PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2008

Portsmouth Water Limited, a supplier of water to Hampshire and West Sussex, announced its results for the year to 31 March 2008.

Highlights

During the past year, Portsmouth Water has again been recognised for sector leading performance:

- The Company has maintained its position for operating and capital maintenance efficiency
- Levels of service amongst the highest in the water industry
- Water supply maintained with no need for restrictions in the summer of 2007.
- Significant progress achieved in the AMP4 capital expenditure programme.
- The RoSPA Gold award for occupational health and safety was achieved for the third successive year.

	2008	2007
Turnover	**£33.9m**	£33.0m
Operating profit	**£7.6m**	£8.8m
Profit before taxation	**£8.4m**	£10.7m
Net debt	**£79.0m**	£73.6m
Capital expenditure	**£12.0m**	£14.8m

Portsmouth water

150 years of quality service

Chairman's Statement

I am pleased to report that the performance of Portsmouth Water has continued to progress strongly. The Company was recognised as economically the most efficient water company in the UK and in terms of customer service, was placed fourth out of twenty two companies in the Overall Performance Assessment by the Water Industry regulator Ofwat. It also has the lowest level of complaints (measured by complaints per 1,000 customers) in the industry.

That the Company has been able to achieve such high standards of performance is due to the commitment of employees and I would like to thank everyone for their hard work and dedication. The Company will continue to provide the support and training required to develop its people and create continued improvements in all activities. Technology is being used to generate efficient working. In the last year we completed a project to equip a section of the workforce with mobile communications and work scheduling which has provided a more responsive service for our customers and has reduced travelling time and the costs of transport. During this year we developed a facility to recycle excavated material. This will help the environment by reducing the material put into landfill, save the energy currently used to produce new aggregate material and reduce costs.

The financial results for the year ended 31 March 2008 show a reduction in operating profit of £1.2m (14%) to £7.6m (2007 - £8.8m). The previous year's results included a one-off credit of £1.1m to the FRS 17 pension charge following a change to the rules of the pension scheme which resulted in a lower liability for the scheme. Revenue from the bulk supply to Southern Water was down £0.4m as the facility was not used in the year, whilst in the previous year it was used continuously. A reduction in the tax charge to £0.2m (2007 - £2.6m) as a result of the impact of the abolition of industrial building allowances, and other changes to capital allowances and corporation tax rates in respect of the deferred tax resulted in a profit after tax of £8.2m (2007 - £8.1m).

In the light of these results the Directors are recommending a final dividend of £2.1m, which will be paid in May 2008.

Significant progress was achieved with the Company's capital programme established at the last periodic review. Gross capital investment for the year amounted to £12.0m (2007 - £14.8m), which included £4.8m on infrastructure renewals. A new membrane water treatment plant was commissioned at the River Itchen Treatment Works in June 2007, and two similar plants will be commissioned in the summer of 2008. The total cost of these plants will be £11.4m.

The number of customers wishing to switch from an unmeasured to a measured supply through a water meter in the year was 70% above the level assumed by the regulator at the last price review and in the three years since the price review, the total number of customers switching is almost double the assumed amount. The regulatory framework allows a Company to seek an interim determination of its prices where the financial impact of an increased number of customers switching to a metered supply is deemed to be above a materiality threshold. At the current level of switching, the impact of the Company's cashflow is very close to the materiality limit, but at this stage the Company does not intend to seek an interim determination of prices, which would add to customers' bills.

In December 2007, the Company published a Strategic Direction Statement which outlined how it will meet the challenges it faces over the next 25 years. The challenges include climate change, an increasing demand for water and a reduction in our ability to abstract water due to legislation aimed at protecting key habitat sites within the Company's area. In 2007 we conducted research to seek the views of our customers on their satisfaction with the service we provided and their willingness to pay for improvements. These views were reflected in the Strategic Direction Statement. Key elements of the strategy are:

- Whilst setting ourselves new leakage targets, we will urge Government to help us manage demand by requiring all new households to meet water efficiency standards
- We will implement a Metering Programme to meter 85% of all properties by 2035 which will ensure that most households pay for water by volume with new tariffs to limit excessive use
- We will develop key new resources including Havant Thicket Winter Storage Reservoir to optimize our use of the surplus winter water from Havant & Bedhampton Springs
- We will continue to renew both our underground and above ground assets to minimise interruptions to supply and help reduce leakage

The Strategic Direction Statement was the first element in the process of developing the Company's Business Plan for the period 2010-2015 which the regulator Ofwat will use as the basis for setting new prices from 2010. This process, known as the Periodic Review, will conclude in November 2009 and is consuming a great deal of management and staff time. The information required for the review has increased in complexity and volume since the last review in 2004 and the Company is acquiring more staff and outside help to cope with the workload.

Ofwat have recently published the second part of it's review of competition, which will inform the review being undertaken by Defra. In the paper Ofwat recommend that contestable markets are opened up to competition where it will benefit customers.

Portsmouth Water is an important part of the community it serves and we strive to play an appropriate role in its development by providing education, promoting the health benefits of drinking water and the need to use water wisely and efficiently. The Company sponsored the Primary School Science Fair which is promoted by the Portsmouth and South East Hampshire Business and Education partnership and played an active part in the Water Festivals of Hampshire and West Sussex. It also has a partnership with the Sir George Staunton Country Park promoting education and the importance of water.

The Board is committed to providing a safe and healthy working environment for its employees and I am pleased to report that the Company achieved the RoSPA Gold Award for occupational health and safety for the third consecutive year.

This report highlights the excellent achievements of the Company and its employees and I am confident that it will continue to maintain high standards of customer service and performance in the future.

T. M. Lazenby
Chairman

Financial Performance

Profit before tax

Turnover for the year increased by 2.6% to £33.9m. This reflected the 5.37% overall tariff increase implemented in July 2007, which was partially offset by a reduction of £0.4m of income from the bulk supply to Southern Water and £0.5m in income from new connections, and other non-tariff work. The income from the bulk supply was very high in 2006/07 as the extent of the drought conditions in 2006 meant that it was operating for most of that year.

Operating costs, excluding depreciation and the FRS17 pension charge rose by £0.6m (3.7%). This was largely due to salary pay awards and electricity price increases. The current service cost for the pension scheme was increased by £1.2m to £2.3m. This was as a result of a one-off credit to the charge in 2006/07 following a change in the rules of the scheme allowing retirees to commute more of their pension to a lump sum, which has the effect of reducing the ongoing pension liability.

There was a loss on disposal of fixed assets of £0.2m compared to a profit of £0.9m in 2006/07 when the Company sold three properties.

Interest receivable at £4.3m (2007 - £3.6m) relates mainly to interest received from group companies and is based on Libor plus 1%.

An increase in other finance income of £0.2m represents an increase in the expected return on Pension Fund assets.

Interest payable at £6.2m (2007 - £5.3m) includes a £2.9m indexation of the loan provided by Artesian Finance plc (2007 - £2.4m). Interest on the capital sum amounted to £2.8m (2007 - £2.7m). Total borrowing was higher during the year as a result of the level and timing of the capital expenditure programme and interest on short term borrowing was £0.3m higher.

As a result primarily of the increased pension charge and lower income from property sales, profit before tax reduced to £8.4m (2007 - £10.7m).

Taxation

The taxation charge was £2.4m lower due to a reduction in deferred tax which was the result of the effect of the removal of industrial buildings allowances and changes to corporation tax and capital allowance rates.

Dividends

The dividends paid during the year amounted to £4.209m (2007 - £4.471m). In 2006/07 a special dividend of £0.3m was paid which represented an element of the profit on the sale of property. Dividends are paid up to the parent company and largely used to service debt held by the group.

Cashflow and Balance Sheet

Net cashflow from operations at £16.0m (2007 - £16.1m) reduced marginally as a result of a reduction in trade creditors. Net cash outlay on fixed assets at £12.2m (2007 - £11.8m) reflected a large outlay on the construction of the three membrane plants and further progress on the mains renewal programme.

Net debt at £79.0m (2007 - £73.6m) increased during the year as a result of the indexation of the £66.5m Index Linked Loan and the relatively high capital programme. At the year end, net debt to regulatory capital value was 72.3% (2007 - 71.3%).

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 Retail Prices Index. 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 2008 was £78.6m (2007 - £75.7m).

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. Short term liquidity is achieved through a £15m working capital facility and an overdraft arrangement. At the end of the year, £4.0m of this facility had been drawn (2007 - £1.5m), while the overdraft arrangement remained unutilised.

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 capital structure is set at a level which provides an appropriate risk profile to ensure the Company can obtain finance at competitive levels. As is common in the water industry the Company monitors capital in the ratio of debt to Regulatory Capital Value (RCV). RCV is a measure of the Company's asset value used in the setting of prices in the water industry. The level of RCV is published by the regulator (Ofwat) on an annual basis. The ratio achieved for 2007/08 is shown below, and the details of the calculation are shown on page 47.

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 following best practice guidelines.

Accounting Policies

The accounts have been prepared in accordance with the accounting policies described in note 1 to the accounts on pages 34 to 35 and with UK GAAP. There was a change in accounting policy in respect of unbilled measured income as at the year end date, which is described more fully on page 35 of the accounts.

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 accounts for the Brockhampton Pension Scheme in which it is a participating employer, in accordance with FRS17. The latest actuarial valuation carried out for the purposes of FRS17 showed a surplus after deferred tax of £21.6m (2007 - £15.3m).

Profit and Loss Account
For the year ended 31 March 2008

	Notes	**2008 £000**	2007 £000 (restated)
Turnover	2	**33,906**	33,042
Cost of sales		**(17,078)**	(16,406)
Gross profit		**16,828**	16,636
Net operating expenses	3	**(9,243)**	(7,794)
Operating profit		**7,585**	8,842
(Loss)/profit on sale of fixed assets		**(183)**	912
Profit on ordinary activities before interest		**7,402**	9,754
Interest receivable	5	**4,331**	3,612
Other finance income	28	**2,851**	2,688
		14,584	16,054
Interest payable and similar charges	6	**(6,215)**	(5,333)
Profit on ordinary activities before taxation	7	**8,369**	10,721
Taxation on profit on ordinary activities	8	**(147)**	(2,596)
Profit for the financial year	20	**8,222**	8,125

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 2008

	Notes	**2008 £000**	2007 £000 (restated)
Profit for the financial year		**8,222**	8,125
Actuarial gain/(loss) on pension scheme	28	**7,602**	(519)
Deferred tax relating to actuarial (gain)/loss on pension scheme	17	**(2,129)**	155
Effect of change to corporation tax rate on pension asset		**(292)**	-
Total recognised gains and losses relating to the year		**13,403**	7,761

The accompanying notes form an integral part of these accounts.

Balance Sheet
As at 31 March 2008

	Note	2008 £000	2008 £000	2007 £000 (restated)	2007 £000 (restated)
Fixed assets					
Tangible assets	10	**87,308**		82,903	
Investments	11	**60,478**	**147,786**	59,940	142,843
Current assets					
Stocks		**468**		462	
Debtors	12	**4,049**		3,720	
Investments	13	**4**		4	
Cash at bank and in hand	14	**2,494**		2,460	
		7,015		6,646	
Creditors: amounts falling due within one year	15	**(18,016)**		(17,330)	
Net current liabilities			**(11,001)**		(10,684)
Total assets less current liabilities			**136,785**		132,159
Creditors: amounts falling due after more than one year	16		**(77,239)**		(74,282)
Provisions for liabilities	17		**(8,344)**		(9,565)
Net assets excluding pension asset			**51,202**		48,312
Pension asset	28		**21,584**		15,280
Net assets including pension asset			**72,786**		63,592
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		**66,919**		57,725
Shareholders' funds	21		**72,786**		63,592

The accompanying notes form an integral part of these accounts.
The accounts were authorised for issue and approved by the Board on 30 May 2008.

Cash Flow Statement
For the year ended 31 March 2008

	Notes	2008 £000	2008 £000	2007 £000	2007 £000
Net cash inflow from operating activities	22		**15,996**		16,136
Returns on investments and servicing of finance					
Interest received		**3,780**		3,156	
Interest paid		**(3,257)**	**523**	(2,869)	287
Taxation					
UK corporation tax paid		**(687)**		(1,124)	
Payments for group relief		**(1,223)**	**(1,910)**	(1,133)	(2,257)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(12,914)**		(12,748)	
Sale of tangible fixed assets		**32**		1,167	
Capital contributions received		**753**	**(12,129)**	945	(10,636)
Equity dividends paid			**(4,946)**		(4,579)
Cash (outflow) before management of liquid resources and financing			**(2,466)**		(1,049)
Management of liquid resources					
(Purchase) of short term deposits			**(60)**		(50)
Financing					
New loans			**2,500**		1,500
(Decrease)/increase in cash in the year	23		**(26)**		401

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 240 of the Act.

   Statutory accounts for the Company for the financial year ended 31 March 2007, 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 2008 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:

Nick Roadnight, Managing Director	023 9249 9888
Neville Smith, Finance Director	023 9249 9888