PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2013

Portsmouth Water Limited, a supplier of water to Hampshire and West Sussex, announced its results for the year to 31 March 2013.

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:

- 5th highest performing Company in the Ofwat qualitative assessment
- RoSPA Gold Medal for health and safety
- Successful implementation of new billing system
- Exceeded water efficiency target set by Ofwat

Operating profits down by 2.8% due to lower income from work to divert mains for residential and commercial developers although this was partially offset by savings in water abstraction and electricity costs.

Charges to customers are the lowest in England and Wales with an average bill of £94, an increase of only 1.1% since 2010.

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

- The Ofwat Qualitative Service Incentive Mechanism customer survey result, which ranks us 5th highest performing Company in the industry in terms of service received by customers
- Only 10.5 written complaints per 10,000 connected properties, compared with an industry average of 61

	2013	2012
Turnover	**£36.3m**	£36.7m
Operating profit	**£6.3m**	£6.5m
Profit before taxation	**£3.1m**	£2.7m
Net debt	**£92.5m**	£87.1m
Capital expenditure	**£15.4m**	£8.1m
Regulatory Capital Value	**£120.1m**	£115.8m

CHAIRMAN'S STATEMENT

Despite the South East of England being in drought at the beginning of the year the Company's supply situation was sufficient to ensure that it did not have to impose restrictions on its customers. Indeed it has not done so since 1976 and, as a result of the current groundwater levels, it is unlikely to do so this year.

In October 2012 the Company successfully implemented a new billing and customer relationship management system. This represented a major challenge for the business as significant resource had to be channelled to the programme. Despite these challenges the Company was ranked 5th out of 21 companies for the whole of 2012/13 in a survey of customers conducted by Ofwat to assess how well the Company handled all types of contact. In addition the Company still expects to have had the lowest level of complaints in the industry.

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

During the year the Company carried out a full, independent review of leakage and has identified that it is higher than previously thought and that the Company had in fact missed its leakage target. The Company immediately put in place a programme to reduce leakage which began in November 2012. The programme is on schedule but the Company will miss its target for leakage for 2012/13 by approximately 13%. This programme will continue in 2013/14 and further reductions in leakage will be achieved. The higher leakage figure has had no impact on customer's bills and the additional cost of this programme will be met by the shareholders and not by our customers and will amount to £0.4m. of operating cost and £0.5m. of capital expenditure. Despite the expenditure the Company will remain comfortably within its covenants for interest cover and gearing.

Against this the Company has again exceeded its target for water efficiency by claiming overall savings of 0.35 mega litres per day (Ml/d) against an annual target of 0.29 Ml/d.

In May 2013 the Company published its latest Water Resource Management Plan 2014 (WRMP) for consultation. The WRMP examines the factors which will impact upon the demand for water from its customers such as population change and climate change and determines whether the Company will have sufficient water resources over the next 25 years to meet this demand.

In the WRMP the Company is projecting a water resource surplus in the period to 2040. As a result, the Company does not need to invest in new resources to meet the needs of its own customers during this period. However, the Company has been approached by two neighbouring water companies to provide bulk supplies of water to meet the needs of their customers, which has been included in the Plan.

The Company is currently working on preparing its Business Plan for the next review period (2015 - 2020). We expect that this will be submitted to Ofwat in December 2013. We are determined to put the views of our customers and stakeholders at the heart of our Plan. As part of this we established an independent Customer Challenge Group (CCG) in 2011 comprised of both customers and other stakeholders. The CCG meets on a regular basis and their remit is to review our Plan proposals and provide feedback and challenge from the customers' perspective. The CCG is lead by an independent Chairman.

In December 2011 Ofwat published its paper "Water Industry Act 1991, Section 13 proposals to modify the conditions of appointment of all water only and water and sewerage companies". The Company responded to this consultation in February 2012 and, in common with all the other water companies in the industry, rejected its proposals. Following this rejection, further negotiations between Ofwat and the Industry took place and agreement was reached in January 2013. The agreed changes allow for a separation of retail and wholesale price controls and the wholesale price control will continue to be indexed to RPI.

Following the publication of the draft Water Bill in July 2012, the Government announced in the Queen's speech in May 2013 that it would introduce a full bill this year. The proposals will allow greater choice of water supplier for business customers, make it easier for Water Companies to trade water and put resilience at the heart of decisions made in the water sector.

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 the changes in the Bill. The Company is supportive of wider water trading, which can be used to improve water resources regionally. With a projected surplus of resources and low cost of supply the Company is in a good position to play its part in this. We also recognise that the introduction of retail competition for a greater number of business customers may well yield overall benefits, however we believe that wider market reform should only be pursued where the net benefit can be clearly demonstrated.

Turning to the financial results for the year, they reflect the 2009 Price Determination, made by Ofwat which included a real reduction in charges for customers in the year of 1.7%. Turnover for the year reduced by 1% to £36.3m. The fall in turnover is largely due to income from work to divert mains for residential and commercial developers, which was £1.1m lower than the previous year. Activity on work to divert mains for residential and commercial developers was low during the year as less work was requested. A major mains diversion project in Portsmouth, which was expected to commence in 2012/13 is now anticipated to commence in 2013/14.

Operating costs, excluding depreciation and the FRS17 pension charge, increased by £0.4m in the year mainly due to higher employment costs of £1.3m. £1.0m of this increase related to payments made to employees from the Employee Benefit Trust. An additional £0.3m was incurred as a result of expenditure connected with the leakage recovery programme. These additional costs were offset to some extent by savings in water abstraction charges and electricity costs. As a result of the above operating profit was reduced slightly to £6.3m (2012 - £6.5m).

Profit before tax increased to £3.1m (2012 - £2.7m).

Capital Expenditure in the year to March 2013 was £15.4m (2012 - £8.1m) and included £5.2m (2012 - £3.9m) on mains renewals. This spend was higher than usual due to a major scheme to reduce the risk of water quality and security issues at the River Itchen and Farlington Treatment Works which were completed during the year. Expenditure on the scheme amounted to £4.9m. Next year's capital expenditure

CHAIRMAN'S STATEMENT

will be lower following the completion of this scheme.

During the year the Company renewed 18.9km of mains (2012 – 23.2km) at a cost of £5.2m. The higher cost compared to the previous year was a result of a reduction in mains laying in the verge and open fields and a lower percentage (20.6%) of mains renewed in the year using "no dig" techniques compared with 24% in 2011/12. "No dig" techniques are less expensive than the conventional methods of renewals, cannot be used in all circumstances.

In October 2012 two of the Company's Non Executive Directors, Ray Tennant and Robert Sullivan retired after ten years with the Board. The Board would like to thank them for their valuable contribution to the Company over the last ten years. The Board welcomes two new Non Executive Directors who formally joined the Company in November 2012. Mike Kirk is a former partner at Cazenove and Heather Benjamin has previously been Chief Procurement Officer at Centrica plc.

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

Tm Lazenby

T. M. Lazenby MBE
Chairman

Financial Performance
The results for 2012/13 reflect the 2009 Price Determination, made by Ofwat which included a real reduction in charges for customers in the year of 1.7%. Turnover for the year reduced by 1% to £36.3m. The fall in turnover is largely due to income from work to divert mains for residential and commercial developers which was £1.1m lower than the previous year. Activity on mains diversions was low during the year as less work was requested from developers. A major mains diversion project in Portsmouth, which was expected to commence in 2012/13 is now anticipated to start in 2013/14.

	2012/13 £m	2011/12 £m
Turnover	36.3	36.7
Operating costs excluding depreciation and the FRS17 pension charge	19.7	19.3
Operating profit before depreciation and FRS17 pension charge	16.6	17.4
Depreciation (including renewals)	8.9	8.6
FRS17 pension charge	1.4	2.3
Total Operating Profit	**6.3**	**6.5**

Operating costs, excluding depreciation and the FRS17 pension charge, increased by £0.4m in the year mainly due to higher employment costs of £1.3m. £1.0m of this increase related to payments made to employees from the Employee Benefit Trust. An additional £0.3m was incurred as a result of expenditure connected with the leakage recovery programme. These additional costs were offset to some extent by savings in water abstraction charges and electricity costs. As a result of the above operating profit was reduced slightly to £6.3m (2012 - £6.5m).

Interest receivable at £1.26m (2012 - £1.32m) relates mainly to interest received from group companies and is based on Libor plus 1%. Other finance income has reduced by £0.5m to £2.0m as a result of a decrease in the expected return on assets in the pension scheme.

Interest payable at £6.5m (2012 - £7.7m) includes £2.8m for indexation of the loan provided by Artesian Finance plc (2012 - £4.2m). The indexation of the loan for 2012 was based on RPI for July 2012 of 3.2%, whereas, RPI for July 2011 was 5%. Interest on the capital sum amounted to £3.4m (2012 - £3.2m).

As a result of these factors, profit before tax increased to £3.1m (2012 - £2.7m).

Taxation
The taxation credit of £0.5m was £0.5m lower than the previous year due to the current tax charge for the year of £0.4m (2012 - credit of £0.1m). The tax charge in 2012 was a credit of £0.1m largely due to credit adjustments relating to prior periods. The deferred tax liability also reduced during the year as a result of the proposed reduction to corporate tax rates resulting in a net credit to the profit and loss account of £0.9m (2012 - £0.9m).

Dividends
The dividends paid during the year amounted to £1.449m (2012 - £2.496m). Dividends are paid up to the parent company and largely used to service interest payments on an inter-company loan.

The breakdown of the dividend in the year is as follows:
Operational - £0.183m
Inter company - £1.266m

Cashflow and Balance Sheet
Net cash inflow from operating activities of £15.7m was in line with the previous year (2012 - £15.7m).

New borrowings amounting to £4.0m were drawn down during the year, principally to fund the much higher capital expenditure programme which resulted in cash expenditure (after contributions) of £14.3m in the year (2012 - £6.7m).

Net debt (excluding deferred arrangement costs) at £93.6m (2012 - £88.3m) includes an index linked loan with a value of £92.4m (2012 - £89.5m). 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 was 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 77.9%.

Accounting Policies
The accounts have been prepared in accordance with the accounting policies described in note 1 to the accounts on pages 32 to 34 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 Conduct Authority. From April 2005, listed groups are required to prepare accounts in accordance with International Financial Reporting Standards (IFRS). It is the Company's view that these standards are not appropriate for a regulated water business and it has been granted exemption, by Ofwat, such that it need only adopt IFRS when non-listed companies are required by statute to do so.

Pensions
The Company takes account of the Brockhampton Pension Scheme, in which it is the principal employer, under the principles of FRS17. The latest actuarial valuation carried out for the purposes of FRS17 as at 31 March 2013 showed a surplus after deferred tax of £15.3m (2012 - £14.7m). The actuarial loss before deferred tax of £1.2m, which is shown in the Statement of Total Recognised Gains and Losses (STRGL) on page 29, results primarily due to changes in assumptions underlying the FRS17 value of scheme liabilities. The loss has arisen due to the decrease in the discount rate assumption and an increase in the RPI and CPI assumptions.

In the most recent triennial actuarial valuation conducted at March 2011, the Scheme had a surplus of £21.2m. Until March 2010, the Company had not made contributions for a number of years. For the year ended 31 March 2013, the Company made contributions of £0.7m, these being at a rate of 12.4% of earnings.

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2013

	Notes	**2013**	2012
		£000	£000
Turnover	2	**36,282**	36,665
Cost of sales		**(19,454)**	(20,301)
Gross profit		**16,828**	16,364
Net operating expenses	3	**(10,497)**	(9,850)
Operating profit		**6,331**	6,514
Profit/(loss) on sale of fixed assets		**1**	(21)
Profit on ordinary activities before interest		**6,332**	6,493
Interest receivable	5	**1,264**	1,317
Other finance income	28	**1,984**	2,492
		9,580	10,302
Interest payable and similar charges	6	**(6,463)**	(7,652)
Profit on ordinary activities before taxation	7	**3,117**	2,650
Taxation on profit on ordinary activities	8	**527**	1,016
Profit for the financial year	20	**3,644**	3,666

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 2013

	Notes	**2013**	2012
		£000	£000
Profit for the financial year		**3,644**	3,666
Actuarial (loss) on pension scheme	28	**(1,215)**	(10,245)
Deferred tax relating to actuarial loss on pension scheme	17	**280**	2,561
Effect of change to corporation tax rate on pension asset		**(360)**	(155)
Total recognised gains and losses relating to the year		**2,349**	(4,173)

The accompanying notes form an integral part of these accounts.

BALANCE SHEET
As at 31 March 2013

	Note	**2013 £000**	**2013 £000**	2012 £000	2012 £000
Fixed assets					
Tangible assets	10	**100,003**		94,469	
Investments	11	**59,468**	**159,471**	59,468	153,937
Current assets					
Stocks		**589**		596	
Debtors	12	**5,077**		6,516	
Investments	13	**4**		4	
Cash at bank and in hand	14	**4,059**		2,563	
		9,729		9,679	
Creditors: amounts falling due within one year	15	**(18,945)**		(15,546)	
Net current liabilities			**(9,216)**		(5,867)
Total assets less current liabilities			**150,255**		148,070
Creditors: amounts falling due after more than one year	16		**(91,369)**		(88,924)
Provisions for liabilities	17		**(9,414)**		(9,940)
Net assets excluding pension asset			**49,472**		49,206
Pension asset	28		**15,308**		14,674
Net assets including pension asset			**64,780**		63,880
Capital and reserves					
Called up share capital	19		**1,078**		1,078
Share premium account	20		**1,539**		1,539
Capital redemption reserve	20		**3,250**		3,250
Profit and loss account	20		**58,913**		58,013
Shareholders' funds	21		**64,780**		63,880

The accompanying notes form an integral part of these accounts.
The accounts were authorised for issue and approved by the Board on 29 May 2013, and signed on its behalf by;

T. M. Lazenby MBE
Chairman

Company Number: 2536455

CASH FLOW STATEMENT

For the year ended 31 March 2013

	Notes	2013 £000	2013 £000	2012 £000	2012 £000
Net cash inflow from operating activities	22		**15,672**		15,718
Returns on investments and servicing of finance					
Interest received		**1,263**		1,312	
Interest paid		**(3,550)**	**(2,287)**	(3,354)	(2,042)
Taxation					
UK corporation tax paid		**-**		(14)	
Payments for group relief		**(96)**	**(96)**	(179)	(193)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(15,237)**		(7,593)	
Sale of tangible fixed assets		**6**		6	
Capital contributions received		**887**	**(14,344)**	917	(6,670)
Equity dividends paid			**(1,449)**		(2,496)
Cash (outflow)/inflow before management of liquid resources and financing			**(2,504)**		4,317
Management of liquid resources					
(Purchase) of short term deposits			**(58)**		(65)
Financing					
New loans/(repayment) of loans			**4,000**		(3,500)
Increase in cash in the year	23		**1,438**		752

The accompanying notes form an integral part of these accounts.

NOTES

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

2. Statutory accounts for the Company for the financial year ended 31 March 2012, upon which the auditors of the Company have given an unqualified report, have been delivered to the Registrar of Companies. Statutory accounts for the Company for the financial year ended 31 March 2013 will be delivered to the Registrar of Companies as soon as practicable after approval at the next Annual General Meeting.

For further information, please contact:

Neville Smith, Managing Director	023 9249 9888
Nick Sheeran, Finance and Regulation Director	023 9249 9888