.5m of mains renewals (2010: £2.4m). The reduction in the mains renewals expenditure was the result of the use of lower cost techniques during the period whilst the length of mains renewed, 9.29km, was broadly in line with the six month target. The type of work planned for the second half will require more traditional techniques and expenditure in the second half of the year is expected to return to normal levels.

In the AMP5 Capital Programme, there is only one major scheme which is at the River Itchen Treatment Works, which abstracts water from the river and includes bank side storage for mitigation of pollution incidents. During the summer months algae grows in the river, bankside storage and treatment plant which results in elevated levels of Trihalomethane (THM's) in the distribution system, close to the PCV levels stipulated in the Water Supply (Water Quality) Regulations 2000. In order to mitigate against this risk it is proposed that the bankside storage reservoir and the clarifiers are covered to prevent light from reaching the open water body and thus preventing the growth of algae. At the Final Determination there was an allowance of £4.7m. for this scheme. A contract for this work has now been placed at a price close to that allowed in the Final Determination.

Net debt at 30 September 2011 was £89.5m (2010: £88.1m) with the increase being due to the indexation on the index linked loan. 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 was determined by Ofwat at the 2009 Price Determination. The RCV is also indexed by RPI. The ratio is known as the Regulatory Asset Ratio and at 30 September, the ratio was 77.0% (2010: 78.2%).

In the second half of the year, the Company results will benefit from the full effect of the tariff increases implemented in July 2011. Capital expenditure will be higher in the second half as the scheme at the River Itchen gets underway and the unit cost of mains renewals will be higher.

Water Resources Management Plan

In the Reports and Accounts for 2011, I advised that after a second public consultation we had submitted a revised draft Water Resources Management Plan to the Secretary of State for a decision on whether the Plan could be published. I am pleased to say that approval was given and the Final Plan was formally published in September 2011. The Final Plan does not result in any new investment prior to 2015, but does contain the following elements after 2015:

- A compulsory metering programme utilising Automatic Meter Reading (AMR) technology over a 15 year period from 2015 to 2030.

- A programme of Leakage Savings delivering a 3 Ml/d leakage reduction between 2015 and 2020.

- The construction of a Washwater Recovery Plant at Farlington Water Treatment Works in 2017/18.

- The development of Havant Thicket Winter Storage Reservoir, filled by surplus yield from the Company's Havant & Bedhampton Springs, between 2025 and 2035.

Pensions

Earlier this year the Company entered into discussions with its employees regarding proposals to reduce the level of future pension benefits. These discussions have concluded and the changes are being implemented. From the 1 August 2011, all new employees will receive a pension on a defined contribution basis. Existing employees remain on a defined benefit basis for future accrual, but on a career average salary basis and a reduced rate of benefit accrual. These changes will reduce the long term costs of providing pensions and reduce the risk to the Company associated with the previous final salary defined benefits arrangements.

Organisational Changes

After 13 years as Managing Director and 34 years with the Company, Nick Roadnight has decided to retire. Neville Smith, currently Finance and Regulation Director will become Managing Director and Nick Sheeran is to be appointed to the Board as Finance and Regulation Director. The changes will take effect in December 2011.

The Board welcomes Mr Sheeran and thanks Mr Roadnight for his contribution to the Company over many years.

Staff

The Board is committed to providing a safe and healthy environment for its employees and is proud of the ongoing progress being made by staff in safety matters. In 2011, the Company has to date, had one reportable accident (one resulting in the employee having more than 3 days absence) and has reduced the number of vehicle accidents by over 40%.

The Company is currently implementing a new customer billing and customer relationship management system. This has required a tremendous effort from the management and staff of Customer Services who are currently testing the new system whilst maintaining services to customers at a high level. This shows the level of commitment from our employees and the Board would like to thank everyone for their achievements.

T M LAZENBY MBE
Chairman
24 November 2011

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

	6 months ended 30.9.11 £000	6 months ended 30.9.10 £000	12 months ended 31.3.11 £000
TURNOVER	17,790	18,023	35,515
OPERATING PROFIT	2,897	3,640	6,108
Profit/(Loss) on sale of fixed assets	-	4	(8)
PROFIT ON ORDINARY ACTIVITIES BEFORE EXCEPTIONAL ITEM	2,897	3,644	6,100
Exceptional Item	-	-	(1,086)
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST	2,897	3,644	5,014
Interest receivable	643	569	1,178
Other finance income	949	1,000	1,897
	4,489	5,213	8,089
Interest payable and similar charges	(3,823)	(3,621)	(7,221)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	666	1,592	868
Taxation on profit on ordinary activities	(69)	(900)	(180)
PROFIT FOR THE FINANCIAL PERIOD	597	692	688

SUMMARISED BALANCE SHEET
AS AT 30 SEPTEMBER 2011

	6 months ended 30.9.11 £000	6 months ended 30.9.10 £000	12 months ended 31.3.11 £000
FIXED ASSETS	153,871	155,798	155,344
CURRENT ASSETS	7,005	7,175	6,968
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	(14,601)	(19,292)	(17,243)
NET CURRENT LIABILITIES	(7,596)	(12,117)	(10,275)
TOTAL ASSETS LESS CURRENT LIABILITIES	146,275	143,681	145,069
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR	(86,998)	(82,111)	(85,070)
PROVISIONS FOR LIABILITIES	(10,419)	(10,672)	(10,419)
NET ASSETS EXCLUDING PENSION ASSET	48,858	50,898	49,580
PENSION ASSET	21,096	10,038	20,969
NET ASSETS INCLUDING PENSION ASSET	69,954	60,936	70,549
CALLED UP SHARE CAPITAL	1,078	1,078	1,078
RESERVES	68,876	59,858	69,471
SHAREHOLDERS' FUNDS	69,954	60,936	70,549

SUMMARISED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

	6 months ended 30.9.11 £000	6 months ended 30.9.10 £000	12 months ended 31.3.11 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	6,837	8,452	17,556
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(1,026)	(1,077)	(2,106)
TAXATION	(200)	(906)	(1,022)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(3,447)	(4,929)	(9,728)
EQUITY DIVIDENDS PAID	(1,192)	(1,885)	(3,385)
CASH (OUTFLOW)/INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING	972	(345)	1,315
MANAGEMENT OF LIQUID RESOURCES	(35)	(40)	(75)
FINANCING	(1,000)	-	(1,500)
(DECREASE) IN CASH	(63)	(385)	(260)

NOTES

1. The interim results for the six months to 30 September 2011 have been prepared on the basis of accounting policies consistent with those adopted for the year ended 31 March 2011.

The interim financial information is unaudited and does not constitute statutory accounts as defined in s.434 of the Companies Act 2006. The results for the year to 31 March 2011 have been extracted from the latest published accounts, which have been filed with the Registrar of Companies and on which the report of the auditors was unqualified.

2. The tax charge is based on the estimated effective rate of tax, including deferred tax, for the full year to 31 March 2012.

3. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	6 months ended 30.9.11	6 months ended 30.9.10	12 months ended 31.3.11
	£000	£000	£000
Profit for the financial period	597	692	688
Dividends	(1,192)	(1,885)	(2,922)
	(595)	(1,193)	(2,234)
Actuarial gain on pension scheme (net of deferred tax)	-	-	10,654
Net (reduction)/addition to shareholders' funds	(595)	(1,193)	8,420
Opening shareholders' funds	70,549	62,129	62,129
Closing shareholders' funds	69,954	60,936	70,549

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

For further information please contact:

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