Portsmouth Water Limited

ANNUAL REPORT & ACCOUNTS 2012

CONTENTS

HIGHLIGHTS

Mission Statement

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

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

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

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

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

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

Turnover £m

£36.67m

2009	35.40
2010	37.34
2011	35.52
2012	**36.67**

Operating profit £m

£6.51m

2009	6.99
2010	8.86
2011	6.11
2012	**6.51**

Operating profit before depreciation £m

£15.09m

2009	14.67
2010	16.76
2011	14.37
2012	**15.09**

Operating cashflow £m

£15.72m

2009	16.72
2010	17.15
2011	17.56
2012	**15.72**

Capital expenditure £m

£8.13m

2009	11.78
2010	14.61
2011	9.55
2012	**8.13**

BOARD OF DIRECTORS

Executive

Neville Smith
B.A., F.C.M.A. [3]
Managing Director
Joined and appointed to the Board in February 1998. Appointed Managing Director in December 2011. Previously with Smiths Industries and GEC.

Nicholas John Sheeran
B.Sc. (Hons), A.C.M.A.
Finance and Regulation Director
Joined and appointed to the Board in December 2011. Previously with Invensys plc and Caradon plc.

Roderic Colquhoun Porteous
B.Sc., C.Eng., M.I.C.E.
Engineering Director
Joined in 1999. Previously with South East Water. Appointed to the Board in May 2012.

Non-Executive

Terence Michael Lazenby MBE
FR.Eng. [1,2,3]
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. [1,2,3]
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. [1,2,3]
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

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

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

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

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

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

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

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

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

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

T. M. Lazenby MBE
Chairman

OPERATING AND FINANCIAL REVIEW
Our Business

Portsmouth Water provides water to 305,000 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 176 million litres of water through a network of over 3,275 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 28% of the total supply, are thought to be the largest group of springs used for public supplies in Europe.

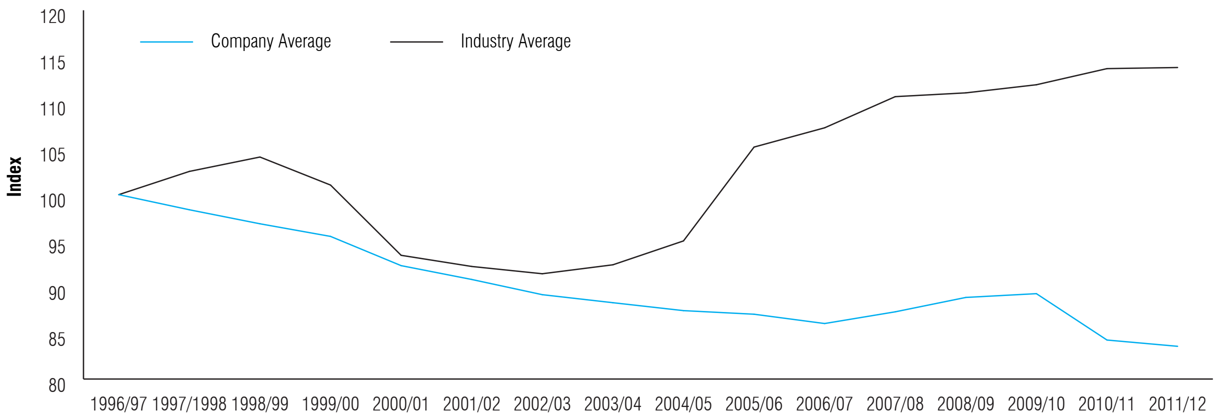
Source	Actual 2011/12 Abstraction (Million Litres)	% of Supply 2011/12	% of Supply 2010/11
Springs at Havant & Bedhampton	18,350	28	27
River Itchen	8,006	12	12
Boreholes, Wells & Adits	40,173	60	61
Totals	**66,529**	**100**	**100**

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 6% of supplies in 2011/12. 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 £91 per household, the equivalent of 25p per day. In real terms, the price of water for household customers has fallen by 16.5% over the last 15 years. This compares with a real increase of 14% 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 Final Water Resources Management Plan, which was published in September 2011. The publication of the Plan follows a lengthy period involving two public consultations and the publication of numerous supporting documents.

The Final Plan sets out the key elements which will ensure that the Company is able to continue to maintain supplies to customers for the next 25 years.

The Final Planning Solution in the Final Plan includes the following elements:

– A compulsory metering programme utilising automatic meter reading (AMR) technology over a 15 year period from 2015-2030.
– A programme of leakage savings delivering a 3Ml/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 and Bedhampton Springs between 2025 and 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.

Ownership
The majority shareholder of South Downs Capital Limited, the ultimate holding company of Portsmouth Water Limited, is an Employee Benefit Trust. The employees and certain former employees are the beneficiaries of this Trust which is controlled by a Board of five Directors, of whom three are independent.

Lagoon at the River Itchen Treatment Works site.

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'

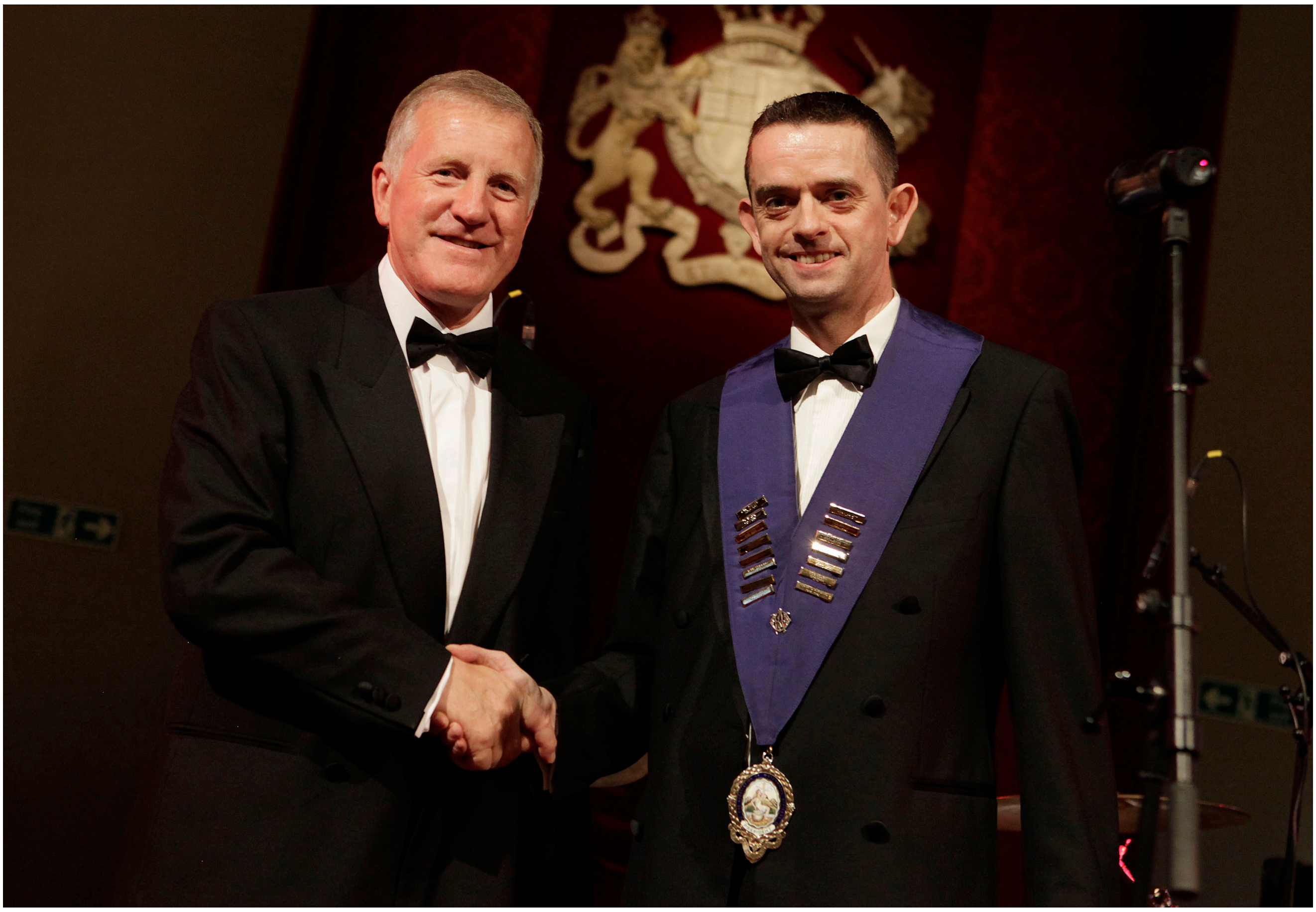
The Company has a well developed, focused strategy which will meet the demands of all its stakeholders. The key objectives are:

- 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.



Nick Ellins, the President of the Institute of Water presenting Nick Roadnight, the Managing Director of the Company from July 1997 to December 2012, with his water industry lifetime achievement award.

OPERATING AND FINANCIAL REVIEW
Current Development and Performance

The Hampshire Water Festival, held at Staunton Country Park

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

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

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

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

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

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

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

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

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

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

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

Net debt (excluding deferred arrangement costs) at £88.3m (2011 - £88.3m) includes an index

OPERATING AND FINANCIAL REVIEW
Current Development and Performance

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

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

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

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

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

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

Removal of cover, carried out as a part of the capital scheme to enhance security at various operational locations

Key Financial Performance Indicators
Gearing (net debt/regulatory capital value) and cash interest cover are recognised as key indicators for the Company. Performance in 2011/12 against the target ratios is shown in the table below.

KPI - 1[1]	Target	Performance 2011/12	Performance 2010/11
Gearing - Debt/RCV[2]	**<80%**	**76.2%**	**76.7%**
Cash interest cover[2]	**>1.6**	**1.89**	**1.64**

[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
Ofwat are now using the Service Incentive Mechanism (SIM) to measure the performance of companies in relation to customer service. This 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.

OPERATING AND FINANCIAL REVIEW
Current Development and Performance

KPI - 2 Customer Service Measures

	Target	Performance 2011/12	Performance 2010/11
Number of properties at risk of inadequate pressure	≤120	66	66
Properties affected by unplanned interruptions to supply >12 hours*	Nil	332	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%	99.6%	99.5%
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%	3.3% 0.2%	3.5% 0.2%
Service Incentive Mechanism - qualitative survey element - position relates to 22 companies	<6th	2nd	2nd
Number of written complaints per 10,000 connections***	<10	8	7

* 205 of these related to one incident.
** The Company had 248 written complaints, so the 99.6% represents one complaint taking longer than 10 days.
*** For 2010/11, the Industry average was 61 complaints per 10,000 connections.

Recording the results of tests carried out on water samples in the laboratory at Havant

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 2011	Performance 2010
Compliance samples passing standards (mean zonal compliance)	99.95%	99.95%	99.96%

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 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 2011/12
To achieve the Ofwat efficiency target of 0.25% per annum	4.32%

Capital Investment
Gross capital investment during the year was £8.1m (2011 - £9.6m) and included £3.9m (2011 - £5.0m) on infrastructure renewals. This was lower than usual as a major scheme to reduce the risk of quality and security issues at the River Itchen Treatment Works was delayed whilst planning permission for the work was obtained. After receiving capital contributions and infrastructure charges of £0.9m, net capital expenditure was £7.2m (2011 - £8.7m).

OPERATING AND FINANCIAL REVIEW
Current Development and Performance

Pipe bursting of water mains being carried out as part of the Purbrook Heath mains renewal scheme

During the year the Company renewed 23.2km of mains (2011 – 18.3km) at a cost of £3.9m (2011 – £5.0m).

Gross expenditure on non infrastructure assets at £4.2m included £0.8m for installing domestic meter options, £0.2m on the implementation of a new billing system and a further £0.5m resulted from investment in vehicles and plant. 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 2011/12, 4,046 customers chose to switch to a measured supply. At March 2012, meter penetration for the Company was 21% of household customers.

Water Resources - Outlook for 2012
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.

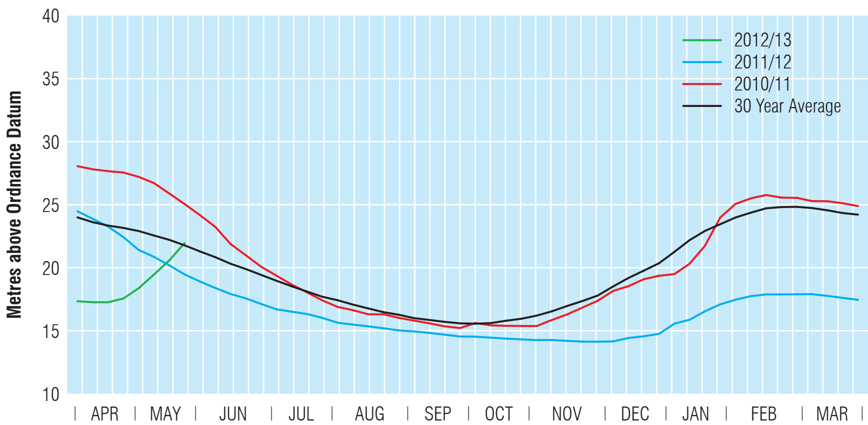
During the drought of 2012 no water restrictions were applied to Portsmouth Water customers.

Although seven water companies in the South East announced temporary bans in early April on non essential use, often referred to as hosepipe bans, Portsmouth Water's area was not as severely affected and we appealed to customers to show voluntary restraint in their use of water. For Portsmouth Water's area seven of the last twelve months have recorded below average rainfall, and whilst high rainfall in April, the wettest since 1886, has reduced demand and therefore has had some affect on restoring groundwater levels, we continue to ask customers to think about the way in which they use water and to use water wisely. However we do not believe for this year it will be necessary to impose further restrictions on water use in the Portsmouth Water area.

Whilst the South East of England has not experienced three consecutive dry winters Defra and the Environment Agency are encouraging all of us to consider the possibility. In the South East of England we on average use 160 litres of water per person every day, higher than other parts of the UK and considerably higher than our European neighbours. The combination of the recent wet weather and the strong response from customers with water use is already helping to keep water available for people and the environment.

At the end of May 2012, groundwater levels were in line with the long term average as outlined on the graph below, which includes the thirty year long term average.

Idsworth Well



OPERATING AND FINANCIAL REVIEW
Current Development and Performance

Leakage
Leakage for the year was recorded at an average of 29.9Ml/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 2011/12
Average leakage of less than 30Ml/d	Average leakage of 30Ml/d

Employees
The Company employs 234 people and believes it recruits and retains the right people to ensure the successful performance of the business. Employees share in the success of the Company through their interest in the Employee Benefit Trust.

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.

The Company celebrated winning an Employee Business Partnership (EBP) "Amazing People" Award in the category of "Offering Apprenticeships", sponsored by Havant Borough Council. The awards, which are held annually, are a celebration of the time and commitment businesses, schools, colleges and other partners invest in developing innovative programmes that support young people's preparation for adult life and work.

Total absence for 2011/12 (days per employee per year) was 4.3 (2011 - 3.9). This figure compares favourably with the average for private sector employers, which stands at 7.7 (Source: CIPD: Absence Survey Report 2011).

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 2011 show very positive results from these efforts, with only one reportable accident (accident causing more than three days' absence) being recorded.

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 seven years where we have received six 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
2010 saw Ofwat set the Company an annual target of achieving water savings, through water efficiency, of 0.29 mega litres per day (Ml/d). This equated to an overall five year target of 1.45 Ml/d. Last year saw the Company achieve 0.25 Ml/d a shortfall of 0.04 Ml/d against the target.

Pleasingly this year the Company has exceeded the target by claiming overall savings of 0.36 Ml/d. This includes clawing back the shortfall from last year and gives us going forward a surplus of 0.03 Ml/d.

This excellent result was achieved by initiatives such as supplying free water saving packs and subsidised water efficient devices such as shower heads to customers. This was in conjunction with a number of proactive water saving campaigns in the local media such as the "Water Saving Challenge" which is designed to encourage customers to change their behaviour when it comes to water use.

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 the 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
2011/12 has seen the Company continue to play a valuable role in supporting the local community such as supporting the Hampshire Water Festival held in Havant and the continued sponsorship of the Portsmouth in Bloom competition with the 2012 theme based on sustainable gardening.

The Company's successful education partnership with Staunton Country Park continues to grow and this year saw the opening of the "World of Water" within the park. WOW is an exhibit consisting of 10 large wall mounted boards in a covered outdoor area displaying information about saving water in a fun and interactive way. The exhibit is aimed at families and has a mix of information suitable for children of primary school age.

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 300,000 water bottles delivered to local school children over a number of years.

The Company continues 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 £420,000 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.

Children from Park Community School at the opening of the 'World of Water' within Staunton Country Park

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 Human Resources 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 2012 was £89.5m (2011 - £85.3m).

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 2011/12 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, £1.0m of this facility had been drawn (2011 - £4.5m), 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 now represents around 10% of total operating costs and fluctuating prices can have a material impact on profitability. To mitigate against the impact of price movements we fixed the wholesale price of energy in October 2011 until December 2014 at a price considerably lower than we paid in 2010/11.

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 is 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' and in October 2011 they published their consultation document on “Regulatory Compliance”. 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.

In December 2011 Ofwat published its paper on the “Water Industry Act 1991, Section 13 proposals by Ofwat 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.

The Company feels a deep sense of disquiet about the changes proposed. The licence provides it with important protections that cannot be adequately replicated for a small company by the chance to influence price review methodologies or the potential to refer our determinations to the Competition Commission. The Company accepts the need for some changes to the licence but these should be no more than is strictly needed to carry out the 2014 price review. The Company does not consider that Ofwat's section 2 duties under the Water Industry Act 1991 or the legitimate expectations Ofwat have created, through statements about the protection of the RCV and the link to RPI for wholesale controls for example, provide sufficient assurance for it to accept the type of licence modifications Ofwat set out in their December consultation, particularly as the statements only apply up to 2020. As a way forward the Company believes Ofwat should examine proposed licence modifications after they have published the methodology statement for the 2014 price review. The Company is particularly concerned about possible changes after the 2015-20 period, where under Ofwat's current licence modifications the Company feels it would lose all control over proposals that could have a detrimental impact on its business.

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.

The Water White Paper, “Water for Life” was published in December 2011. Subsequently the EFRA Select Committee launched an enquiry into the White Paper and the Company responded to this in January 2012. The Company is broadly supportive of the proposals in the White Paper (especially the decision not to require the legal separation of the retail business) although it does leave many questions unanswered. We await the publication of the Draft Water Bill, in due course.

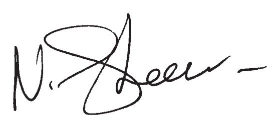
Ofwat have been extremely active in considering how competition will work in the industry and have prepared a number of discussion papers and has continued to work on its accounting separation project which seeks to analyse cost into several business activities, including retail.

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.

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 Smith
Managing Director



N Sheeran
Finance and Regulation Director

24 May 2012

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	656,000
Number of Properties Served	305,000
Length of Mains	3,275 km
Average Daily Output	176 Ml

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 639,000, 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 2012.

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 656,000 domestic and commercial customers in an area of 868 square kilometres in Hampshire and West Sussex through a mains network of 3,275 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 £2.650m (2011 - £0.868m). After adding the tax benefit of £1.016m which mainly arises from reductions to tax rates (2011 - charge of £0.180m), a profit of £3.666m has been transferred to reserves (2011 - £0.688m).

The Directors are recommending the payment of a final dividend of £0.848m (2011 - £1.192m).

Fixed Assets
Capital expenditure on tangible fixed assets was £8.127m (2011 - £9.552m), including £3.913m on infrastructure renewals (2011 - £5.014m). 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 24 May 2012 are shown on page 3.

Mr. N. J. Sheeran and Mr. R. C. Porteous who retire by rotation, offer themselves for election. They both have one year service contracts with the Company.

Mr. N. J. Roadnight retired on 16 December 2011 and Mr. N. J. Sheeran was appointed on 9 December 2011.

Mr. A. R. Neve retired on 30 April 2012 and Mr. R. C. Porteous was appointed on 1 May 2012.

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 2012, the Company's creditor days were 22 (2011 - 16).

Substantial Shareholder
At 31 March 2012, 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, the Joint Information and Consultative Committee met regularly and ensured 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 Health and 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 seven years, been awarded six Gold Awards 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 also made charitable donations during the year amounting to £600 (2011 - £500).

DIRECTORS' REPORT

Licence Requirement
In accordance with its Instrument of Appointment under the Water Industry Act 1991, the Directors are of the opinion that the 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
24 May 2012

CORPORATE GOVERNANCE

The Directors are committed to high standards of corporate governance and support the principles set out in the UK Corporate Governance Code (the '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.4.1).

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 B.7.1).

The three non-executive Directors have all served on the Board for more than nine years from the date of their first election. A two year plan to replace all these Directors has been agreed with Ofwat (code provision B.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. Smith. 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)	3	3
N. Smith	3	1
R. L. Sullivan	3	3
R. J. Tennant	3	3
N. J. Roadnight	3	2
Remuneration		
R. L. Sullivan (Chairman)	5	5
T. M. Lazenby MBE	5	5
R. J. Tennant	5	5
Full Board		
T. M. Lazenby MBE (Chairman)	12	12
A. R. Neve	12	12
N. J. Roadnight	12	8
N. J. Sheeran	12	5
N. Smith	12	11
R. L. Sullivan	12	12
R. J. Tennant	12	12

The number of meetings attended by both Mr. N. J. Roadnight and Mr. N. J. Sheeran is affected by the fact that Mr. N. J. Roadnight retired on 16 December 2011 and Mr. N. J. Sheeran was not appointed until 9 December 2011.

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.

CORPORATE GOVERNANCE

Appointments to the Board
The Nomination Committee comprises the Managing Director, Mr. N. Smith, 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 the Board as a whole. The Nomination Committee met three times 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 2012 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 UK Corporate Governance Code.

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 2012 Board meeting, the Directors carried out their annual assessment for the year to 31 March 2012, 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

CORPORATE GOVERNANCE

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.

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.

The Company will open renewal negotiations with the bank in due course and has, at this stage, not sought any written commitment that the facility will be renewed. However, the Company has held discussion with its bankers about its future borrowing needs and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms.

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 on five occasions 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 performance related element 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 UK Corporate Governance Code (the '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:	**2012**	2011
	£000	£000
Total remuneration	**515**	485
Highest paid Director	**137**	166

Remuneration is analysed by Director below:	Salary/Fees	Benefits	**Total 2012**	Total 2011
	£000	£000	**£000**	£000
Executive:				
A. R. Neve	109	15	**124**	118
N. J. Roadnight (retired 16 December 2011)	107	28	**135**	166
N. J. Sheeran (appointed 9 December 2011)	36	5	**41**	-
N. Smith	120	17	**137**	126
Non-executive:				
T. M. Lazenby MBE (Chairman)	34	-	**34**	33
R. L. Sullivan	22	-	**22**	21
R. J. Tennant	22	-	**22**	21
	450	65	**515**	485

Fees paid in respect of Mr. T. M. Lazenby MBE are paid to Seamab Consultancy Limited.
Benefits comprise company cars and medical insurance.

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 24% 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	300
N. Smith	450

Mr. N. J. Roadnight left service on the 16 December 2011 but continues to have a beneficial holding of 550 shares in South Downs Capital Limited.

Pensions
The Company participates in the Brockhampton Pension Scheme to provide defined benefits for its employees, including the executive Directors.

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 2012 £000	Transfer Value of Increase £000	Accumulated Accrued Pension at 31 March 2012 £000	Accumulated Accrued Pension at 31 March 2011 £000
A. R. Neve[1]	1	21	82	77
N. J. Roadnight[2]	1	7	109	103
N. Smith[3]	2	41	69	64

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 was agreed by the Trustees on 22 December 2011). The transfer value of the increase is then reduced by the amount of each member's contribution paid during the year.

[1]In accordance with the rules, Mr. A. R. Neve's pension has been capped at two-thirds of his pensionable earnings.

[2]Mr. N. J. Roadnight left service on 16 December 2011 therefore his leaving service benefit is his entitled benefit using his actual date of leaving revalued to 1 April 2012.

[3]The pensionable salary used to calculate Mr. N. Smith's accrued pension excludes £2,000 of non-pensionable salary.

By order of the Board

T. M. Lazenby MBE
Chairman
Havant
24 May 2012

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 2012; 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
24 May 2012

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 2012, 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 2012 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
6 July 2012

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2012

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

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

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

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

The accompanying notes form an integral part of these accounts.

BALANCE SHEET
As at 31 March 2012

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

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

T. M. Lazenby MBE
Chairman

Company Number: 2536455

CASH FLOW STATEMENT
For the year ended 31 March 2012

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

The accompanying notes form an integral part of these accounts.

NOTES 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.

The Company also operates a defined contribution pension scheme. The charge to the profit and loss account amounts to the contributions payable to the scheme in respect of the accounting period.

(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.

NOTES TO THE ACCOUNTS

2 Turnover	2012 £000	2011 £000
Unmeasured supplies	**21,385**	21,295
Measured supplies	**12,872**	12,542
Bulk supply to Southern Water Services	**517**	561
Chargeable work	**1,891**	1,117
	36,665	35,515

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

3 Net operating expenses	2012 £000	2011 £000
Administrative expenses	**10,134**	9,980
Other operating income	**(284)**	(281)
	9,850	9,699

4 Directors and employees

Employment costs:	2012 £000	2011 £000
Wages and salaries	**6,160**	6,069
Social security costs	**495**	478
Defined benefit pension costs (note 28)	**2,297**	2,345
Defined contribution pension costs (note 28)	**2**	-
	8,954	8,892
Transferred to capital schemes	**(446)**	(481)
Net employment costs charged to the profit and loss account	**8,508**	8,411

Average numbers employed during year:	2012 Number	2011 Number
Operations	**144**	144
Administration	**79**	80
	223	224

Directors' remuneration:	2012 £000	2011 £000
Total remuneration	**515**	485
Highest paid Director	**137**	166

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	2012 £000	2011 £000
Loan to Group company	**1,298**	1,161
Interest on short term deposits	**16**	12
Repayment interest	**-**	3
Other interest receivable	**3**	2
	1,317	1,178

6 Interest payable and similar charges		2012 £000	2011 £000
£66.5m. loan	- interest	**3,215**	3,062
	- indexation	**4,236**	3,890
	- amortisation of fees	**57**	57
	- administration expenses	**24**	25
		7,532	7,034
Other bank loans and overdraft		**104**	170
Debenture stocks		**10**	10
Other interest payable		**6**	7
		7,652	7,221

NOTES TO THE ACCOUNTS

7 Profit on ordinary activities before taxation		2012 £000	2011 £000
Profit on ordinary activities is after charging:			
Depreciation	- infrastructure assets	**4,955**	4,747
	- non infrastructure assets	**3,621**	3,511
Rates		**2,285**	2,338
Water abstraction charges		**1,785**	1,953
Auditors' remuneration:			
Audit services	- statutory audit	**29**	31
Non-audit services	- regulatory reporting	**12**	23
	- taxation	**6**	3
	- general advice	**-**	4
Fees in respect of the Brockhampton Pension Scheme			
	- statutory audit*	**2**	2
Hire of plant and machinery		**9**	8
Other operating leases		**339**	340

* These fees are not paid by Portsmouth Water Limited.

8 Taxation	2012 £000	2011 £000
Current tax		
United Kingdom corporation tax at 26% (2011 - 28%)	**98**	334
Adjustment in respect of prior periods	**(177)**	(5)
	(79)	329
Deferred tax		
Origination and reversal of timing differences	**133**	486
Decrease in discount	**96**	28
Effect of change to corporation tax rate	**(770)**	(367)
Effect of change to capital allowance pool rates	**62**	-
Difference between pension cost charge and pension cost relief	**271**	66
Effect of change to corporation tax rate on pension asset	**(729)**	(362)
	(937)	(149)
Tax on profit on ordinary activities	**(1,016)**	180

The tax charge for the year is lower (2011 - higher) than the standard rate of corporation tax in the UK of 26% (2011 - 28%). The difference is explained as follows:

	2012 £000	2011 £000
Profit on ordinary activities before tax	**2,650**	868
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26% (2011 - 28%)	**689**	243
Effect of:		
Expenses not deductible for tax purposes	**17**	316
Capital allowances for the period in excess of depreciation	**(229)**	(343)
Revenue items charged to capital	**(7)**	186
Pension contributions unrelieved from 2010/11	**(90)**	-
Difference between pension cost charge and pension cost relief	**(282)**	(68)
Adjustments to tax charge in respect of prior periods	**(177)**	(5)
Current tax charge for year	**(79)**	329

9 Dividends	2012 £000	2011 £000
Equity: Ordinary/'A' Ordinary		
Interim paid	**1,304**	1,037
Final paid	**1,192**	1,885
	2,496	2,922

The Directors are proposing the payment of a final dividend of £0.848m for the year ended 31 March 2012. 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 2011	45,555	124,222	37,210	14,269	221,256
Additions	589	4,836	1,168	1,534	8,127
Disposals	-	(279)	-	(359)	(638)
At 31 March 2012	**46,144**	**128,779**	**38,378**	**15,444**	**228,745**
Depreciation					
At 1 April 2011	9,192	71,769	14,955	9,257	105,173
Charge for year	449	4,955	1,842	1,330	8,576
Disposals during year	-	(279)	-	(318)	(597)
At 31 March 2012	**9,641**	**76,445**	**16,797**	**10,269**	**113,152**
Net book value					
At 31 March 2012	**36,503**	**52,334**	**21,581**	**5,175**	**115,593**
At 31 March 2011	36,363	52,453	22,255	5,012	116,083
Capital contributions					
At 1 April 2011	-	20,207	-	-	20,207
Received during year	-	917	-	-	917
At 31 March 2012	**-**	**21,124**	**-**	**-**	**21,124**
Net book value after deducting capital contributions					
At 31 March 2012	**36,503**	**31,210**	**21,581**	**5,175**	**94,469**
At 31 March 2011	36,363	32,246	22,255	5,012	95,876

11 Fixed asset investments	**Loans to Group undertakings £000**
At 1 April 2011 and 31 March 2012	**59,468**

NOTES TO THE ACCOUNTS

12 Debtors	2012 £000	2011 £000
Trade debtors	**2,874**	1,878
Amounts owed by Group companies	**37**	28
Prepayments and accrued income	**3,118**	2,420
Other debtors	**487**	372
	6,516	4,698

All of the above amounts fall due within one year.

As at 31 March 2012, trade debtors had a carrying value of £5.352m (2011 - £4.126m) 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 £2.478m as at 31 March 2012 (2011 - £2.248m).

The ageing of these debtors was as follows:

	2012 £000	2011 £000
Up to 12 months	**3,146**	2,120
Over 12 months	**2,206**	2,006
	5,352	4,126

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:

	2012 £000	2011 £000
At 1 April 2011	**2,248**	2,188
Provision for bad debt required in the year	**535**	519
Debt written off in the year as uncollectable	**(305)**	(459)
At 31 March 2012	**2,478**	2,248

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 (2011 - £4,000).

14 Cash at bank and in hand

Of the total amount shown of £2.563m, £1.655m (2011 - £1.591m) is held specifically for the payment of the next half yearly loan interest charges.

15 Creditors: amounts falling due within one year	2012 £000	2011 £000
3% Perpetual debenture stock	**60**	60
3½% Perpetual debenture stock	**185**	185
4% Perpetual debenture stock	**39**	39
Bank loan	**1,000**	4,500
Payments received on account	**2,474**	2,060
Trade creditors	**1,392**	1,132
Amounts owed to Group companies	**1,555**	1,635
Corporation tax	**-**	189
Social security and other taxation	**229**	211
Other creditors	**3,003**	1,949
Accruals	**557**	418
Water rates in advance	**5,052**	4,865
	15,546	17,243

The £1.0m 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	2012 £000	2011 £000
Due within one to two years:		
Payments received on account	**548**	439
Due within two to five years:		
Payments received on account	**-**	548
In five years or more:		
Bank loan	**89,542**	85,306
Less: deferred arrangement costs	**1,166**	1,223
	88,376	84,083
	88,924	85,070

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	2012 £000	2011 £000
Deferred taxation:		
At 1 April 2011	**10,419**	10,272
Provided during the year in profit and loss account	**(479)**	147
At 31 March 2012	**9,940**	10,419

The total deferred tax balance before the effect of discounting is £10.640m (2011 - £11.345m). The amount provided for deferred taxation represents timing differences caused by the excess of tax allowances over depreciation.

	2012 £000	2011 £000
Deferred tax excluding that relating to pension asset:		
Accelerated capital allowances	**9,940**	10,419
Pension asset (note 28)	**4,891**	7,755
Total provision for deferred tax	**14,831**	18,174
At 1 April 2011	**18,174**	14,073
Deferred tax charge in profit and loss account (note 8)	**(937)**	(149)
Deferred tax charged to the statement of total recognised gains and losses	**(2,406)**	4,250
At 31 March 2012	**14,831**	18,174

A reduction in the UK corporation tax rate from 26% to 25% with effect from 1 April 2012 was enacted during the period. As a consequence the deferred tax charge includes a decrease in the deferred tax liability of £0.770m. The recent announcement to further reduce the rate to 24% with effect from 1 April 2012 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 22% by 2014. If this reduction to 22% had been enacted by 31 March 2012 the deferred tax liability would have been reduced by a further £1.192m to £8.748m.

Legislation 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% was also enacted during the period. As a consequence the deferred tax charge includes an increase in the deferred tax liability of £0.062m.

If the tax rate changes had been enacted at the balance sheet date the deferred tax liability of £9.940m (see note 17) would have been reduced by £1.192m to £8.748m and the deferred tax liability relating to the pension asset of £4.891m (see note 28) would have been reduced by £0.587m to £4.304m. 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 £0.619m (2011 - £0.669m). 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 2012 is detailed below:

Sterling	**2012 £000**	2011 £000
Assets		
Fixed asset investment	**59,468**	59,468
Current asset investments	**4**	4
Cash at bank and in hand	**2,563**	1,746
	62,035	61,218

Sterling	**Fixed Rate 2012 £000**	Fixed Rate 2011 £000	**Floating Rate 2012 £000**	Floating Rate 2011 £000	**Total 2012 £000**	Total 2011 £000
Liabilities						
Bank loans and overdraft	**88,376**	84,083	**1,000**	4,500	**89,376**	88,583
Debenture stock	**284**	284	**-**	-	**284**	284
	88,660	84,367	**1,000**	4,500	**89,660**	88,867

Fixed rate	**Weighted Average Interest Rate % 2012**	Weighted Average Interest Rate % 2011	**Weighted Average Period for which Rate is Fixed Years 2012**	Weighted Average Period for which Rate is Fixed Years 2011
Sterling	**3.6**	3.6	**20**	21

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 2012 is detailed below:

	2012 £000	2011 £000
In one year or less	**1,284**	4,784
In more than five years	**88,376**	84,083
	89,660	88,867

The Company had undrawn committed borrowing facilities at 31 March 2012, in respect of which all conditions precedent had been met, as follows:

	2012 £000	2011 £000
Expiring between one and two years	**9,000**	-
Expiring in more than two years	**4,000**	9,500

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

NOTES TO THE ACCOUNTS

19 Called up share capital	2012 £000	2011 £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 2011	1,539	3,250	64,682
Profit for the financial year	-	-	3,666
Dividends	-	-	(2,496)
Actuarial (loss) on pension scheme	-	-	(10,245)
Movement on deferred tax relating to pension scheme	-	-	2,561
Effect of change to corporation tax rate on pension asset	-	-	(155)
At 31 March 2012	**1,539**	**3,250**	**58,013**

21 Reconciliation of movements in shareholders' funds	2012 £000	2011 £000
Profit for the financial year	**3,666**	688
Dividends	**(2,496)**	(2,922)
	1,170	(2,234)
Actuarial (loss)/gain on pension scheme	**(10,245)**	14,904
Movement on deferred tax relating to pension scheme	**2,561**	(4,024)
Effect of change to corporation tax rate on pension asset	**(155)**	(226)
Net (reduction)/addition to shareholders' funds	**(6,669)**	8,420
Opening shareholders' funds	**70,549**	62,129
Closing shareholders' funds	**63,880**	70,549

22 Reconciliation of operating profit to net cash inflow from operating activities	2012 £000	2011 £000
Operating profit	**6,514**	6,108
Notional pension costs	**1,406**	1,652
Depreciation charge	**8,576**	8,258
Loss on disposal of asset	**14**	-
(Increase)/decrease in stocks	**(76)**	33
(Increase)/decrease in debtors	**(1,813)**	238
Increase in creditors	**1,097**	1,267
Net cash inflow from operating activities	**15,718**	17,556

NOTES TO THE ACCOUNTS

23 Reconciliation of net cash flow to movement in net debt	**2012**	2011
	£000	£000
Increase/(decrease) in cash in the year	**752**	(260)
Cash outflow from increase in liquid resources	**65**	75
Cash outflow from decrease in debt	**3,500**	1,500
Change in net debt resulting from cash flows	**4,317**	1,315
Non cash movement	**(4,293)**	(3,947)
Movement in net debt in the year	**24**	(2,632)
Net debt at 1 April 2011	**(87,117)**	(84,485)
Net debt at 31 March 2012	**(87,093)**	(87,117)

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 2011 £000	Cash Flow £000	Non cash Movements £000	**At 31 March 2012 £000**
Cash at bank and in hand	156	752	-	**908**
Debt falling due within one year	(4,784)	3,500	-	**(1,284)**
Debt falling due after one year	(84,083)	-	(4,293)	**(88,376)**
	(88,867)	3,500	(4,293)	**(89,660)**
Short term deposits	1,590	65	-	**1,655**
Current asset equity investments	4	-	-	**4**
	1,594	65	-	**1,659**
	(87,117)	4,317	(4,293)	**(87,093)**

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

25 Capital commitments	**2012**	2011
	£000	£000
Contracted for but not provided in these financial statements	**6,489**	1,651

The Company has a further commitment under operating leases relating to computer hardware and associated software of £0.339m per annum (2011 - £0.339m) which expire as set out below:

	2012	2011
	£000	£000
Within one to two years	**339**	-
Within two to five years	**-**	339

26 Contingent liabilities

There were no reportable contingent liabilities at 31 March 2012 or at 31 March 2011.

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 pensionable earnings. The assets of the scheme are held in a separate trustee administered fund.

The formal actuarial valuation as at 31 March 2011 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 2012 is £1.0m (2011 actual: £0.9m).

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

	2012 % per annum	2011 % per annum	2010 % per annum
RPI inflation	**3.4**	3.5	3.7
CPI inflation	**2.5**	2.8	n/a
Discount rate	**4.6**	5.5	5.5
Pension increases	**2.5**	2.8	3.7
Salary growth	**5.65**	5.75	5.95

On the basis of the assumptions used for life expectancy, a male pensioner currently aged 60 would be expected to live for a further 28.3 years (2011 - 28.9 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:

	2012 Expected Return % per annum	**2012 Fair Value £000**	2011 Expected Return % per annum	2011 Fair Value £000	2010 Expected Return % per annum	2010 Fair Value £000
Equities	**7.2**	**74,294**	7.6	77,654	7.8	74,538
Bonds	**3.2**	**44,154**	4.1	40,353	4.3	37,784
Other	**0.7**	**5,214**	2.1	2,030	2.0	1,521
	5.5	**123,662**	6.3	120,037	6.6	113,843

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.

	2012 £000	2011 £000
Total fair value of scheme assets	**123,662**	120,037
FRS 17 value of scheme liabilities	**104,097**	91,313
Gross pension asset	**19,565**	28,724
Related deferred tax liability	**4,891**	7,755
Net pension asset	**14,674**	20,969

Under FRS 17, the scheme is represented on the balance sheet at 31 March 2012 as an asset of £19.565m (2011 - £28.724m), which amounts to £14.674m net of deferred tax (2011 - £20.969m).

The Company paid contributions at a rate of 12.4% of earnings. Members pay contributions at a rate of 5% of earnings.

The Company also operates a defined contribution pension scheme. The contributions payable by the Company for the year in respect of the defined contribution scheme amounted to £2,454 (2011 - £nil).

NOTES TO THE ACCOUNTS

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

	2012 £000	2011 £000
Opening scheme liabilities	**91,313**	100,268
Employer's part of current service cost	**2,297**	2,345
Interest cost	**4,992**	5,495
Contributions by scheme participants	**96**	279
Benefits paid	**(3,520)**	(3,351)
Actuarial loss/(gain)	**8,919**	(13,723)
Closing scheme liabilities	**104,097**	91,313

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

	2012 £000	2011 £000
Opening fair value of scheme assets	**120,037**	113,843
Expected return on assets	**7,484**	7,392
Contributions by scheme participants	**96**	279
Contributions by the Company	**891**	693
Benefits paid	**(3,520)**	(3,351)
Actuarial (loss)/gain	**(1,326)**	1,181
Closing fair value of scheme assets	**123,662**	120,037

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

	2012 £000	2011 £000
Current service cost (employer's part only)	**2,297**	2,345
Past service cost	**-**	-
Total operating charge	**2,297**	2,345

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

	2012 £000	2011 £000
Expected return on pension scheme assets	**7,484**	7,392
Interest on pension scheme liabilities	**(4,992)**	(5,495)
Net return	**2,492**	1,897
Total return/(expense) recognised in the profit and loss account	**195**	(448)

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

	2012 £000	2011 £000
Actual return less expected return on scheme assets	**(1,326)**	1,181
Experience gains arising on scheme liabilities	**1,783**	-
(Loss)/gain due to changes in assumptions underlying the FRS 17 value of scheme liabilities	**(10,702)**	13,723
Actuarial (loss)/gain recognised in the STRGL	**(10,245)**	14,904

The actual return on plan assets was an increase of £6.158m in the year to 31 March 2012 (2011 - increase of £8.573m).

The history of experience gains and losses is:

	2012	2011	2010	2009	2008
Present value of scheme liabilities (£000)	**(104,097)**	(91,313)	(100,268)	(69,808)	(77,718)
Total fair value of scheme assets (£000)	**123,662**	120,037	113,843	86,724	107,696
Gross pension asset (£000)	**19,565**	28,724	13,575	16,916	29,978
Actual return less expected return on scheme assets (£000)	**(1,326)**	1,181	24,665	(25,132)	(5,382)
Percentage of scheme's assets	**(1%)**	1%	22%	(29)%	(5)%
Experience gains arising on scheme's liabilities (£000)	**1,783**	-	-	4,722	-
Percentage of the FRS 17 value of the scheme's liabilities	**1%**	0%	0%	7%	0%
Total amount recognised in the STRGL (£000)	**(10,245)**	14,904	(2,636)	(13,020)	7,602
Percentage of the FRS 17 value of the scheme's liabilities	**(10%)**	16%	(3%)	(19%)	10%

The cumulative amount of acturial gains and losses recognised in the STRGL as at 31 March 2012 was a loss of £17.974m (2011 - loss of £7.729m).

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 Monday, the 30th day of July 2012, on the following business:

1. To receive and consider the Directors' Report and Accounts for the year ended 31 March 2012 and the Auditors' Report thereon.

2. To elect Mr. N. J. Sheeran a Director of the Company.

3. To elect Mr. R. C. Porteous 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
24 May 2012

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	**2012**	2011
a) Gearing - Debt/RCV	**£000**	£000
(i) Debt		
Bank loan (note 16)	**89,542**	85,306
Bank loan (note 15)	**1,000**	4,500
Debenture stock (note 15)	**284**	284
Cash at bank and in hand	**(2,563)**	(1,746)
	88,263	88,344

For the purposes of this ratio, debt excludes the deferred arrangement costs of £1.166m (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.

	2012	2011
	£000	£000
Regulatory capital value indexed to 31 March	**115,785**	115,197
(iii) Gearing - Debt/RCV ratio (i) ÷ (ii)	**76.2%**	76.7%

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:

	2012	2011
	£000	£000
Operating profit	**6,514**	6,108
Notional pension costs	**1,406**	1,652
Depreciation charges	**8,576**	8,258
Other items	**14**	1,425
Interest received, excluding amounts for inter-company loan	**19**	17
Taxation, excluding payments for group relief	**(14)**	(858)
Capital expenditure	**(6,670)**	(9,728)
Repayment of loans	**(3,500)**	(1,500)
	6,345	5,374
(ii) Interest paid	**3,354**	3,283
(iii) Cash interest cover ratio (i) ÷ (ii)	**1.89**	1.64

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 2011/12 have been supplied to Ofwat, but will not be confirmed in the Ofwat document until later in 2012.

Designed and produced by Portsmouth Water