PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2014

Portsmouth Water Limited, a supplier of water to Hampshire and West Sussex, announced its results for the year to 31 March 2014.

HIGHLIGHTS

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

- Lowest charges in England and Wales with an average bill of £94
- Leakage reduced to 29.5 Ml/d
- Fewest written complaints with only 7.6 complaints per 10,000 connected properties, compared with an industry average for last year of 49
- RoSPA Gold Medal for health and safety
- Submission of Business Plan to Ofwat proposing no price rises beyond inflation for the period 2015 - 2020
- Exceeded water efficiency target set by Ofwat

Operating profits down by 7.0% due to additional costs connected with our leakage recovery programme and costs incurred in submitting the Company's Business Plan to Ofwat.

	2014	2013
Turnover	**£37.1m**	£36.3m
Operating profit	**£5.9m**	£6.3m
Profit before taxation	**£1.3m**	£3.1m
Net debt	**£95.0m**	£92.5m
Capital expenditure	**£10.7m**	£15.4m
Regulatory Capital Value	**£117.9m**	£120.1m

CHAIRMAN'S STATEMENT

I have the great pleasure to introduce the Annual Report and results from the year ending March 2014. It has been an eventful year with the Periodic Review, development of market reform and greater interaction with our customers being major matters addressed by the management and the Board. At the same time we have delivered an excellent operational and financial performance.

Much of the focus over the past year has been around the Company's submission to Ofwat of its Business Plan for the next price review period (2015 - 2020). Ofwat sets price limits for Portsmouth Water every five years. The Company submitted its Business Plan to Ofwat in December 2013. In March 2014 Ofwat announced which Companies had achieved "enhanced" status i.e. the Companies which had produced the best all round plans. Whilst not achieving "enhanced" status, it is clear from subsequent correspondence from Ofwat, that Portsmouth Water's Business Plan was well received. The Company regards this as a significant achievement, and is testimony to the excellent work undertaken by our staff. It is particularly pleasing that the Company's investment proposals were accepted by Ofwat. The Company is currently in the process of revising its Business Plan to be in line with Ofwat's guidance on Risk and Reward. The revised Plan will be submitted to Ofwat in June 2014 with a Draft Determination expected in August 2014. Ofwat expects all Final Determinations to be issued in December 2014.

I would like to thank all the members of our Customer Challenge Group (CCG) for their help and support in producing our Business Plan.

In May the Water Bill was given Royal Assent which will allow all non-household customers to choose their water supplier from April 2017. The 'Open Water' programme has been established to ensure that the industry is prepared for the changes to the market. The Company is currently working to ensure that it meets the necessary compliance requirements in time for market opening in October 2016. The Company is also assessing what its strategy should be in the new retail market and how best to serve its customers under the new regime.

In the last year Ofwat has published the principles of Corporate Governance which it expects companies to follow. In response the Board has established a Governance Code which is published on the Company website. Details of our compliance with the Ofwat principles is shown in the Corporate Governance section on pages 26 to 28 of this Report.

Exceptional winter rainfall in 2014 saw groundwater levels rise to near record levels, being the second highest levels experienced since records commenced in 1932. Many of our sites experienced extensive flooding. The resilience improvements undertaken on a number of our sites which were completed in 2012 were subjected to significant testing and proved successful in avoiding any loss of production as a result of flood damage.

As a result of the wettest winter for 230 years, groundwater levels moved to the second highest levels we have recorded. Accordingly there are unlikely to be any restrictions this summer.

As reported in last year's report the Company had carried out a full, independent review of its leakage calculation and methodology. The review had confirmed that there was an error in the calculation of the leakage figure and we determined that our leakage level was higher than we had been reporting by approximately 6.6 Ml per day for 2011/12. This was reported immediately to Ofwat and the Company immediately put in place a programme to reduce leakage which began in November 2012, which was funded by shareholders.

The leakage recovery programme has made excellent progress and for the full year 2013/14 average leakage was recorded at 29.5 Ml/d (2012/13 - 34 Ml/d) although with a mild winter. This is within the leakage target agreed with Ofwat and was achieved well ahead of our intended schedule. We continue to improve our data and review our methodology.

Pleasingly this year the Company has again exceeded its target for water efficiency, claiming overall savings of 0.32 Ml/d. In the four years of the current regulation period the Company has achieved a cumulative surplus of 0.12 M/ld against the Ofwat target.

In October 2012 the Company successfully implemented a new billing and customer relationship management system (CRM). During 2013/14 the Company has really started to see the benefits of this new system. For 2013/14 the Company was ranked 7th out of 21 companies in a survey of customers conducted by Ofwat to assess how well the Company handled all types of contact. The Company was ranked 3rd overall (and 1st among water only companies) in terms of its handling of customer contacts for billing matters. In addition the Company maintained the lowest level of complaints in the industry and the overall level of complaints fell by 26%.

The health and safety of employees has the highest priority for the business and the effort and commitment of everyone at the Company was once again rewarded by the award of a Gold Medal from RoSPA for 2014. This will be the ninth consecutive year that the Company has received this accolade and demonstrates all the hard work that has been done in making the Company a safer place to work.

After consultation, the Company published its latest Water Resource Management Plan in November 2013. The WRMP examines the factors which will impact upon the demand for water from its customers such as population change and climate change and identifies whether the Company will have sufficient water resources over the next 25 years to meet this demand. In its plan the Company is projecting a water resource surplus in the period to 2040. As a result, the Company does not need to invest in new water resources to meet the needs of its own customers during this period. However, the Company has been approached by two neighbouring water companies to provide bulk supplies of water to meet the needs of their customers and these have been included in the Plan.

Defra requested further information in March 2014 and will now consider if Portsmouth Water should be instructed to publish its Plan. We await this decision which we expect to receive in the very near future.

The results for 2013/14 reflect the 2009 Price Determination, made by Ofwat which included a real reduction in charges for customers in the year of 1.4%. Turnover for the year increased by 2% to £37.1m. The increase in turnover is largely due to higher consumption from non-household customers with summer demand being much higher than the previous year which had very high rainfall.

Operating costs, excluding depreciation, increased by £1.2m in the year mainly due to the additional costs connected with the leakage

CHAIRMAN'S STATEMENT

recovery programme (£0.5m) and costs incurred in submitting the Company's Business Plan to Ofwat for the period 2015 - 2020 (£0.3m). As a result of the above factors the operating profit was reduced to £5.9m (2013 - £6.3m).

There was an exceptional charge during the year of £0.6m. This relates to the Havant Thicket Winter Storage Reservoir. In our most recent Water Resource Management Plan the Company has a water surplus until 2040 and no requirement therefore to build the reservoir unless more significant bulk supplies are required from our neighbouring water companies. We have, therefore, decided to write off the remaining expenditure on this from the balance sheet.

Gross capital investment during the year was £10.7m (2013 - £15.4m) and included £5.4m (2013 - £5.2m) on infrastructure renewals. After receiving capital contributions and infrastructure charges of £1.1m, net capital expenditure was £9.6m (2013 - £14.5m).

This will be my last report as Chairman of the Company. After 12 years I will be retiring this year. It has been a privilege to work with so many talented people dedicated to providing excellent service to customers. I offer my deepest thanks to the support that individual staff members have given me during my term of office that has made it so special. It is an exciting time for the Industry with changes to the regulatory framework and market reform, but I am confident that my successor, Mike Kirk and the management team will rise to these challenges.

T. M. Lazenby MBE
Chairman

Financial Performance
The results for 2013/14 reflect the 2009 Price Determination, made by Ofwat which included a real reduction in charges for customers in the year of 1.4% and the increased costs connected with the leakage recovery programme and the submission of the Business Plan to Ofwat. Turnover for the year increased by 2% to £37.1m. The increase in turnover is largely due to income from measured supplies which was £1.0m higher than the previous year. This was due to higher water volumes sold to commercial customers with summer demand being much higher than the previous year, most likely the result of it being a much drier summer in 2013 compared to the previous year. There was also an increase in volumes sold to household customers due to the effect of the increasing customer base as a result of the continued switch from unmeasured charging. However this was partially offset by unmeasured supplies being £0.3m lower than the previous year as a result of a declining customer base as previously unmeasured customers have switched to a measured supply. A small amount of additional income (£0.1m) was earned by the Company through providing additional bulk supplies to Southern Water. The headline results are shown in the table below:

	2013/14 £m	2012/13 £m
Turnover	37.1	36.3
Operating costs excluding depreciation charge	22.3	21.1
Operating profit before depreciation charge	14.8	15.2
Depreciation (including renewals)	8.9	8.9
Total Operating Profit	**5.9**	**6.3**

Operating costs, excluding depreciation, increased by £1.2m in the year mainly due to the additional costs connected with the leakage recovery programme (£0.5m) and costs incurred in submitting the Company's Business Plan to Ofwat for the period 2015 – 2020 (£0.3m). Electricity costs were £0.2m higher than the previous year due to additional pumping requirements. However business rates were £0.2m lower due to the Company's transition to a lower rates cost by 2015. As a result of the above factors the operating profit was reduced to £5.9m (2013 - £6.3m).

There was an exceptional non cash charge during the year of £0.6m. This relates to the Havant Thicket Winter Storage Reservoir. In the Company's previous Water Resource Management Plan (WRMP) we were planning to build the reservoir by 2033. However, in our most recent WRMP, which has been developed over the last year, the Company has a water surplus until 2040 and no requirement therefore to build the reservoir unless more significant bulk supplies are required from our neighbouring water companies. Under the work done by Water Resources in the South East (WRSE) we are anticipating making further bulk supplies to these companies but not at a volume sufficient to require the building of Havant Thicket. We have, therefore, decided to write off the remaining expenditure on this from the balance sheet.

Interest receivable at £0.96m (2013 - £1.26m) relates mainly to interest received from another Group company and is based on Libor plus 1%. Other finance income has reduced by £0.3m to £1.64m as a result of a decrease in the expected return on assets in the pension scheme.

Interest payable at £6.5m (2013 - £6.5m) includes £2.9m for indexation of the loan provided by Artesian Finance plc (2013 - £2.8m). The indexation of the loan for 2014 was based on RPI for July 2013 of 3.1%, whereas, RPI for July 2012 was 3.2%. Interest on the capital sum amounted to £3.4m (2013 - £3.4m).

As a result of the above, the profit before tax decreased to £1.3m (2013 - £3.1m).

Taxation
The taxation credit of £2.3m was £1.8m higher than the previous year. The current tax credit for the year was £0.005m (2013 – charge of £0.4m). This was the result of lower taxable profits and higher reliefs, in particular capital allowances claims. The deferred tax credit in the year amounted to £2.3m (2013 – credit of £0.9m). This arose from the Government's proposed reductions to corporate tax rates to 20% from 2015 onwards. This has meant that a large credit has resulted from the recalculation of the deferred tax balances on both the capital allowance pools and the pension asset.

Dividends
The dividends paid during the year amounted to £1.107m (2013 - £1.449m). Dividends are paid up to the parent company, part of which are ultimately paid to shareholders with the remainder used to service interest payments on an inter-company loan.

The breakdown of the dividend in the year is as follows:
Dividend to the shareholders - £0.367m
Inter company dividend - £0.740m

Cash Flow and Balance Sheet
Net cash inflow from operating activities of £15.1m was lower than the previous year (2013 - £15.7m) reflecting the impact of the lower operating profit and movements in working capital.

At the year end, no new borrowings had been drawn down and £0.1m of the inter company loan with South Downs Limited had been paid back. The expenditure on tangible fixed assets was less than the previous year at £11.7m (2013 - £15.3m). The cash expenditure (after contributions) was £10.6m in the year (2013 - £14.3m).

Net debt (excluding deferred arrangement costs) at £96.0m (2013 - £93.6m) includes an index linked loan with a value of £95.3m (2013 - £92.4m). The value is indexed each year by the previous July's recorded RPI. The increase in debt for the year is a result of this indexation. The level of gearing is an important ratio in the Company's loan covenants and is measured by the ratio of net debt to the Company's Regulatory Capital Value (RCV) which was determined by Ofwat at the 2009 Price Determination. The RCV is also indexed by RPI but at the March (year end) figure. The ratio is known as the Regulatory Asset Ratio (RAR). At the year end, the ratio was 81.4% (2013 - 77.9%). However the Regulatory Asset Ratio will reduce significantly at the beginning of the next review period (starting in 2015) as a result of the “Midnight Adjustment”. The Midnight Adjustment allows the Company's RCV to be amended to reflect actual expenditure in 2009/10 which was higher than allowed in the Determination. The Midnight Adjustment has been calculated in accordance with Ofwat's methodology and the resulting adjustment to the Company's RCV for PR14 is plus £5.6m. This adjustment contributes to the fact that the RAR is forecast to fall below 75% in 2015.

Capital Investment

Gross capital investment during the year was £10.7m (2013 - £15.4m) and included £5.4m (2013 - £5.2m) on infrastructure renewals. After receiving capital contributions and infrastructure charges of £1.1m, net capital expenditure was £9.6m (2013 - £14.5m).

During the year the Company renewed 24.7km of mains at a cost of £5.4m. The out turn rates for mains renewals have improved from £260/metre during 2012/13 to £214/metre for 2013/14. This improvement is in part due to the use of prechlorinated pipe which has reduced installation time and an increase in the use of no dig techniques. We renewed 26.2% of the mains using no dig techniques.

Gross expenditure on above ground assets at £4.2m included £0.4m on the construction of roofs over the Highwood raw water reservoir to reduce the risk of Trihalomethanes and over the clarifiers at the River Itchen and Farlington treatment works in order to provide security for the open water at these sites. These schemes which were a major part of the AMP 5 programme have now been completed at a total cost of £6.2m. There was also expenditure of £0.3m connected with leakage improvements and £0.3m on refurbishment of pumps and motors at Havant pumping station. A further £1.0m resulted from investment in small plant, vehicles and office equipment, including £0.4m for payments made in respect of the implementation of a new Work and Asset Management system. In the Final Determination the Company was given an allowance of 5,000 domestic meter options per year, and in 2013/14, 4,873 customers chose to switch to a measured supply. This resulted in a further £1.5m of capital expenditure. At March 2014, meter penetration for the Company was 23% of household customers.

Comparison with the Final Determination in 2009

In the four years to date of this review period the turnover is £10.7m below that allowed in the Determination, indexed by RPI. The Company has largely offset this by lower taxation, savings in operating costs and lower dividends than assumed in the Determination.

In addition over the same period the Company has invested in I.T. infrastructure which was not allowed for in the Determination. This is to ensure that services to customers are maintained at a high level in the future.

Accounting Policies

The accounts have been prepared in accordance with the accounting policies described in note 1 to the accounts on pages 40 to 42 and with UK GAAP.

Under its licence of appointment, Portsmouth Water Limited, a private company, is required to publish information about its annual results as if it were a company covered by the Listing Rules of the Financial Conduct Authority. From April 2005, listed groups were required to prepare accounts in accordance with International Financial Reporting Standards (IFRS). It is the Company’s view that these standards are not appropriate for a regulated water business and it has been granted exemption, by Ofwat, such that it need only adopt IFRS when non-listed companies are required by statute to do so. The Company has now decided to adopt FRS102 as its reporting basis going forward and the year 2015/16 will be the first year of reporting under this new standard.

Pensions

The Company takes account of the Brockhampton Pension Scheme, in which it is the principal employer, under the principles of FRS17. The latest actuarial valuation carried out for the purposes of FRS17 as at 31 March 2014 showed a surplus after deferred tax of £16.1m (2013 - £15.3m). The actuarial loss in the year before deferred tax of £0.9m (£2013 - £1.2m), which is shown in the Statement of Total Recognised Gains and Losses (STRGL) on page 37, results mostly from lower than expected returns on scheme assets over the year.

In the most recent triennial actuarial valuation conducted at March 2013, the Scheme had a surplus of £20.1m. Until March 2010, the Company had not made contributions for a number of years. For the year ended 31 March 2014, the Company made contributions of £0.7m, these being at a rate of 12.4% of earnings.

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2014

	Notes	2014 £000	2013 £000
Turnover	2	**37,109**	36,282
Cost of sales		**(20,225)**	(19,454)
Gross profit		**16,884**	16,828
Net operating expenses	3	**(10,998)**	(10,497)
Operating profit		**5,886**	6,331
(Loss)/profit on sale of fixed assets		**(10)**	1
Profit on ordinary activities before exceptional item		**5,876**	6,332
Exceptional item	10	**(611)**	-
Profit on ordinary activities before interest		**5,265**	6,332
Interest receivable	5	**961**	1,264
Other finance income	28	**1,636**	1,984
		7,862	9,580
Interest payable and similar charges	6	**(6,533)**	(6,463)
Profit on ordinary activities before taxation	7	**1,329**	3,117
Taxation on profit on ordinary activities	8	**2,331**	527
Profit for the financial year	20	**3,660**	3,644

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 2014

	Notes	2014 £000	2013 £000
Profit for the financial year		**3,660**	3,644
Actuarial (loss) on pension scheme	28	**(932)**	(1,215)
Deferred tax relating to actuarial loss on pension scheme	17	**186**	280
Effect of change to corporation tax rate on pension asset	17	**(576)**	(360)
Total recognised gains and losses relating to the year		**2,338**	2,349

The accompanying notes form an integral part of these accounts.

BALANCE SHEET
As at 31 March 2014

	Note	2014 £000	2014 £000	2013 £000	2013 £000
Fixed assets					
Tangible assets	10	**100,043**		100,003	
Investments	11	**59,384**	**159,427**	59,468	159,471
Current assets					
Stocks		**544**		589	
Debtors	12	**6,760**		5,077	
Investments	13	**2**		4	
Cash at bank and in hand	14	**4,503**		4,059	
		11,809		9,729	
Creditors: amounts falling due within one year	15	**(19,118)**		(18,945)	
Net current liabilities			**(7,309)**		(9,216)
Total assets less current liabilities			**152,118**		150,255
Creditors: amounts falling due after more than one year	16		**(94,216)**		(91,369)
Provisions for liabilities	17		**(8,021)**		(9,414)
Net assets excluding pension asset			**49,881**		49,472
Pension asset	28		**16,130**		15,308
Net assets including pension asset			**66,011**		64,780
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		**60,144**		58,913
Shareholders' funds	21		**66,011**		64,780

The accompanying notes form an integral part of these accounts.
The accounts were authorised for issue and approved by the Board on 30 May 2014, and signed on its behalf by;

T. M. Lazenby MBE
Chairman

Company Number: 2536455

CASH FLOW STATEMENT
For the year ended 31 March 2014

	Notes	**2014 £000**	**2014 £000**	2013 £000	2013 £000
Net cash inflow from operating activities	22		**15,140**		15,672
Returns on investments and servicing of finance					
Interest received		**964**		1,263	
Interest paid		**(3,602)**	**(2,638)**	(3,550)	(2,287)
Taxation					
UK corporation tax paid		**(110)**		-	
Payments for group relief		**(302)**	**(412)**	(96)	(96)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(11,684)**		(15,237)	
Sale of tangible fixed assets		**3**		6	
Capital contributions received		**1,056**	**(10,625)**	887	(14,344)
Equity dividends paid			**(1,107)**		(1,449)
Cash inflow/(outflow) before management of liquid resources and financing			**358**		(2,504)
Management of liquid resources					
(Purchase) of short term deposits		**(44)**		(58)	
Sale of investments		**2**	**(42)**	-	(58)
Financing					
New loans		**-**		4,000	
Loan repayment from Group company		**84**	**84**	-	4,000
Increase in cash in the year	23		**400**		1,438

The accompanying notes form an integral part of these accounts.

NOTES

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

2. Statutory accounts for the Company for the financial year ended 31 March 2013, upon which the auditors of the Company have given an unqualified report, have been delivered to the Registrar of Companies. Statutory accounts for the Company for the financial year ended 31 March 2014 will be delivered to the Registrar of Companies as soon as practicable after approval at the next Annual General Meeting.

For further information, please contact:

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