

PORTSMOUTH WATER LIMITED



**Unaudited interim results
for the six months ended
30 September 2009**

CHAIRMAN'S STATEMENT

On the 26 November 2009 Ofwat published its Final Determination of price limits which will apply to water bills from April 2010 to March 2015. For Portsmouth Water the changes in prices before inflation are as follows:

	2010/11	2011/12	2012/13	2013/14	2014/15
Price Limits	-4.8%	-2.1%	-1.7%	-1.4%	-0.6%

This will result in average household bills reducing from £93 in 2009/10 to £87 in 2014/15. Our customers' bills remain the lowest in the country by a considerable margin.

The Board is currently reviewing the Final Determination in detail and will decide on whether it will challenge the decision by 26 January 2010.

Each water company in England and Wales is required to publish a Water Resource Management Plan which considers the requirement for public water supplies covering the next 25 years and how any shortfall in resources must be met. The plans are subject to public consultation and must be approved by the Secretary of State for the Environment, Food and Rural Affairs. In August 2009, the Secretary of State decided that there were a number of matters within Portsmouth Water's Plan which warranted a further review and that it should be subject to a Public Hearing under the auspices of a Planning Inspector. We expect a Planning Inspector to be appointed shortly but as yet, no date has been set for the Hearing, but it is likely to take place before June 2010.

In the first half of 2009/10, the Company continued to achieve a high standard of performance for its customers delivering a combination of value for money and excellent levels of service. A recent report from the Consumer Council for water showed that for 2008/09, Portsmouth Water received the lowest level of complaints in the Industry at only 7 complaints per 10,000 customers compared to an Industry average of approximately 60. Furthermore, in the Ofwat report on Customer Service Levels in the Industry Portsmouth Water was ranked 5th out of 21 companies for overall level of service. The Company also had one of the lowest level of interruptions to supply in the Industry and its assets were judged by Ofwat to be in a stable condition. Supplies were maintained to customers during the summer without the need for any restrictions.

Turnover for the first six months rose by 4.4% to £18.1m, with the benefit of a 4.7% average increase in the tariff for water supplies being partially offset by a lower income from new service connections and works associated with new household and commercial developments.

Operating Profit was 14.5% higher at £3.8m (2008: £3.3m) as a result of the higher turnover and a lower charge for pension costs (on a FRS17 basis), partially offset by higher electricity costs.

Interest receivable was reduced by £1.4m as a result of the current very low Libor rates, however interest payable was £2.7m lower, principally reflecting a year on year difference in the indexation of the principal on the Index Linked Loan. The indexation of the principal is based on RPI and the relevant figure for 2009 was minus 1.4% and for 2008 positive 5%.

As a result of the lower interest charges profit before tax was £1.6m higher at £4.6m. Taxation was £0.8m higher reflecting the higher profit, and the previous year's charge being low as a result of a £0.3m refund.

Net cashflow from operating activities reduced to £6.6m (2008: £7.4m) mainly as a result of expenditure for a large mains diversion not invoiced to the Customer. Capital expenditure was £6.3m (2008: £4.7m). This is a relatively high level of expenditure and the rate of spend will continue to the end of the financial year as the Company completes its AMP4 (2005-2010) capital programme which was subject to delays in earlier years. By March 2010 all of the AMP4 water quality outputs will have been met.

In the light of these results, the Board has decided to declare an interim dividend of £2.050m (2008: £2.576m), payable to the immediate parent company, Portsmouth Water Holdings.

Net debt at 30 September 2009 was £84.9m (2008: £81.9m). A conventional measure of debt within the water industry is as a percentage of Regulatory Capital Value (RCV). At September 2009, the ratio of net debt to RCV was 78.1% (2008: 72.7%). This shows an increase for the 2009 year end ratio of 77.4%. The increase reflects the high level of capital expenditure in the period.

The Board is committed to providing a safe and healthy environment for its employees and is proud of the ongoing progress being made by staff in safety matters. In the nine months to September there have been no reportable accidents and no days lost due to accidents.

The high standards of customer service, financial performance and the improvements in health and safety depend on the commitment and support of everyone in the Company and the Board would like to congratulate its employees for their achievements.

T M LAZENBY
Chairman

1 December 2009

**UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS
ENDED 30 SEPTEMBER 2009**

	6 months ended 30.9.09 <u>£000</u>	6 months ended 30.9.08 <u>£000</u>	12 months ended 31.3.09 <u>£000</u>
TURNOVER	18,147	17,377	35,404
OPERATING PROFIT	3,804	3,320	6,989
(Loss) on sale of fixed assets	-	(1)	(37)
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST	3,804	3,319	6,952
Interest receivable	885	2,282	4,537
Other finance income	850	1,021	1,676
	5,539	6,622	13,165
Interest payable and similar charges	(970)	(3,691)	(7,351)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4,569	2,931	5,814
Taxation on profit on ordinary activities	(1,279)	(495)	(1,683)
PROFIT FOR THE FINANCIAL PERIOD	<u>3,290</u>	<u>2,436</u>	<u>4,131</u>

**SUMMARISED BALANCE SHEET
AS AT 30 SEPTEMBER 2009**

	6 months ended 30.9.09 <u>£000</u>	6 months ended 30.9.08 <u>£000</u>	12 months ended 31.3.09 <u>£000</u>
FIXED ASSETS	152,721	148,375	151,092
CURRENT ASSETS	7,620	7,176	7,055
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	(18,834)	(16,253)	(17,054)
NET CURRENT LIABILITIES	(11,214)	(9,077)	(9,999)
TOTAL ASSETS LESS CURRENT LIABILITIES	141,507	139,298	141,093
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR	(80,700)	(79,251)	(81,263)
PROVISIONS FOR LIABILITIES	(9,431)	(8,444)	(9,131)
NET ASSETS EXCLUDING PENSION ASSET	51,376	51,603	50,699
PENSION ASSET	12,180	21,531	12,180
NET ASSETS INCLUDING PENSION ASSET	<u>63,556</u>	<u>73,134</u>	<u>62,879</u>
CALLED UP SHARE CAPITAL	1,078	1,078	1,078
RESERVES	62,478	72,056	61,801
SHAREHOLDERS' FUNDS	<u>63,556</u>	<u>73,134</u>	<u>62,879</u>

**SUMMARISED CASH FLOW STATEMENT FOR THE
SIX MONTHS ENDED 30 SEPTEMBER 2009**

	6 months ended 30.9.09 <u>£000</u>	6 months ended 30.9.08 <u>£000</u>	12 months ended 31.3.09 <u>£000</u>
NET CASH INFLOW FROM OPERATING ACTIVITIES	6,611	7,411	16,719
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(627)	498	1,090
TAXATION	(738)	(1,570)	(2,008)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(6,338)	(4,713)	(10,612)
EQUITY DIVIDENDS PAID	(2,613)	(2,503)	(5,079)
	<u> </u>	<u> </u>	<u> </u>
CASH (OUTFLOW)/INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING	(3,705)	(877)	110
MANAGEMENT OF LIQUID RESOURCES	(25)	(50)	-
FINANCING	3,165	1,000	-
	<u> </u>	<u> </u>	<u> </u>
(DECREASE)/INCREASE IN CASH	<u> </u> <u> </u>	<u> </u> <u> </u>	<u> </u> <u> </u>

NOTES

1. The interim results for the six months to 30 September 2009 have been prepared on the basis of accounting policies consistent with those adopted for the year ended 31 March 2009.

The interim financial information is unaudited and does not constitute statutory accounts as defined in s.240 of the Companies Act 1985. The results for the year to 31 March 2009 have been extracted from the latest published accounts, which have been filed with the Registrar of Companies and on which the report of the auditors was unqualified.

2. The tax charge is based on the estimated effective rate of tax, including deferred tax, for the full year to 31 March 2010.

3. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	6 months ended 30.9.09 £000	6 months ended 30.9.08 £000	12 months ended 31.3.09 £000
Profit for the financial period	3,290	2,436	4,131
Dividends	(2,613)	(2,088)	(4,664)
	<u>677</u>	<u>348</u>	<u>(533)</u>
Actuarial loss on pension scheme (net of deferred tax)	-	-	(9,374)
	<u>677</u>	<u>348</u>	<u>(9,907)</u>
Opening shareholders' funds	62,879	72,786	72,786
Closing shareholders' funds	<u>63,556</u>	<u>73,134</u>	<u>62,879</u>

The net pension asset is unchanged from the FRS 17 valuation included in the published accounts for the year ended 31 March 2009. The Directors do not believe that there have been any significant events which would materially affect this valuation.

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

For further information please contact:

N J Roadnight - Managing Director
N Smith - Finance Director
023 9249 9888