Portsmouth Water Limited

Annual Report & Accounts 2015

Delivering excellence
for our customers, our people and our environment

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HIGHLIGHTS

Our Mission

"To supply high quality drinking water whilst providing excellent levels of service for our customers at the lowest price in the country"

- Top industry performer in Ofwat SIM customer survey
- President's Award from RoSPA for ten years of strong health & safety performance
- Exceeded water efficiency target set by Ofwat
- Price Review completed - prices only to rise by RPI in the period 2015 - 2020
- Water Resources Management Plan approved by Secretary of State

Values

Our values underpin how we behave in delivering all aspects of our work. These are:

"Excellence, Respect and Integrity"

Turnover £m

£38.27m

2012	36.67
2013	36.28
2014	37.11
2015	**38.27**

Operating profit £m

£5.94m

2012	6.51
2013	6.33
2014	5.89
2015	**5.94**

Operating cashflow £m

£15.56m

2012	15.72
2013	15.67
2014	15.14
2015	**15.56**

Capital expenditure £m

£9.52m

2012	8.13
2013	15.36
2014	10.67
2015	**9.52**

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.

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

Michael Peter Kirk
MBA, C.Eng., M.I.Cheme, M.Sc., B.Sc. (Hons) [123]
Independent Non-Executive Chairman
Chairman of the Nomination Committee
Joined in November 2012. Chairman of Thackray Medical Museum, Deputy Chairman and Chairman of Performance Audit and Risk Committee, The Conservation Volunteers. Previously partner at Cazenove and Co. and Managing Director of Weber Shandwick.

Heather Virginia Benjamin
B.A., C.M.I.P.D., I.A.C.C.M., C.I.P.S., F.I.O.D. [123]
Senior Independent Non-Executive Director
Chair of the Audit Committee
Joined in November 2012. Previously held senior positions with Centrica plc. Current Chair of Trustees, Walsingham Organisation and Non-Executive Board member of Academy of St. Martins in the Fields Orchestra.

Martin Paul Johnson
MSC, C.Eng., F.I.MechE., B.Eng. (Hons), PRINCE2 [123]
Independent Non-Executive Director
Chair of the Remuneration Committee
Joined in July 2014. Currently Chief Commercial Officer of BMI Healthcare. Previously held various positions with BAA and Mars. Earlier held engineering posts at BMW and Ford.

[1] Member of the Audit Committee
[2] Member of the Remuneration Committee
[3] Member of the Nomination Committee

CHAIRMAN'S STATEMENT

I have great pleasure in introducing my first Annual Report as Chairman of the Company. It has again been an eventful year with the conclusion to the Periodic Review, and the preparations for Market Reform in 2017. At the same time we have continued to deliver excellent service to our customers and a strong financial performance. I am also delighted to announce that we have received the President's Award from RoSPA for our consistent approach to Health and Safety over the last ten years.

In December 2014, Ofwat published the Final Determination of revenue limits for the period 2015 to 2020. This followed three years of intense activity, including the largest consultation with our customers we have ever undertaken. The revenue allowed was very close to the amount included in our Business Plan - an indication of the considered approach taken by the Board with the approval of its shareholders and will result in no real increases in customer bills for this period. Overall, the Board supported the approach taken by the regulator and is committed to the successful delivery of our Business Plan. The key performance indicators used for the Outcome Delivery Incentives will be challenging, but I am confident we will rise to those challenges. Our attention now turns to the delivery of the Investment Programme and we are intending to put in place framework agreements for the major expenditure items.

Once again the Company delivered excellent customer service as measured by the Service Incentive Survey conducted on behalf of Ofwat. For 2014/15, Ofwat have trialled a new approach, and over the four surveys conducted in the year, Portsmouth was ranked 1st overall and individually for billing and operational matters. The number of complaints received by the Company increased, but at 10.9 complaints per 10,000 customers, is likely to remain the lowest in the industry. In 2013/14, the next lowest company had 12.4 complaints per 10,000 customers.

Leakage for the year was below the target of 30 Ml/day, and we continued to review and improve our methodology. There were no restrictions to customer supplies last year, and the current groundwater levels are such that we do not expect any restrictions this summer.

From April 2017 all Non-Household customers will be able to choose their retailer of water services. The "Open Water" programme has been established to deliver the rules and systems to allow the market to function effectively for all participants. The Company is actively involved in this programme to ensure it will be ready to participate at Market opening and meet the legal and regulatory compliance requirements. For Portsmouth Water the Non-Household retail revenue amounts to approximately £0.6m per annum and the Board is actively reviewing its strategic options for this market.

In response to the principles of Corporate Governance published by Ofwat the Company has established a Governance Code and this is on our website. The Board believes that it complies with the principles although the structure of the Board, when at its full complement, does not strictly comply in accordance with the Ofwat guidelines. The Ofwat principles suggest that independent Non-Executives should constitute the largest faction of Directors. The Board of Portsmouth Water, upon the appointment of a Finance and Regulation Director, will consist of three independent Non-Executive Directors (including the Chairman) and three Executive Directors. The Chairman has the casting vote. We believe that this structure is appropriate for a company of our size and satisfies the overall principle that the Independent Directors have considerable influence. Details of our compliance with the Ofwat principles is shown in the Corporate Governance section on pages 27 to 29 of this report.

As noted above the Company has received the President's Award from the Royal Society for the Prevention of Accidents (RoSPA) in recognition of ten consecutive years of Gold Awards. The Health and Safety of our employees is our number one priority and we are immensely proud of this achievement which is testimony to the efforts of everyone in the Company. I must pay a special tribute to my predecessor, Terry Lazenby MBE, who championed the drive to improve the record when he joined the Board in 2002.

The financial results for 2014/15 show Operating Profit unchanged at £5.9m, although this included an increase in the provision for bad debts of £0.4m as a result of a change in the method of calculation, to ensure that our provisions more accurately reflected the actual experience with accounts in arrears.

Turnover increased by 3.1% to £38.2m reflecting a tariff increase of 2.5% and increased income from developers for connecting new properties and diverting mains.

Operating costs increased by £1.1m (3.5%), including the impact of the calculation change on the provision for bad debt of £0.4m and the increased costs of generating the income from developers of £0.4m. Excluding these two items operating costs increased by 1.0%, lower than the average Retail Prices Index for the year.

Gross capital investment during the year was £9.5m (2014 - £10.7m) and included £4.5m (2014 - £5.4m) on infrastructure renewals and £1.3m of new mains for housing developments. After receiving capital contributions and infrastructure charges of £1.3m, net capital expenditure was £8.2m (2014 - £9.6m).

Cash Flow from operating activities at £15.6m was £0.5m ahead of last year and after deducting interest and capital expenditure cash inflow before financing was £4.2m (2014 - £0.4m). This, together with part repayment of an inter-company loan of £3.05m, allowed the Company to repay £5.0m of bank loans.

Gearing at the end of the year was reduced to 80.0% (2014 - 81.4%).

I wish to pay a tribute to my predecessor as Chairman, Terry Lazenby MBE, who retired in September 2014, for his considerable contribution to the success of the Company. His leadership was crucial in developing a Health and Safety culture in the Business.

The focus for the business is to deliver on our promises to customers made in our Business Plan and to prepare for market reform. I am confident that the management team and their staff can rise to these challenges.

M. P. Kirk
Chairman

STRATEGIC REPORT
Strategy and Business Model

Principal Activity
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 312,000 domestic and commercial customers in an area of 868 square kilometres in Hampshire and West Sussex through a mains network of 3,297 kilometres.

The Company's area of supply is shown on page 24 of this report.

Mission Statement
'To supply high quality drinking water whilst providing excellent levels of service for our customers at the lowest price in the country'

Vision
'Delivering excellence for our customers, our people and our environment'

Values
Our values underpin how we behave in delivering all aspects of our work. These are:
'Excellence, Respect and Integrity'

Strategy
The Company continuously reviews its strategic approach both internally and by engagement with its customers and stakeholders. It has undertaken extensive research and engagement with stakeholders and customers and as a result we have developed a number of Outcomes that summarise our proposed business goals and set out our aspirations over the coming years. These outcomes were used as the basis for the Business Plan which the Company submitted to Ofwat in December 2014. These Outcomes are outlined below:

- Safe secure, sustainable and reliable supply of drinking water
- Less water lost through leakage
- A high quality service and value for money
- An improved environment supporting biodiversity, public amenities and recreation
- Supporting the community we serve by taking opportunities to support the local economy
- Proving attractive to investors, long term sustainable business
- Recognised by stakeholders as having a culture of health and safety through all our activities

For the period 2015 - 2020 the Company will increase prices to its household customers by the Retail Prices Index as allowed by the Regulator, Ofwat, in the Final Determination.

Dividend Policy – From 2015/16 dividends to shareholders will be increased in real terms by 1.65% per annum.

Employee Benefit Trust
The ownership structure of the business is unique within the industry, with the majority of the shares being owned by an Employee Benefit Trust (EBT) on behalf of the employees. The Board believes that this structure ensures that we are able to take a long-term view on the business. We believe that this structure also helps to align the interests of employees and customers in the long-term – with the vast majority of our employees also being customers.

Governance
When the Board of Portsmouth Water Limited is fully constituted, it comprises three Executive Directors and three independent Non-Executive Directors. Portsmouth Water is part of the South Downs Capital Group whose ultimate controlling shareholder is an Employee Benefit Trust. A majority of the Directors of the Employee Benefit Trust are independent and are not represented on the Board of Portsmouth Water. This ensures the independence of the Board of the Appointed Water Company. In response to the principles of Corporate Governance published by Ofwat the Company has established a Governance Code and this is on our website. The Board believes that it complies with the principles although the structure of the Board, when at its full complement, does not strictly comply in accordance with the Ofwat guidelines, namely that Independent Non-Executive Directors should be the largest faction on the Board. As noted above, on the appointment of a Finance and Regulation Director, the Board will have an equal number of Independent Non-Executives and Executives, with the Non-Executive Chairman having the casting vote. We believe that this structure is appropriate for a company of our size and satisfies the overall principle that the Independent Directors have considerable influence. Full details of the Corporate Governance of the Company are published on pages 27 to 29 of this Report.

Financial Structure
Since 2001 the Company has largely been a debt financed entity. An index linked fixed interest loan with a base value of £66.5m was 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

STRATEGIC REPORT
Strategy and Business Model

Index (RPI). Interest is charged at a fixed rate of 3.635% on the indexed amount of the loan. The indexed carrying value of the loan at 31 March 2015 was £97.7m (2014 - £95.3m).

Short term liquidity is achieved through a £10m working capital facility and an overdraft arrangement. At the end of the year, none of this facility had been drawn (2014 - £5.0m), while the overdraft arrangement remained unutilised. The £10m facility terminates in May 2018.

In May 2015 the Company moved its day to day banking facilities to Lloyds. Any short term cash balances are deposited with Lloyds.

STRATEGIC REPORT
Regulation

The water industry is subject to a range of UK and EU legislation. Standards, particularly those relating to the environment, continue to be developed 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 one of its principal duties is exercised through the Revenue setting process known as the Periodic Review. In this process Ofwat sets Revenue limits for Water Companies every five years which it believes an efficient company needs in order to finance its operations and capital programme, after making an assessment of potential future efficiency gains. The latest Determination was in December 2014 for the period 2015-2020. As part of this process the Company was required to submit a comprehensive Business Plan which included separate plans for its Retail and Wholesale business. This plan was prepared after considerable consultation with its customers and clearly identified a set of defined outcomes which would be delivered. After scrutinising the Business Plan, Ofwat published its Final Determination which not only included the Revenue allowed, but also confirmed the Outcomes to be delivered (see page 5) and the Outcome Delivery Incentives for the Company. As a result of its Determination, the Company will increase its prices only in line with the Retail Price Index (i.e. no increase in real terms).

This Determination followed a period from 2010 to 2015 when prices fell in real terms every year, (i.e. increased by less than the Retail Price Index).

Competition and Market Reform
In 2011, the UK Government published the Water White Paper ‘Water for Life’, which set out its plans to:

– increase choice and improve service for water customers.
– stimulate innovation and drive more sustainable approaches to managing our water resources.

The Water Bill, which received Royal Assent in May 2014, includes the legislative changes required to deliver these ambitions for the water sector. The Bill will enable the creation of a new market for retail water and sewerage services to all non-household customers in England. The intention is to open the new retail market in April 2017.

The Company will ensure that it is compliant by October 2016, in time for market opening in April 2017. This includes compliance in terms of:

– Systems and how these systems interface with the Market Operator. The objective of the Market Operator is to provide services that help enable and facilitate the effective operation of the competitive market arrangements.
– Structure and processes – the business will need to have a structure and processes which allow the retail and wholesale functions to operate separately and on an “arm's length” basis as required by Competition Law, both internally and with other external companies and retailers.

In the last year, significant progress has been made by the Government, Regulators and the Industry to ensure Market Opening is delivered on time.

The Company is currently working to ensure that it meets the necessary compliance requirements in good time. The Company is also assessing what its strategy should be in the new retail market and how best to serve its customers under the market arrangements.

STRATEGIC REPORT
Water Resources

Portsmouth Water provides water to 312,000 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 169 million litres of water through a network of 3,297 kilometres of underground mains. The 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 30% of the total supply, are thought to be the largest group of springs used for public supplies in Europe.

Source	Actual 2014/15 Abstraction (Million Litres)	% of Supply 2014/15	% of Supply 2013/14
Springs at Havant & Bedhampton	19,269	30	28
River Itchen	5,022	8	10
Boreholes, Wells & Adits	38,971	62	62
Totals	**63,262**	**100**	**100**

A map showing the Company's area of supply and the location of its sources and treatment works is shown on page 24.

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 5% of supplies in 2014/15. Water from the remaining sources requires less sophisticated treatment.

The River Itchen is one of the Company's water sources and provides 8% of the total supply.

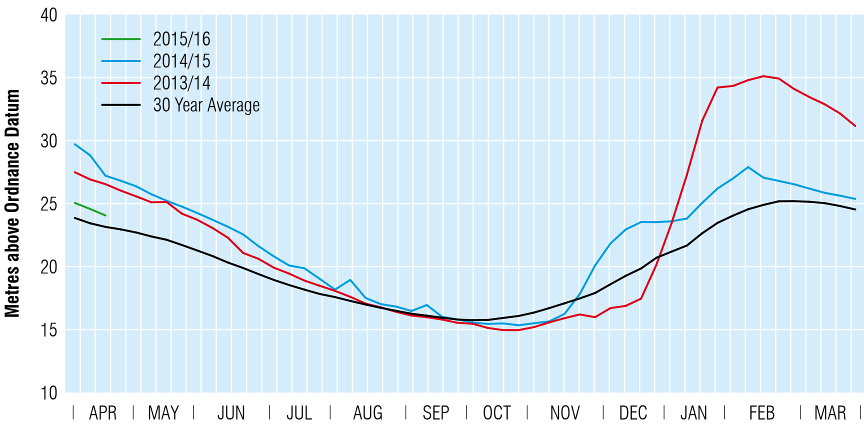
Water Resources - Outlook for 2015

As detailed above, 92% 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.

The Company has not had to impose restrictions on our customers since 1976 and, as a result of the current groundwater level, it is unlikely to do so this year.

Groundwater levels at the end of April 2015, were close to the long term average as outlined on the graph below, which includes the thirty year long term average at the end of April 2015.

Idsworth Well



Long Term Resource Planning

In May 2013 the Company published its latest Water Resource Management Plan 2014 (WRMP) for consultation. The WRMP examines the factors which will impact upon the demand

STRATEGIC REPORT
Water Resources

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.

The Water Resources in the South East (WRSE) group, comprising seven water companies in South East England and led by the Environment Agency, has been investigating the potential for regional solutions to meeting the water needs of South East England. This may require further schemes to be commissioned in the Portsmouth Water area in order to provide water to other communities in the South East.

The Water Resources Management Plan was formally approved by the Secretary of State on the 22 July 2014 and can be found on the Company's website.

Members of a Portsmouth Water working party removing scrub from the downs near Walderton to improve biodiversity.

STRATEGIC REPORT
Financial Performance

Display of plant life on a bank at the Racton Service Reservoir site.

Operating profit was unchanged at £5.9m, however the results reflect a change in the method of calculation for bad debt provisions which resulted in a one-off charge of £0.4m. A summary of the operating profit is shown below.

	2014/15 £m	2013/14 £m
Turnover	38.3	37.1
Operating profit before change in calculation method for bad debt provision	6.3	5.9
Impact of change in calculation method for bad debt provision	(0.4)	-
Total Operating Profit	**5.9**	**5.9**

Turnover for the year increased by 3.1% to £38.3m. (2014 - £37.1m). Revenue from water supplied to unmeasured and measured customers increased by 2.5% mostly reflecting the tariff increases in July 2014 of 2.5%.

Income from developers for chargeable work increased by £0.7m in the year, firstly from an increase in laying new supplies to housing developments and also from a number of mains diversion schemes. The revenue for chargeable work in 2015 was back to the long term average level after two years of low activity. Income from bulk supplies to Southern Water was £0.4m lower as the agreement ended in June 2014, and the fixed charge to cover the initial capital investment was fully paid. The agreement is likely to be renewed, but with the capital element fully repaid, will be as a volumetric charge only.

Operating costs before the change in bad debt calculation increased by £0.8m (2.6%) mainly as a result of higher depreciation (£0.2m) and the higher costs of undertaking the chargeable work (£0.4m). As noted above, the Company reviewed the level of provisioning for its unrecovered debt from customers. Since the method of calculation was last reviewed there has been a significant increase in metered customers, including those in new properties, and on reviewing the profile and payment history of those in debt over the last few years the Company decided to increase the rate of provisioning for measured household customers in debt and for the first year of unmeasured customer debt. This new method of calculation will be in place for the next five years and on a 'like for like' basis the underlying debt provision showed an increase of £0.1m.

Interest receivable at £1.0m (2014 - £1.0m) mainly relates to interest received from another Group company and is based on Libor plus 1%. Other finance income has increased by £0.7m to £2.3m as a result of higher than expected returns on assets in the pension scheme. This is a notional figure as the Company has no rights to this income and there is no impact on the cashflow of the Company.

Interest payable at £6.1m (2014 - £6.5m) includes £2.4m for indexation of the loan provided by Artesian Finance plc (2014 - £2.9m). The indexation of the loan for 2015 was based on RPI for July 2014 of 2.5%, whereas, RPI for July 2013 was 3.1%. Interest on the capital sum amounted to £3.5m (2014 - £3.4m).

As a result of the above, the profit before tax increased to £3.1m (2014 - £1.3m).

Taxation

The taxation charge of £0.8m includes current tax of £0.1m and deferred tax £0.7m. In 2014 the deferred tax credit in the year amounted to £2.3m. This arose from the Government's proposed reductions to corporate tax rates to 20% from 2015 onwards. This meant that a large credit resulted from the recalculation of the deferred tax balances on both the capital allowance pools and the pension asset. The current tax charge of £0.1m represents only 2% of profit before tax, however as the other finance income of £2.3m is a notional figure for which the Company receives no benefit and is not taxable, the tax charge as a percentage of profit before this income is 8%. This is much lower than the standard rate of 21% mostly due to the effect of capital allowance claims.

Dividends

The dividends paid during the year amounted to £0.8m (2014 - £1.1m). Dividends are paid up to the parent company, part of which are ultimately paid to shareholders with the remainder

STRATEGIC REPORT
Financial Performance

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 - £0.391m
Inter company dividend - £0.382m

Cash Flow and Balance Sheet
Net cash inflow from operating activities of £15.6m was higher than the previous year (2014 - £15.1m) reflecting the impact of the higher operating profit before the adjustment for the bad debt provision.

The expenditure on tangible fixed assets was less than the previous year at £9.2m (2014 - £11.7m). Capital contributions from Developers and infrastructure charges at £1.3m (2014 - £1.1m) reflected a variance in activity in the area. The cash expenditure (after contributions) was £7.9m in the year (2014 - £10.6m).

The cash flow before management of liquid resources and financing of £4.2m (2014 - £0.4m), largely the result of lower capital expenditure allowed for the repayment of the amount outstanding on the authorised loan facility. In addition, £3.1m of the inter-company loan was repaid by South Downs Limited which was carried out as part of a policy to reduce gearing in Portsmouth Water Limited.

Net debt (excluding deferred arrangement costs) at £91.2m (2014 - £96.0m) includes an index linked loan with a carrying value of £97.7m (2014 - £95.3m). The carrying value is indexed each year by the previous July's recorded RPI. 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 80.0% (2014 - 81.4%). However the Regulatory Asset Ratio will reduce significantly at the beginning of the next review period (starting in April 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 £6.2m. This adjustment if applied on 31 March rather than the 1 April 2015, would make the RAR 75.9%.



Trench dug for mains renewal scheme at Fishbourne Roman Palace. A number of artefacts were found on the site, including the item shown left.

Capital Investment
Gross capital investment during the year was £9.5m (2014 - £10.7m) and included £4.5m (2014 - £5.4m) on infrastructure renewals and £1.3m of new mains for housing developments. After receiving capital contributions and infrastructure charges of £1.3m, net capital expenditure was £8.2m (2014 - £9.6m).

During the year the Company renewed 15km of mains at a cost of £4.5m. This included the renewal and relocation of a sensitive main close to Fishbourne Roman Palace. The main was relocated because the Palace has an important Roman Mosaic floor which was at risk of being damaged if our existing main had burst.

During the year the Company completed its above ground Capital Expenditure programme for AMP5, with a number of small schemes undertaken in the year. The highest value items were the installation of 3,544 meters at a cost of £0.9m for customers who chose to switch to a measured supply and £0.4m for the introduction of a new Works and Asset Management System. The full implementation of this system will be completed by March 2016, although some elements were implemented in 2014.

Accounting Policies
The accounts have been prepared in accordance with the accounting policies described in note 1 to the accounts on pages 41 to 43 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

STRATEGIC REPORT
Financial Performance

Portsmouth Water created an exhibit for the TeenTech event, which helps young people in their career choices.

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 Financial Reporting Standard number 102 (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 2015 showed a surplus after deferred tax of £9.0m (2014 - £16.1m). The actuarial loss in the year before deferred tax of £10.8m (£2014 - £0.9m), which is shown in the Statement of Total Recognised Gains and Losses (STRGL) on page 38, results mostly from a large fall in the yields of A A Corporate Bonds which are used to calculate the value of liabilities.

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 2015, the Company made contributions of £0.7m, these being at a rate of 12.4% of earnings. The Company will commence making contributions to the Scheme at the rate of 20.6% of earnings from April 2015.

Going Concern
Pages 10 to 12 and page 20 of this Report 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.

In May 2015, the Company moved its Banking arrangements to Lloyds Bank. As part of the move, a £10m Authorised Loan Facility was arranged with Lloyds. This facility terminates in May 2018. As highlighted on page 6 the Company meets its day-to-day working capital requirements through this facility.

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 facilities.

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.

STRATEGIC REPORT
Current Performance

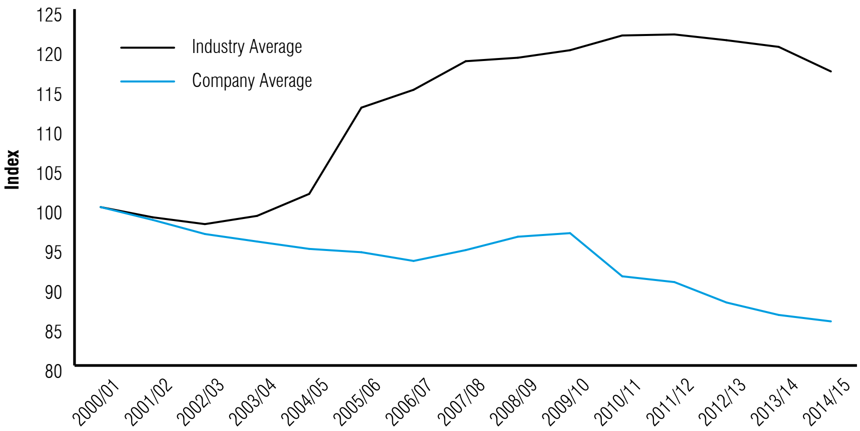
Financial Key Performance Indicators
Gearing (net debt/regulatory capital value) and cash interest cover are recognised as key indicators by Debt Investors. Return on regulated equity is a key indicator for our shareholders. Performance in 2014/15 against the target ratios is shown in the table below.

KPI - 1[1]	Performance 2014/15	Performance 2013/14
Gearing - Debt/RCV[2]	**80.0%**	**81.4%**
Cash interest cover[2]	**1.85**	**1.58**
Return on regulatory equity[2]	**5.7%**	**5.8%**

[1] Each KPI is defined in the Appendix on page 55
[2] Definition of terms is contained in the Appendix on page 55

Water Charges
Portsmouth Water's charges are the lowest in England and Wales, the average annual bill for water being £96 per household, the equivalent of 26p per day. In real terms, the price of water for household customers has fallen by 14.4% over the last 14 years. This compares with a real increase of 17% for the industry as a whole, as illustrated in the chart below, where the 2000/01 prices are indexed at 100.

Comparison of Average Household Bills with Average Industry Tariffs



Portsmouth Water is widely recognised in the industry and by Ofwat for its high levels of customer service.

Customer Service
In the regulatory period 2010-2015, Ofwat introduced the Service Incentive Mechanism (SIM) to measure the performance of companies in relation to customer services. This places greater emphasis on the quality of service received rather than the speed of response. The SIM performance up to 2013/14 was measured by two elements, a survey of customers (Qualitative) and a Quantitative measure based on performance for the items shown in the table below. The weighting of these elements was 50:50. For the next period 2015-2020, Ofwat are changing the weighting to 75:25 in favour of the survey (i.e. what customers think). In addition, the content of the survey has been revised. For 2014/15, Ofwat undertook a new trial of its proposed methodology and in the survey the Company was ranked first in the industry as shown in the table below.

KPI - 2 Customer Service Measure (a) SIM – Customer Survey

	2014/15*	2013/14
Ranking in billing*	**1st**	**3rd**
Ranking in operational matters*	**1st**	**6th**
Overall ranking in industry*	**1st**	**7th**

* Conducted on new methodology

STRATEGIC REPORT
Current Performance

KPI - 2 Customer Service Measures - Quantitative

	Target	Performance 2014/15	Performance 2013/14
Number of properties at risk of inadequate pressure	**66**	**69**	**69**
Supply interruptions Properties affected by unplanned interruptions to supply >12 hours Average supply interruption per property	 **Nil** **6min**	 **8** **8min 44secs**	 **Nil** **5min 5secs**
Population subject to hosepipe bans	**Nil**	**Nil**	**Nil**
Telephone contact - all lines busy* - percentage of calls abandoned* - unwanted calls* - unwanted calls %	**3,000** **6%** **12,000** **6%**	**6,455** **4.68%** **23,400** **11.31%**	**2,970** **5.77%** **26,227** **12.38%**
Number of written complaints per 10,000 connections*	**8.08**	**10.9**	**7.6**

* Part of Ofwat SIM Quantitative Analysis

The number of complaints increased particularly in the first half of the year, although the level is similar to that recorded in 2012/13. There was no one factor or group of factors contributing to this and the Company continue to review all complaints at a senior level to learn lessons. Despite the increase, it is likely that the level of complaints will be the lowest in the Industry. In 2013/14, the average number of complaints for the Industry was 39.8 per 10,000 customers and the next lowest was 12.4 per 10,000 customers.

Member of water quality department analysing water samples for quality purposes.

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 2014	Performance 2013
Compliance samples passing standards (mean zonal compliance)	**99.97%**	**99.97%**	**99.97%**

The water quality performance indicator relates to the calendar year.

Leakage
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 leakage calculation (although not in the methodology) used for a number of years. By not adapting the leakage calculation to take into account operational changes that had been made in day and night time water pressures, we determined that our leakage level was higher than we had been reporting by approximately 6.6 Ml per day for 2011/12. The leakage target, therefore, was missed as a result of a calculation error, rather than as a result of a failure to undertake leakage prevention activity. This was reported immediately to Ofwat and the Company immediately put in place a programme to reduce leakage which began in November 2012.

The leakage recovery programme is now largely complete, although we continue to review our approach to finding leaks. From 2014/15 leakage was, on average, 28.9 Ml/d against a target set by Ofwat at the 2009 Final Determination of 30 Ml/d.

The cost of the recovery programme was met by the shareholders and not by our customers. The cost during 2014/15 amounted to £0.5m of operating cost and £0.2m of capital expenditure.

Portsmouth Water is committed to reducing leakage and, in addition to the work outlined

STRATEGIC REPORT
Current Performance

Portsmouth Water staff carrying out maintenance work on the mains network.

above, invests in the region of £5m annually on renewing our pipe network. Over the past ten years Portsmouth Water has reduced the number of burst mains from 900 to 294 in 2014/15.

KPI - 4 Leakage

Target	Performance 2014/15
Average leakage of less than 30 Ml/d	Average leakage of 28.9 Ml/d

STRATEGIC REPORT
Human Resources

The Company employs 251 people and believes it recruits and retains the right people key to the successful performance of the business.

Gender Diversity
The Company is committed to the principle of gender equality on all employment issues such as recruitment, retention, promotion and pay. The Company has recently signed up to the Government's initiative called "Think Act Report" which aims to promote equality for women in the workplace. The numbers of male and female employees as at the end of the financial year are shown in the table below.

	2015 Male	2015 Female	2014 Male	2014 Female
Directors	**4**	**1**	**5**	**1**
Senior Managers	**13**	**1**	**11**	**-**
Other Employees	**156**	**76**	**154**	**73**
Total	**173**	**78**	**170**	**74**

Ethics Policy
The Company operates a Business Ethics and Anti Bribery Policy which provides a set of principles upon which the Company conducts its business defining what is, and what is not acceptable practice. The Company will endeavour to ensure that a high standard of ethical behaviour is maintained by its employees and that our business, in all operations, allow the rights, freedom and dignity of individuals to be recognised and upheld.

We recognise the UN Universal Declaration of Human Rights and note that the Charter sets out obligations to promote respect and observe human rights and fundamental freedoms for all, without distinction as to race, gender, language or religion.

Disability
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 person with a disability. 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.

Life Assurance and Pensions
All Company employees are provided with life assurance cover and are entitled to join a Company pension scheme.

The Institute of Water visit to the Thames Barrier, with some Portsmouth Water staff in attendance.

Employee Development
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.

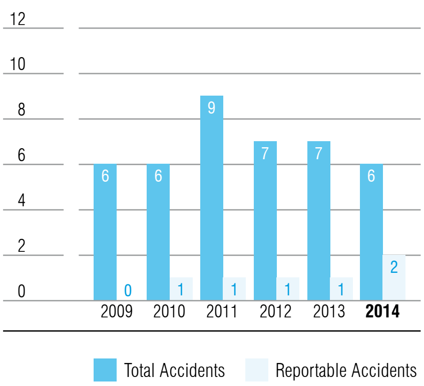
In line with this objective the Company fully supports the principle of Modern Apprenticeships; for example, all new employees within the Customer Services department aged under 25 are employed through the Modern Apprenticeship scheme which leads to a minimum NVQ level 2 qualification with many going 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.

STRATEGIC REPORT
Human Resources

Absence
Total absence for 2014/15 (days per employee per year) was 5.9 (2014 - 5.1). This figure compares favourably with the average for private sector employers, which stands at 6.6 (Source: CIPD: Absence Survey Report 2014).

Total Accidents and Reportable Accidents



Health and Safety
Health and safety 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 calendar year 2014 show very positive results from these efforts, with two reportable accidents (accident causing more than three days' absence) being recorded.

RoSPA Health and Safety Awards
It is pleasing to report that our efforts have again been recognised externally through the RoSPA Health and Safety Awards, by the Company receiving the President's Award. This is in recognition of our approach to Health and Safety over the last 10 years where we have received nine 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.

The Company took part in a sponsored football match with Southern Water in aid of the Rainbow Trust Children's Charity.

STRATEGIC REPORT
Corporate Responsibility

Water Efficiency
In 2010 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.

Pleasingly, at the end of the 5 year period the Company has exceeded the target by achieving overall savings of 1.52 Ml/d resulting in an overall cumulative surplus of 0.07 Ml/d against the Ofwat target.

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. The Water Saving Challenge has seen customers save over 1.3 million litres of water every day.

Catchment Management
Portsmouth Water established 'The Downs and Harbours Clean Water Partnership' in 2008 with Natural England and the Environment Agency. The partnership's objective is to protect and improve drinking water quality as well as 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 has been facilitated by advising land owners and farmers on the best practice for use of fertilisers and overall land management.

For the AMP6 period the principal aim is to understand better the source apportionment of nitrates and subsequent spikes in the groundwater. If successful this will help:

- To reduce the degree of treatment that maybe required in the future
- Contribute to the wider aims of the Water Framework Directive and support the company’s biodiversity obligations

Work in the Community
2014/15 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.

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 in our area of supply. This initiative remains very popular with 35,000 bottles delivered last year and which has seen over 410,000 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 nearly £500,000 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 is committed to ensuring compliance with all environmental legislation and obligations, carefully assessing the impact of its activities, especially construction projects on the environment, to ensure that the impact of such schemes is minimised.

Conservation
The Company’s 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 designations under the EU Habitats Directive and are very popular water activity venues.

During the year we have been working with the Environment Agency and agreed that we will undertake two river restoration schemes, on the River Ems and the River Hamble. In the coming year we will work with the relevant landowners to progress these two schemes. The Company is an active corporate Wildlife Investor with the Hants & IOW Wildlife Trust and is a member of three catchment management partnerships which relate to our area of supply.

Biodiversity Action Plan
As part of our wider commitment to improving environmental quality, we have responsibility to conserve and where possible, enhance biodiversity on the 44 operational sites we own. Sites are located in a variety of habitats including chalk downland, river catchments and coastal margins.

In the year 2014/15 the Company has

- Erected Barn Owl boxes in a disused company building near Slindon and in the Meon Valley at Soberton Water Treatment Works (WTW).
- Provided equipment to help rangers at Titchfield Haven National Nature Reserve erect an Osprey nest.
- Removed willow scrub from a lagoon at the Itchen WTW to enhance the wetland habitat.
- Undertaken woodland edge clearance and erection of bat boxes at Highwood Reservoir.

In addition, company staff have actively embraced a programme of working parties.

- Removing invasive scrub and an old fence from a wetland meadow site adjacent to the River Meon. This enabled the site to be mowed and the grass collected to encourage wildflowers.
- Coppicing areas of hazel woodland at the Itchen WTW site.
- Removal of invasive Himalayan Balsam from the River Itchen SSSI fen.
- Removal of invasive Buddleia from a works site near Fareham.
- Removal of young thorn trees and bramble from a chalk grassland reservoir site near Slindon and at Walderton.

Customer research undertaken as part of our Business Plan demonstrated that customers had a high regard for the environment

STRATEGIC REPORT
Corporate Responsibility

and identified a clear mandate for further action by Portsmouth Water to protect and enhance the environment.

During the preparation of the Business Plan, a presentation was given to the Customer Challenge Group on the proposal to increase the biodiversity budget from £25,000 to £75,000 per year. The proposal received unanimous support from all of the stakeholders present including Natural England, the Environment Agency, South Downs National Park and CCWater. Overall the Company was able to make this commitment in the 2015 to 2020 Business Plan without the need to increase the bills customers will pay.

This funding will allow Portsmouth Water to identify further opportunities to enhance the habitats at our sites to improve biodiversity. Engagement is continuing and in January 2015 stakeholders attended a workshop to help shape the Company plan. This helped us to identify and prioritise projects, or partnership opportunities, which we are now progressing.

A Barn Owl in flight.

STRATEGIC REPORT
Risks and Uncertainties

Risk Management
The Company identifies risks under ten main headings - Operational, Water Quality, Financial, Environmental, Regulatory, Information Technology, Human Resources, Legal (including whistleblowing and fraud), Business Continuity 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 HR Manager. The Directors also receive reports from independent regulatory bodies, which comment on the performance of the core water business.

During the year, the Board has reviewed its tolerance for risk in addition to assessing risk identification and mitigation techniques as they continue with a programme, the objective of which is to ensure risk management is embedded in the 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. The Business Plan for the period 2015 – 2020 includes a plan to build ultra violet (UV) treatment plants at two of our sites which face an increasing risk of 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 carrying value of the loan at 31 March 2015 was £97.7m (2014 - £95.3m).

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 2014/15 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, none of this facility had been drawn (2014 - £5.0m), while the overdraft arrangement remained unutilised. The £10m facility was rearranged in May 2015 and terminates in May 2018. The Company moved its Banking Arrangements to Lloyds Bank plc in May 2015.

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 27 to 29. 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. Following the implementation of the Company's new billing system in 2012, the Auditors undertook a specific review of the new system. This review did not reveal any material weaknesses. 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 8% of total operating costs and fluctuating prices can have a material impact on profitability. The Company has now signed a flexible contract with a firm of energy brokers in order to take advantage of market pricing and to mitigate against the risk premiums inherent in a fixed type of contract.

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. The Company has carried out studies in order to identify the impacts of its abstraction at certain sites and solutions have been identified.

STRATEGIC REPORT
Risks and Uncertainties

The flooding in various parts of the UK in 2012 and 2014 has prompted several national reports. Whilst the Company was not significantly affected in those years, 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 at the Price Review Final Determination, which could result in 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 are discussed on pages 13 to 15.

Competition in the Water Industry
As noted on page 4, all non-household customers will be able to choose their supplier of water retail services. Should a customer wish to change its retailer, the water would still be provided by incumbent water supplier (e.g. Portsmouth Water), but billing, customer service and add-on services would be provided by the new retailer. The total amount of revenue at risk for Portsmouth Water is approximately £0.6m. per annum. The Board are currently reviewing its strategy on how best to take advantage of the new market arrangements.

Information Technology Risk
The Company's computer systems are crucial to the smooth running of the business. Should these systems fail it could have important implications for the business. Therefore the Company seeks to minimise these risks by having a Disaster Recovery (DR) programme in place to enable us to continue working should the systems fail, ensuring all software and hardware is compliant and supported by the manufacturer and that a succession plan is in place for key staff. It is also crucial to manage any change in the business by assessing the IT implications of any such change.

Human Resources Risk
Such risks could be the result of losing key staff for long or short term periods, industrial unrest or breaches of employment or other staff related legislation. The Company mitigates against these risks through its programme of employee development, cross training, succession reviews, working and consulting with the unions and having control procedures and policies in place to ensure that all legislation is complied with.

Governance/Legal Risk
The Company considers that the main legal risks that would be likely to arise would be if it failed to fulfil its responsibilities regarding its licence conditions, legal responsibilities, data protection requirements or failure to demonstrate an appropriate level of governance. The consequence could be prosecution, fines, compensation claims or bad publicity and loss of reputation. The Company mitigates against these risks by continually reviewing and updating policies and procedures, including governance procedures and regularly reviewing the performance of the Company's Reporter and Auditors.

Business Continuity Risk
The risks to business continuity relate primarily to the loss of computer systems (as covered under Information Technology risks above) or water supplies. To mitigate the risk of losing water supplies the Company has a defined Emergency Plan in place which utilises Drinking Water Safety Plan (DWSP) risk assessments.

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 in place, including guidance on lone working
- 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

STRATEGIC REPORT
Responsibility Statement

We confirm that to the best of our knowledge:

– the accounts, prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

– the report and accounts, taken as a whole, provides the information necessary to assess the Company's performance, business model and strategy and is fair, balanced and understandable; and

– the Strategic Report includes a fair review of the development and performance of the business, together with a description of the principal risks and uncertainties.

For and on behalf of the Board

N. Smith
Managing Director

28 May 2015

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

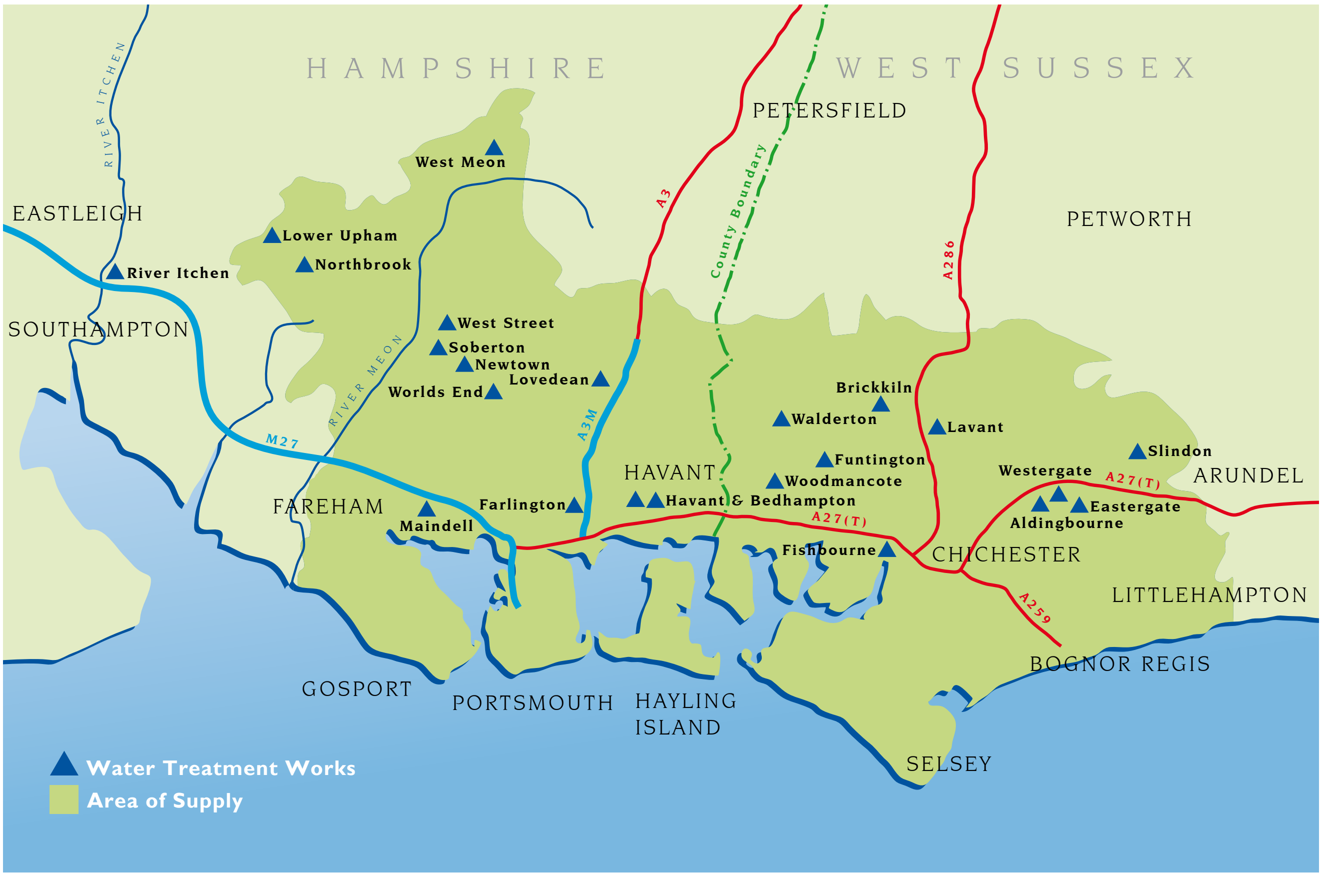
Area of Supply	868 km^2
Population	713,000
Number of Properties Served	312,000
Length of Mains	3,297 km
Average Daily Output	169 Ml

Auditors
Saffery Champness
Lion House
Red Lion Street
London WC1R 4GB

Bankers
Lloyds Bank plc
25 Gresham Street
London
EC2V 7HN

Insurance Brokers
Willis UK
International House
Southampton International Business Park
George Curl Way
Southampton SO18 2RZ

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 698,000, 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 2015.

Principal Activity and Business Review
The principal activity of the Company and a detailed review of its operations, strategy and business model is provided in the Chairman's Statement on page 4 and the Strategic Report on pages 5 to 22.

The Company's Area of Supply is shown on page 24 of this report.

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 Strategic Report on page 20 and in note 18 to the accounts on page 49.

Financial Results and Dividends
The Company's profit before taxation amounts to £3.136m (2014 - £1.329m). After deducting the tax charge of £0.798m (2014 - tax benefit of £2.331m), a profit of £2.338m has been transferred to reserves (2014 - £3.660m).

The Directors are recommending the payment of a final dividend of £0.580m.

Fixed Assets
Capital expenditure on tangible fixed assets was £9.515m (2014 - £10.667m), including £4.499m on infrastructure renewals (2014 - £5.415m). Information relating to these and other changes in fixed assets is shown in note 10 to the accounts on page 46.

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 28 May 2015 are shown on page 3.

Mr. M. P. Kirk who retires by rotation, offers himself for re-election. Mr. M. P. Johnson offers himself for election.

Mr. N. J. Sheeran resigned on 1 January 2015. Mr. T. M. Lazenby MBE retired on 30 September 2014, and Mr. M. P. Johnson was appointed on 1 July 2014.

The interests of the Directors in Group shares are detailed in the Report on Remuneration on page 33.

The Company maintains appropriate Directors' indemnity insurance.

Substantial Shareholder
At 31 March 2015, 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 or via our website at www.portsmouthwater.co.uk.

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 ten years, been awarded nine Gold Awards in the RoSPA Occupational Health and Safety Awards and was also awarded an Industry Sector Award in 2009. In recognition of this the Company has this year been awarded the President's Award.

Environment
The Company is 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 Strategic Report on pages 18 to 19. The total amount of Greenhouse Gas Emissions that resulted from the Company's operations in the financial year is estimated to be 10,944 tonnes of carbon.

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.

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;

DIRECTORS' REPORT

- 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, the Directors are also responsible for preparing a Directors' Report, Strategic 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 2015; and
  - the Directors' Report, Strategic 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
28 May 2015

CORPORATE GOVERNANCE

The Directors are committed to high standards of corporate governance and take the lead from those set out in the UK Corporate Governance Code and guidance issued by Ofwat. This report and the Report on Remuneration details the Company's approach to governance.

COMPLIANCE
In 2014 Ofwat published the principles by which Water Companies should deal with Board leadership, transparency and governance. In March 2014 the Company adopted its own Governance Code which can be found on the Portsmouth Water website. The Board believes that it complies with the principles although the structure of the Board, when at its full complement, does not strictly comply in accordance with the Ofwat guidelines. The Ofwat principles suggest that independent Non-Executives should constitute the largest faction of Directors. The Board of Portsmouth Water, upon the appointment of a Finance and Regulation Director, will consist of three independent Non-Executive Directors (including the Chairman) and three Executive Directors. The Chairman has the casting vote and therefore in principle the independent Non-Executives have the effective majority. We believe that this ensures that the independent Directors have a significantly strong voice in all discussions.

The Board have carefully considered this issue and believe the structure is appropriate. To increase the number of Non-Executives would be an unnecessary expense and the Board believe it is important to have an engineering and finance executive responsibility on the Board. The Board will continue to ensure that compliance with its own Governance Code is maintained in future years.

In addition, the Company will continue to have regard to the UK Corporate Governance Code. There were a number of changes made to this Code in relation to accounting periods beginning on or after 1 October 2014. The Directors have taken the view that the Company should take a pragmatic approach to the new requirements and comply with those that are deemed consistent with the Ofwat principles.

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. M. P. Kirk and the Managing Director is Mr. N. Smith. The Board Senior Independent Non-Executive Director is Mrs. H. V. Benjamin.

Mr. M. P. Kirk was appointed Chairman with effect from 1 October 2014 and he replaced Mr. T. M. Lazenby MBE who retired on 30 September 2014.

The Board meets monthly and has a schedule of matters specifically reserved to it for decision making. 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, authorisation of all contracts over £250,000, 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		
H. V. Benjamin (Chair)	3	3
M. P. Johnson	3	2
M. P. Kirk	3	3
T. M. Lazenby MBE	3	1
Nomination		
M. P. Kirk (Chairman)	1	1
M. P. Johnson	1	1
H. V. Benjamin	1	1
T. M. Lazenby MBE	1	-
N. Smith	1	1
Remuneration		
M. P. Johnson (Chairman)	2	1
H. V. Benjamin	2	2
M. P. Kirk	2	2
T. M. Lazenby MBE	2	1
Full Board		
M. P. Kirk (Chairman)	16	15
H. V. Benjamin	16	15
M. P. Johnson	16	10
T. M. Lazenby MBE	16	9
R. C. Porteous	16	16
N. J. Sheeran	16	10
N. Smith	16	15

The number of meetings attended by Mr. T. M. Lazenby MBE, Mr. M. P. Johnson and Mr. N. J. Sheeran were affected by the fact that Mr. T. M. Lazenby MBE retired on 30 September 2014, Mr. M. P. Johnson was appointed on 1 July 2014 and Mr. N. J. Sheeran resigned on 1 January 2015.

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 currently comprises a Non-Executive Chairman, two

CORPORATE GOVERNANCE

Executive Directors and two other Non-Executive Directors. There is currently a vacancy for a Finance and Regulation Executive Director which the Board expect to fill during 2015. 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 and the ultimate shareholder.

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.

Appointments to the Board
The Nomination Committee comprises the Managing Director, Mr. N. Smith, and the three independent Non-Executive Directors, Mr. M. P. Kirk (Chairman), Mrs. H. V. Benjamin and Mr. M. P. Johnson. 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 once 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 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 30 to 36.

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 Strategic Report.

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 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 2015 and up to the date of approval of the Annual Report and Accounts, that it is regularly reviewed by the Directors. The Board have also set the Risk Appetite for the business and it is reviewed annually.

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 making. 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 and those authorisation levels were reviewed during the past year.

Business, Operational and Compliance Risks
The Company assesses the risks facing its business on an ongoing basis and has identified them under ten main headings - operational, water quality, financial, environmental, regulatory, information technology, health and safety of employees, human resources, legal (including whistleblowing and fraud) and business continuity. 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. Any issues raised in these reports are identified and dealt with in an appropriate manner.

At the Board meeting on 1 May 2015, the Directors carried out their annual assessment, including consideration of events since the year end. They also reviewed the Company's Risk Management Policy

CORPORATE GOVERNANCE

and processes. They agreed that this annual assessment coupled with the Board's ongoing analysis of risks provided an effective Risk Management Strategy.

Audit Committee and Auditors
The Audit Committee comprises the three Non-Executive Directors Mrs. H. V. Benjamin (Chair), Mr. M. P. Kirk and Mr. M. P. Johnson.

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 ensure that controls are in force to ensure the integrity of those practices and to monitor them, 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. During these meetings with the external auditors the Audit Committee have asked to be made aware of significant issues, discovered by the Auditors on the financial statements. No issues have been identified which would have had a material impact on the financial statements.

The Committee has formal Terms of Reference, which deal with 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 non-audit services provided during the year were for advice given on taxation matters and for advice on dealing with statutory reporting, including new accounting standards. These services would be those expected to be provided by the Company's external auditor, with the requisite independence safeguards in place.

The review of the Auditors includes consideration of the audit process, the effectiveness and performance of the audit team, and the output, quality and cost effectiveness of the audit. The last review of the Auditor's independence and objectivity was carried out in 2013.

The current Auditors have been in tenure for eight years, at which time the last formal tender was conducted.

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.

REPORT ON REMUNERATION

The report sets out information on directors' remuneration for the year ended 31 March 2015. The Company is not required to comply with the rules for quoted companies contained within Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 but sets out certain additional information which the Directors consider to be relevant and in line with best practice.

Remuneration Committee
The Remuneration Committee met two times 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. M. P. Johnson (Chair of the Remuneration Committee), Mr. M. P. Kirk and Mrs. H. V. Benjamin. Mr. M. P. Johnson was appointed as Chair on 1 July 2014. Prior to this date Mrs. H. V. Benjamin held the position of Chair of the Remuneration Committee. Mr. T. M. Lazenby MBE retired on 30 September 2014.

Statement of the Chairman of the Remuneration Committee
The principles of our remuneration policy remain unchanged from previous years. During the current financial year the Remuneration Committee have not taken any major decisions to make changes to the directors' remuneration.

Directors' Remuneration Policy
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. 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 their own remuneration.

Revisions to Directors' Remuneration Policy
The Company is not proposing any changes to the current Policy.

REPORT ON REMUNERATION

FUTURE POLICY TABLE

ELEMENT, PURPOSE AND LINK TO STRATEGY	OPERATION, PERFORMANCE MEASURES, DEFERRAL	MAXIMUM OPPORTUNITY
Base Salary (Fixed Pay) To pay a fair salary, commensurate with the individual's role, responsibilities and experience, and having regard to the market rates for similar roles in the water/utility sector and other comparable companies	Reviewed annually, taking account of market salary levels, Company performance, individual performance, changes in responsibility and levels of increase for the broader employee population. The remuneration committee considers the impact of any base salary increase on the total remuneration package.	There is no prescribed maximum salary or maximum rate of increase. The remuneration committee is guided by the general increase for the broader employee population but on occasions may need to recognise, for example, development in role, change in responsibility, specific retention issues, market practice or changes in regulatory requirements. Details of the outcome of the most recent salary review are provided in the annual report on remuneration.
Benefits (Fixed Pay) To provide cost-effective taxable benefits and to support the wellbeing of employees.	The Company currently provides a range of taxable benefits such as medical insurance; life insurance and paid holiday. Specific benefits provision may be subject to minor change from time to time, within this policy.	Taxable benefits are not subject to a specific cap, but represent only a small element of total remuneration. The costs associated with benefits provision are closely monitored and controlled.
Pension (Fixed Pay) To provide market competitive pension arrangements, to assist with recruitment and retention.	Employer contributions are made to appropriate pension schemes.	
Annual bonus (Variable Pay) To reward performance and align Executives' interests to those of shareholders.	Bonus awards to Executive Directors are made each year and are approved by the remuneration committee. Executive bonus awards take account of the Company's key financial and service performance indicators for the relevant financial year. Details of the performance indicators for the most recent financial year and performance against them are provided in the annual report on remuneration.	
Employment contracts, and loss of office To facilitate recruitment and retention, and support pay for performance, by providing fair but not excessive contract features.	Notice periods from the Company are limited to 12 months.	
New Executive Director appointments To facilitate recruitment of necessary talent.	Remuneration for new appointments will be set in accordance with the policy detailed in this table.	

REPORT ON REMUNERATION

Approach to Recruitment Remuneration
The remuneration package for a newly appointed Executive Director is set in accordance with the terms of the Company's approved remuneration policy in force at the time of appointment. The variable remuneration for a new Executive Director is determined in the same way as for existing Executive Directors.

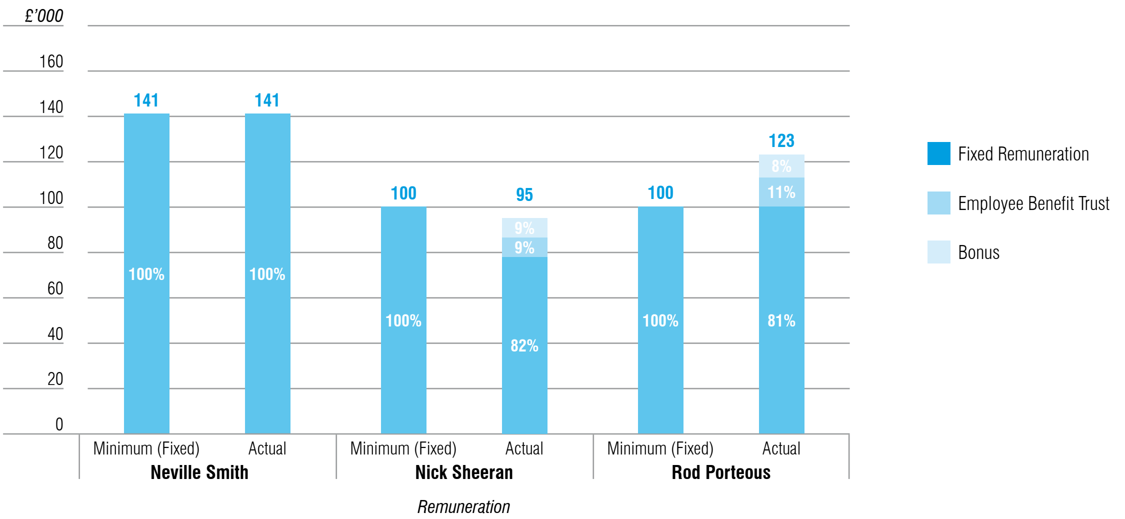
Service Contracts
The Executive Directors have one year service contracts with the Company. None of the Executive Directors serves as a Non-Executive Director for another company. The Non-Executive Directors do not have service contracts.

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.

The Remuneration Committee periodically reviews the contractual terms for new Executive Directors to ensure that these reflect best practice.

Illustration of Application of Remuneration Policy
The table below illustrates the minimum (fixed) remuneration, and provides an indication of the total remuneration for a year using the annual bonus and Employee Benefit Trust payment figures for the year ended 31 March 2015 and the base salaries effective 1 April 2014.

Relative Sizes of Remuneration Components



Statement of Consideration of Employment Conditions Elsewhere in the Company
The remuneration approach for the Executive Directors is broadly consistent with that for employees across the Company as a whole. However, the exception is that general employees do not receive an annual performance related bonus. However all employees, apart from the Managing Director, do receive their twice annual payment from the Employment Benefit Trust (EBT). The EBT owns a controlling interest in the Company's shares on behalf of the employees. Payments are made to all employees in June and November each year.

REPORT ON REMUNERATION

Annual Report on Remuneration

Directors Remuneration as a Single Figure (Audited Information)

Remuneration is analysed by director below:

	Salary/Fees £000	Benefits £000	Bonus Scheme £000	EBT £000	Pension £000	**Total 2015 £000**	Total 2014 £000
Executive:							
R. C. Porteous	100	13	10	13	47	**183**	202
N. J. Sheeran (resigned 1 January 2015)	77	9	9	9	-	**104**	129
N. Smith	141	19	-	-	63	**223**	225
Non-Executive:							
H. V. Benjamin	24	-	-	-	-	**24**	23
M. Johnson (appointed 1 July 2014)	18	-	-	-	-	**18**	-
M. P. Kirk	30	-	-	-	-	**30**	23
T. M. Lazenby MBE (Chairman) (retired 30 September 2014)	18	-	-	-	-	**18**	36
	408	41	19	22	110	**600**	638

Fees paid in respect of Mr. T. M. Lazenby MBE were paid to Seamab Consultancy Limited.

Long-term bonus schemes
The Company operates a long-term performance linked bonus scheme. This element of bonus is linked to five year targets and is based upon achievements at the end of that five year period.

Share options
The Company does not operate an Executive Share Option Scheme.

Directors' interests (Audited information)
The Directors' beneficial holdings of shares in South Downs Capital Limited, the ultimate parent undertaking, are detailed below and, in total, represent 8% of the issued share capital of this holding Company. They have no direct interests in the shares of Portsmouth Water Limited.

	'C' Ordinary Shares
N. Smith	450

There have been no changes to this shareholding between the 31 March 2015 and the date of this report.

Directors' emoluments waived during the year
There were no Directors' emoluments waived during the year.

Taxable benefits
Benefits comprise company cars and medical insurance.

The table below provides a breakdown of taxable benefits provided to directors in the period.

	2015 £000	2014 £000
Car and Fuel benefit	**36**	37
Medical insurance	**5**	4
Total	**41**	41

Variable pay/performance measured pay for Executive Directors

Short term annual bonus scheme
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 and is paid in the form of a payment at the end of the year.

The Executive Directors can earn up to 30% of basic salary for the performance related element, with a third of this being for long term performance and is held until the end of the current price control period. The assessment of this element is based upon:

– 17% based on Customer Service performance including meeting the outputs agreed at the Final Determination 2009 and being a top

REPORT ON REMUNERATION

performer in the Service Incentive Mechanism
- 17% Personal Objectives
- 33% Financial and Business Objectives
- 33% Long-term objectives. Paid in 2015 if achieved, yet to be assessed and therefore not included in the table below

For 2015 - 2020 the Company's long term objectives are to meet the Outcomes agreed with the regulator (Ofwat), as covered in the Strategic Report on page 5.

The achievements were:	% of salary (out of possible 20%)	Bonus £000
R. C. Porteous	12.5%	12
N. J. Sheeran	-	-

The Managing Director does not receive a performance related element. This has been waived due to his shareholding in the holding company, South Downs Capital Limited.

Relative weighting of performance measures as described above for variable pay.

	Customer Service *Measure 1* %	Personal Objectives *Measure 2* %	Financial/ Business Objectives *Measure 3* %	Long-Term Objectives *Measure 4* %	Total %
R. C. Porteous	17	17	33	33	100
N. J. Sheeran	17	17	33	33	100
N. Smith	N/A	N/A	N/A	N/A	N/A

The above weightings convert into maximum percentages of salary payable as follows:

	Customer Service *Measure 1* %	Personal Objectives *Measure 2* %	Financial/ Business Objectives *Measure 3* %	Long-Term Objectives *Measure 4* %	Total %
R. C. Porteous	5%	5%	10%	10%	30%
N. J. Sheeran	5%	5%	10%	10%	30%
N. Smith	N/A	N/A	N/A	N/A	N/A

Summary of directors' performance targets and maximum variable pay achievable.

	Target %	Customer Service Measure 1 Value £	Target %	Personal Objectives Measure 2 Value £	Target %	Financial/Business Objectives Measure 3 Value £	Target %	Long-Term Objectives Measure 4 Value £	Maximum Variable Pay Achievable **2015**	2014
R. C. Porteous	5	4,986	5	4,986	10	9,972	10	9,972	**19,944**	19,000
N. J. Sheeran	5	4,986	5	4,986	10	9,972	10	9,972	**19,944**	19,600
N. Smith	N/A	-	N/A	-	N/A	-	N/A	-	**-**	-

Summary of directors' performance against measures set for the period.

	Achieved	Customer Service Measure 1 Value £	Achieved	Personal Objectives Measure 2 Value £	Achieved	Financial/Business Objectives Measure 3 Value £	Achieved	Long-Term Objectives Measure 4 Value £	Variable Pay Achieved **2015**	2014
R. C. Porteous	3%	2,991	4%	3,989	5.5%	5,484	-	-	**12,464**	9,975
N. J. Sheeran	0%	-	0%	-	0%	-	-	-	**-**	9,310
N. Smith	N/A	-	N/A	-	N/A	-	N/A	-	**-**	-

All variable pay has been awarded in accordance with the remuneration policy and criteria outlined at the commencement of the period. No discretion has been exercised over any variable pay awarded.

Mr. R. C. Porteous and Mr. N. J. Sheeran also received payment from the Employee Benefit Trust on the same basis as other employees. Mr. N. Smith, as a shareholder of the Parent Company, is not entitled to payments from the Employee Benefit Trust.

REPORT ON REMUNERATION

Pension Entitlements (Audited Information)
The Company participates in the Brockhampton Pension Scheme to provide pension 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 benefit scheme, during the year as detailed below:

	Value of increase in scheme benefit 2014/15 £000	**Directors Contributions 2014/15 £000**	**Total included in single figure remuneration table 2014/15 £000**	Value of increase in scheme benefit 2013/14 £000	Directors Contributions 2013/14 £000	Total included in single figure remuneration table 2013/14 £000	**Accrued Pension 31/03/15 £000pa**	Accrued Pension 31/03/14 £000pa
R. C. Porteous[1]	**52**	**5**	**47**	76	4	72	**50**	46
N. Smith[2]	**71**	**8**	**63**	76	8	68	**88**	83

The value of the increase in accrued pension in excess of inflation, less each Directors' own contributions is included in the Directors' single figure remuneration table on page 33 of this report.

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.

[1]The pensionable salary used to calculate Mr. R. C. Porteous' accrued pension excludes £21,215 (2013/14 - £21,000) of non-pensionable salary.
[2]The pensionable salary used to calculate Mr. N. Smith's accrued pension excludes nil (2013/14 - £4,000) of non-pensionable salary.

No additional benefits will become available to directors who retire early. For further details regarding each of the pension schemes, please refer to note 28 in the financial statements.

Mr. N. J. Sheeran was a member of the defined contribution scheme. Contributions amounting to £1,649 were made on his behalf by the Company in the year. The Non-Executive Directors are not members of either of the pension schemes.

Payments to Past Directors
No payments requiring disclosure were made to past directors during the period.

Payments for Loss of Office
Payments were made in respect of compensation for loss of office amounting to £69,000 (2014 - £nil), made up of both cash and an asset transfer.

Remuneration of the Managing Director
The table below summarises the remuneration of the Managing Director for each of the last five financial years. The Managing Director does not receive a performance related element of remuneration. These figures do not include amounts accruing under defined benefit pension arrangements as the figures for historic years are not readily available.

Year ending 31 March:	2011	2012	2013	2014	**2015**
Total remuneration excluding pension (£000)	166	137	153	157	**160**

The above figures for Managing Directors remuneration are in respect of Mr. N. J. Roadnight for the year 2011 and in respect of Mr. N. Smith for all following years. The year 2012 represents only part of the year for Mr. N. Smith as Managing Director, as he was appointed as Managing Director in December 2011, on the retirement of Mr. N. J. Roadnight.

Percentage Change in Remuneration of the Managing Director
The following table shows the percentage change in the base salary, benefits and annual bonus of the Managing Director between the current and previous financial year compared to the average for all employees of the Company.

% change in:	Managing Director	Average for all employees
Base salary[1]	1.75%	2.6%
Benefits[2]	0%	0%
Annual bonus[3]	N/A	N/A

REPORT ON REMUNERATION

[1]This increase represents the annual pay award.
[2]There were no changes made to the underlying value of benefit payments provided during the year.
[3]This does not include payments made to employees from the Employee Benefit Trust.

Statement of Implementation of Remuneration Policy in the Following Financial Year
The Remuneration Committee intends to continue to apply broadly the same key performance metrics as in the previous year and to assess performance taking account of strategic and annual expectations for the Company.

Approval
This report was approved by the Board on 28 May 2015 and will be subject to shareholder approval at the Annual General Meeting to be held on 30 July 2015.

M. P. Johnson
Chair of the Remuneration Committee

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 2015, 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 on pages 41 to 53 and the part of the report on remuneration to be audited. 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 Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2015 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 information given in the Strategic Report and 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 Report on Remuneration 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 2015

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2015

	Notes	2015 £000	2014 £000
Turnover	2	**38,271**	37,109
Cost of sales		**(20,839)**	(20,225)
Gross profit		**17,432**	16,884
Net operating expenses	3	**(11,490)**	(10,998)
Operating profit		**5,942**	5,886
Profit/(loss) on sale of fixed assets		**3**	(10)
Profit on ordinary activities before exceptional item		**5,945**	5,876
Exceptional item	10	**-**	(611)
Profit on ordinary activities before interest		**5,945**	5,265
Interest receivable	5	**974**	961
Other finance income	28	**2,323**	1,636
		9,242	7,862
Interest payable and similar charges	6	**(6,106)**	(6,533)
Profit on ordinary activities before taxation	7	**3,136**	1,329
Taxation on profit on ordinary activities	8	**(798)**	2,331
Profit for the financial year	20	**2,338**	3,660

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 2015

	Notes	2015 £000	2014 £000
Profit for the financial year		**2,338**	3,660
Actuarial (loss) on pension scheme	28	**(10,825)**	(932)
Deferred tax relating to actuarial loss on pension scheme	17	**2,165**	186
Effect of change to corporation tax rate on pension asset	17	**-**	(576)
Total recognised gains and losses relating to the year		**(6,322)**	2,338

The accompanying notes form an integral part of these accounts.

BALANCE SHEET
As at 31 March 2015

	Note	**2015 £000**	**2015 £000**	2014 £000	2014 £000
Fixed assets					
Tangible assets	10	**99,119**		100,043	
Investments	11	**56,334**	**155,453**	59,384	159,427
Current assets					
Stocks		**744**		544	
Debtors	12	**7,030**		6,760	
Investments	13	**2**		2	
Cash at bank and in hand	14	**6,776**		4,503	
		14,552		11,809	
Creditors: amounts falling due within one year	15	**(15,083)**		(19,118)	
Net current liabilities			**(531)**		(7,309)
Total assets less current liabilities			**154,922**		152,118
Creditors: amounts falling due after more than one year	16		**(96,673)**		(94,216)
Provisions for liabilities	17		**(8,363)**		(8,021)
Net assets excluding pension asset			**49,886**		49,881
Pension asset	28		**9,030**		16,130
Net assets including pension asset			**58,916**		66,011
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		**53,049**		60,144
Shareholders' funds	21		**58,916**		66,011

The accompanying notes form an integral part of these accounts.
The accounts were authorised for issue and approved by the Board on 28 May 2015, and signed on its behalf by;

M. P. Kirk
Chairman

Company Number: 2536455

CASH FLOW STATEMENT

For the year ended 31 March 2015

	Notes	2015 £000	2015 £000	2014 £000	2014 £000
Net cash inflow from operating activities	22		**15,558**		15,140
Returns on investments and servicing of finance					
Interest received		**974**		964	
Interest paid		**(3,657)**	**(2,683)**	(3,602)	(2,638)
Taxation					
UK corporation tax refund/(paid)		**19**		(110)	
Payments for group relief		**5**	**24**	(302)	(412)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(9,230)**		(11,684)	
Sale of tangible fixed assets		**10**		3	
Capital contributions received		**1,317**	**(7,903)**	1,056	(10,625)
Equity dividends paid			**(773)**		(1,107)
Cash inflow before management of liquid resources and financing			**4,223**		358
Management of liquid resources					
Sale/(purchase) of short term deposits		**1,757**		(44)	
Sale of investments		**-**	**1,757**	2	(42)
Financing					
Repayment of loans		**(5,000)**		-	
Loan repayment from Group company		**3,050**	**(1,950)**	84	84
Increase in cash in the year	23		**4,030**		400

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 Conduct 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	5-10 years

(iii) Impairment
The values of fixed assets are reviewed regularly to determine whether their carrying amounts exceed their fair values in use. Where such an excess is believed to exist it is treated as an impairment loss and charged to the profit and loss account.

(iv) Assets in the course of construction
Assets in the course of construction are included in tangible fixed assets at cost but are not depreciated until they come into use.

(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 46. 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.

NOTES TO THE ACCOUNTS

(d) Investments

Investments are stated at the lower of cost or net realisable value.

(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) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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 52 and 53.

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

(j) Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefits will be required to settle the obligation. The effect of the time value of money, except in the case of deferred tax as mentioned in note (f) above, is not material and therefore the provisions are not discounted.

2 Turnover	**2015**	2014
	£000	£000
Unmeasured supplies	**21,417**	21,396
Measured supplies	**15,151**	14,294
Bulk supply to Southern Water Services	**226**	631
Chargeable work	**1,477**	788
	38,271	37,109

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

3 Net operating expenses	**2015**	2014
	£000	£000
Administrative expenses	**11,893**	11,359
Other operating income	**(403)**	(361)
	11,490	10,998

4 Directors and employees

	2015	2014
Employment costs:	**£000**	£000
Wages and salaries	**8,208**	7,755
Social security costs	**711**	662
	8,919	8,417
Defined benefit pension costs (note 28)	**1,312**	1,392
Defined contribution pension costs (note 28)	**109**	53
	10,340	9,862
Transferred to capital schemes	**(577)**	(496)
Net employment costs charged to the profit and loss account	**9,763**	9,366

	2015	2014
Average numbers employed during year:	**Number**	Number
Operations	**152**	151
Administration	**94**	87
	246	238

Directors' remuneration:	**Highest Paid Director 2015 £000**	Highest Paid Director 2014 £000	**Total 2015 £000**	Total 2014 £000
Total remuneration	**160**	157	**490**	498
Pension scheme benefit	**63**	68	**110**	140
	223	225	**600**	638

Payments were made in respect of compensation for loss of office amounting to £69,000 (2014 - £nil), made up of both cash and an asset transfer.

No Directors are accruing benefits under defined contribution schemes (2014 - 1). The number of directors for whom retirement benefits are accruing under defined benefit pension schemes amounted to 2 (2014 - 2).

Further details relating to Directors' remuneration are set out in the Report on Remuneration on pages 30 to 36. The information set out in that Report which is subject to audit forms part of these financial statements.

NOTES TO THE ACCOUNTS

5 Interest receivable	2015 £000	2014 £000
Loan to Group company	**955**	948
Interest on short term deposits	**9**	8
Other interest receivable	**10**	5
	974	961

6 Interest payable and similar charges		2015 £000	2014 £000
£66.5m. loan	- interest	**3,517**	3,409
	- indexation	**2,400**	2,900
	- amortisation of fees	**57**	57
	- administration expenses	**44**	25
		6,018	6,391
Other bank loans and overdraft		**75**	129
Debenture stocks		**10**	10
Other interest payable		**3**	3
		6,106	6,533

7 Profit on ordinary activities before taxation		2015 £000	2014 £000
Profit on ordinary activities is after charging:			
Depreciation	- infrastructure assets	**5,261**	5,177
	- non infrastructure assets	**3,844**	3,770
Rates		**2,023**	2,018
Water abstraction charges		**1,327**	1,327
Hire of plant and machinery		**8**	6
Other operating leases		**241**	339
Auditors' remuneration:			
Fees payable to the Company's auditor for the audit of the annual accounts		**31**	31
Fees payable to the Company's auditor for other services:			
	- audit-related assurance services	**21**	7
	- taxation compliance services	**4**	6
	- other non audit services	**19**	20
Fees in respect of the Brockhampton Pension Scheme			
	- audit*	**3**	2

* These fees are not paid by Portsmouth Water Limited.

NOTES TO THE ACCOUNTS

8 Taxation	2015 £000	2014 £000
Current tax		
United Kingdom corporation tax at 21% (2014 - 23%)	**67**	(5)
Adjustment in respect of prior periods	**-**	(4)
	67	(9)
Deferred tax		
Origination and reversal of timing differences	**281**	276
Decrease/(increase) in discount	**61**	(461)
Effect of change to corporation tax rate	**-**	(1,208)
Difference between pension cost charge and pension cost relief	**389**	243
Effect of change to corporation tax rate on pension asset	**-**	(1,172)
	731	(2,322)
Tax on profit on ordinary activities	**798**	(2,331)

The tax charge for the year is lower (2014 - lower) than the standard rate of corporation tax in the UK of 21% (2014 - 23%). The difference is explained as follows:

	2015 £000	2014 £000
Profit on ordinary activities before tax	**3,136**	1,329
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 21% (2014 - 23%)	**659**	306
Effect of:		
Expenses not deductible for tax purposes	**4**	148
Capital allowances for the period in excess of depreciation	**(205)**	(200)
Revenue items charged to capital	**18**	20
Difference between pension cost charge and pension cost relief	**(409)**	(279)
Adjustments to tax charge in respect of prior periods	**-**	(4)
Current tax charge for year	**67**	(9)

9 Dividends	2015 £000	2014 £000
Equity: Ordinary/'A' Ordinary		
First interim paid	**578**	556
Second interim paid	**-**	551
Final paid	**195**	-
	773	1,107

The Directors are proposing the payment of a final dividend of £0.580m for the year ended 31 March 2015. 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 2014	52,691	140,226	40,836	19,668	253,421
Additions	268	5,812	1,213	2,222	9,515
Disposals	(1)	(516)	-	(975)	(1,492)
At 31 March 2015	**52,958**	**145,522**	**42,049**	**20,915**	**261,444**
Depreciation					
At 1 April 2014	11,293	85,555	20,391	13,072	130,311
Charge for year	526	5,261	1,665	1,653	9,105
Disposals during year	(1)	(516)	-	(958)	(1,475)
At 31 March 2015	**11,818**	**90,300**	**22,056**	**13,767**	**137,941**
Net book value					
At 31 March 2015	**41,140**	**55,222**	**19,993**	**7,148**	**123,503**
At 31 March 2014	41,398	54,671	20,445	6,596	123,110
Capital contributions					
At 1 April 2014	-	23,067	-	-	23,067
Received during year	-	1,317	-	-	1,317
At 31 March 2015	**-**	**24,384**	**-**	**-**	**24,384**
Net book value after deducting capital contributions					
At 31 March 2015	**41,140**	**30,838**	**19,993**	**7,148**	**99,119**
At 31 March 2014	41,398	31,604	20,445	6,596	100,043

Assets in the course of construction

Included in the above are assets in the course of construction as follows:

	Freehold land, buildings & reservoirs £000	Mains £000	Pumping plant £000	Vehicles, mobile plant & office equipment £000	Total £000
Cost					
At 1 April 2014	45	-	-	764	809
Additions	133	-	497	443	1,073
At 31 March 2015	**178**	**-**	**497**	**1,207**	**1,882**
Depreciation					
At 1 April 2014	-	-	-	-	-
Charge for year	-	-	-	39	39
At 31 March 2015	**-**	**-**	**-**	**39**	**39**
Net book value					
At 31 March 2015	**178**	**-**	**497**	**1,168**	**1,843**
At 31 March 2014	45	-	-	764	809

No depreciation has so far been provided on the above cost, with the exception of certain elements of the Works and Asset Management System, part of which has now been brought into use.

Included within freehold land, buildings and reservoirs at cost was an amount of £0.611m relating to a capital project involving the design and construction of a winter storage reservoir at Havant Thicket. Costs incurred to date were in respect of initial design, planning application and environmental impact studies. This project is unlikely to start in the foreseeable future and therefore the expenditure is considered to have no economic benefit. An impairment provision was therefore made in the year 2014 for this amount and was shown as an exceptional item in the profit and loss account on page 38. An earlier impairment provision of £1.086m had been made as at the 31 March 2011, therefore the total costs to date relating to this project of £1.697m have been taken as impaired and provided for.

11 Fixed asset investments	Loans to Group undertakings £000
At 1 April 2014	**59,384**
Repayment	**(3,050)**
At 31 March 2015	**56,334**

NOTES TO THE ACCOUNTS

12 Debtors	**2015**	2014
	£000	£000
Trade debtors	**3,368**	3,137
Amounts owed by Group companies	**15**	28
Prepayments and accrued income	**3,190**	3,083
Other debtors	**457**	512
	7,030	6,760

All of the above amounts fall due within one year.

As at 31 March 2015, trade debtors had a carrying value of £6.723m (2014 - £5.916m) 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 £3.355m as at 31 March 2015 (2014 - £2.779m).

The ageing of these debtors was as follows:	**2015**	2014
	£000	£000
Up to 12 months	**4,061**	3,426
Over 12 months	**2,662**	2,490
	6,723	5,916

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:	**2015**	2014
	£000	£000
At 1 April 2014	**2,779**	2,599
Provision for bad debt required in the year	**1,125**	665
Debt written off in the year as uncollectable	**(549)**	(485)
At 31 March 2015	**3,355**	2,779

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**
	£000
At 1 April 2014 and 31 March 2015	**2**

14 Cash at bank and in hand

Of the total amount shown of £6.776m, £1.777m (2014 - £1.757m) is held specifically for the payment of the next half yearly loan interest charges.

15 Creditors: amounts falling due within one year	**2015**	2014
	£000	£000
3% Perpetual debenture stock	**60**	60
3½% Perpetual debenture stock	**185**	185
4% Perpetual debenture stock	**39**	39
Bank loan	**-**	5,000
Payments received on account	**2,743**	2,320
Trade creditors	**1,382**	752
Amounts owed to Group companies	**1,522**	1,506
Social security and other taxation	**252**	235
Other creditors	**1,710**	1,941
Accruals	**598**	654
Water rates in advance	**6,592**	6,426
	15,083	19,118

The £5.0m bank loan in 2014 was part of a three year £10m working capital facility, which was secured upon the assets of the Company and bore interest at London Interbank rates.

NOTES TO THE ACCOUNTS

16 Creditors: amounts falling due after more than one year	2015 £000	2014 £000
In five years or more:		
Bank loan	**97,668**	95,268
Less: deferred arrangement costs	**995**	1,052
	96,673	94,216

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	2015 £000	2014 £000
Deferred taxation:		
At 1 April 2014	**8,021**	9,414
Charged during the year in profit and loss account	**342**	(1,393)
At 31 March 2015	**8,363**	8,021

The total deferred tax balance before the effect of discounting is £9.270m (2014 - £8.989m). The amount provided for deferred taxation represents timing differences caused by the excess of tax allowances over depreciation.

	2015 £000	2014 £000
Deferred tax excluding that relating to pension asset:		
Accelerated capital allowances	**8,363**	8,021
Pension asset (note 28)	**2,257**	4,033
Total provision for deferred tax	**10,620**	12,054
At 1 April 2014	**12,054**	13,986
Deferred tax charge in profit and loss account (note 8)	**731**	(2,322)
Deferred tax charged to the statement of total recognised gains and losses	**(2,165)**	390
At 31 March 2015	**10,620**	12,054

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 £0.495m (2014 - £0.495m). At present it is not envisaged that any tax will become payable in the foreseeable future.

NOTES TO THE ACCOUNTS

18 Financial instruments

Page 20 of the Strategic Report 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 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 2015 is detailed below:

Sterling	**2015 £000**	2014 £000
Assets		
Fixed asset investment	**56,334**	59,384
Current asset investments	**2**	2
Cash at bank and in hand	**6,776**	4,503
	63,112	63,889

Sterling	**Fixed Rate 2015 £000**	Fixed Rate 2014 £000	**Floating Rate 2015 £000**	Floating Rate 2014 £000	**Total 2015 £000**	Total 2014 £000
Liabilities						
Bank loans and overdraft	**96,673**	94,216	**-**	5,000	**96,673**	99,216
Debenture stock	**284**	284	**-**	-	**284**	284
	96,957	94,500	**-**	5,000	**96,957**	99,500

Fixed rate	**Weighted Average Interest Rate % 2015**	Weighted Average Interest Rate % 2014	**Weighted Average Period for which Rate is Fixed Years 2015**	Weighted Average Period for which Rate is Fixed Years 2014
Sterling	**3.6**	3.6	**17**	18

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 2015 is detailed below:

	2015 £000	2014 £000
In one year or less	**284**	5,284
In more than five years	**96,673**	94,216
	96,957	99,500

The Company had undrawn committed borrowing facilities at 31 March 2015, in respect of which all conditions precedent had been met, as follows:

	2015 £000	2014 £000
Expiring within one year	**14,000**	-
Expiring between one and two years	**-**	9,000

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

NOTES TO THE ACCOUNTS

19 Called up share capital	2015 £000	2014 £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 2014	1,539	3,250	60,144
Profit for the financial year	-	-	2,338
Dividends	-	-	(773)
Actuarial (loss) on pension scheme	-	-	(10,825)
Movement on deferred tax relating to pension scheme	-	-	2,165
At 31 March 2015	**1,539**	**3,250**	**53,049**

21 Reconciliation of movements in shareholders' funds	2015 £000	2014 £000
Profit for the financial year	**2,338**	3,660
Dividends	**(773)**	(1,107)
	1,565	2,553
Actuarial (loss) on pension scheme	**(10,825)**	(932)
Movement on deferred tax relating to pension scheme	**2,165**	186
Effect of change to corporation tax rate on pension asset	**-**	(576)
Net (reduction)/addition to shareholders' funds	**(7,095)**	1,231
Opening shareholders' funds	**66,011**	64,780
Closing shareholders' funds	**58,916**	66,011

22 Reconciliation of operating profit to net cash inflow from operating activities	2015 £000	2014 £000
Operating profit	**5,942**	5,886
Notional pension costs	**374**	421
Depreciation charge	**9,105**	8,947
Loss on disposal of asset	**10**	-
(Increase)/decrease in stocks	**(200)**	45
(Increase) in debtors	**(294)**	(1,662)
Increase in creditors	**621**	1,503
Net cash inflow from operating activities	**15,558**	15,140

NOTES TO THE ACCOUNTS

23 Reconciliation of net cash flow to movement in net debt	**2015**	2014
	£000	£000
Increase in cash in the year	**4,030**	400
Cash (inflow)/outflow from (decrease)/increase in liquid resources	**(1,757)**	42
Cash outflow from decrease in debt	**5,000**	-
Change in net debt resulting from cash flows	**7,273**	442
Non cash movement	**(2,457)**	(2,957)
Movement in net debt in the year	**4,816**	(2,515)
Net debt at 1 April 2014	**(94,995)**	(92,480)
Net debt at 31 March 2015	**(90,179)**	(94,995)

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 2014 £000	Cash Flow £000	Non cash Movements £000	**At 31 March 2015 £000**
Cash at bank and in hand	2,746	4,030	-	**6,776**
Debt falling due within one year	(5,284)	5,000	-	**(284)**
Debt falling due after one year	(94,216)	-	(2,457)	**(96,673)**
	(99,500)	5,000	(2,457)	**(96,957)**
Short term deposits	1,757	(1,757)	-	**-**
Current asset equity investments	2	-	-	**2**
	1,759	(1,757)	-	**2**
	(94,995)	7,273	(2,457)	**(90,179)**

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

25 Capital commitments	**2015**	2014
	£000	£000
Contracted for but not provided in these financial statements	**2,649**	2,649

The Company has a further commitment under operating leases relating to computer hardware and associated software of £0.192m per annum (2014 - £0.192m) which expire as set out below:

	2015	2014
	£000	£000
Within one to two years	**192**	-
Within two to five years	**-**	192

26 Contingent liabilities

There were no reportable contingent liabilities at 31 March 2015 or at 31 March 2014.

27 Ultimate parent undertaking

At 31 March 2015 the Company's ultimate parent undertaking was South Downs Capital Limited, which is the parent of both the smallest and largest groups of which the Company is a member. There is no ultimate controlling party but South Downs Capital Limited is controlled by the Directors of the Employee Benefit Trust which is the ultimate controlling shareholder. Copies of the consolidated 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 2013 was updated to 31 March 2015 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 during the year commencing 1 April 2015 is £1.4m (2014 actual - £1.0m). Of this amount, £1.1m is contributed directly by the Company and £0.3m is contributed by employees by salary sacrifice under the SMART arrangement.

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

	2015 % per annum	2014 % per annum	2013 % per annum
RPI inflation	**3.1**	3.5	3.5
CPI inflation	**2.2**	2.6	2.6
Discount rate	**3.2**	4.3	4.3
Pension increases	**2.2**	2.6	2.6
Salary growth	**5.35**	5.75	5.75

On the basis of the assumptions used for life expectancy, a male pensioner currently aged 65 would be expected to live for a further 23.7 years (2014 - 23.6 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:

	2015 Fair Value £000	2014 Expected Return % per annum	2014 Fair Value £000	2013 Expected Return % per annum	2013 Fair Value £000
Equities	**63,285**	7.4	65,741	6.9	63,599
Absolute return fund	**8,912**	5.2	9,004	6.2	8,420
Bonds	**58,372**	3.4	48,819	2.9	50,361
Property	**4,102**	5.5	4,422	4.9	3,611
Cash and other	**9,544**	1.3	6,625	0.4	6,930
	144,215	5.4	134,611	4.9	132,921

An expected return on assets assumption is not required at 31 March 2015 as this is the last reporting date under FRS 17, and this assumption is not required under the new standards.

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.

	2015 £000	2014 £000
Total fair value of scheme assets	**144,215**	134,611
FRS 17 value of scheme liabilities	**132,928**	114,448
Gross pension asset	**11,287**	20,163
Related deferred tax liability	**2,257**	4,033
Net pension asset	**9,030**	16,130

Under FRS 17, the scheme is represented on the balance sheet at 31 March 2015 by an asset of £11.287m (2014 - £20.163m), which amounts to £9.030m net of deferred tax (2014 - £16.130m).

The Company paid contributions at a rate of 12.4% of earnings. Members pay contributions at a rate of 5% of earnings via salary sacrifice. The Company will commence the payment of contributions at the rate of 20.6% of earnings from 1 April 2015.

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 £108,910 (2014 - £52,778).

NOTES TO THE ACCOUNTS

The FRS 17 value of scheme liabilities moved over the period as follows:	2015 £000	2014 £000
Opening scheme liabilities	**114,448**	113,041
Employer's part of current service cost	**1,312**	1,392
Interest cost	**4,864**	4,814
Contributions by scheme participants	**-**	-
Benefits paid	**(3,987)**	(3,579)
Actuarial (gain)/loss	**16,291**	(1,220)
Closing scheme liabilities	**132,928**	114,448

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

	2015 £000	2014 £000
Opening fair value of scheme assets	**134,611**	132,921
Expected return on assets	**7,187**	6,450
Contributions by scheme participants	**-**	-
Contributions by the Company, including employee contributions under the SMART arrangement	**938**	971
Benefits paid	**(3,987)**	(3,579)
Actuarial gain/(loss)	**5,466**	(2,152)
Closing fair value of scheme assets	**144,215**	134,611

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

	2015 £000	2014 £000
Current service cost (employer's part only)	**1,312**	1,392
Past service cost	**-**	-
Total operating charge	**1,312**	1,392

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

	2015 £000	2014 £000
Expected return on pension scheme assets	**7,187**	6,450
Interest on pension scheme liabilities	**(4,864)**	(4,814)
Net return	**2,323**	1,636
Total return recognised in the profit and loss account	**1,011**	244

The following amounts have been recognised within the Statement of Total Recognised Gains and Losses (STRGL) under FRS 17:

	2015 £000	2014 £000
Actual return less expected return on scheme assets	**5,466**	(2,152)
Experience gains arising on scheme liabilities	**285**	1,003
(Loss)/gain due to changes in assumptions underlying the FRS 17 value of scheme liabilities	**(16,576)**	217
Actuarial (loss) recognised in the STRGL	**(10,825)**	(932)

The actual return on plan assets was an increase of £12.653m in the year to 31 March 2015 (2014 - increase of £4.298m).

The history of experience gains and losses is:

	2015	2014	2013	2012	2011
Present value of scheme liabilities (£000)	**(132,928)**	(114,448)	(113,041)	(104,097)	(91,313)
Total fair value of scheme assets (£000)	**144,215**	134,611	132,921	123,662	120,037
Gross pension asset (£000)	**11,287**	20,163	19,880	19,565	28,724
Actual return less expected return on scheme assets (£000)	**5,466**	(2,152)	6,714	(1,326)	1,181
Percentage of scheme's assets	**4%**	(2%)	5%	(1%)	1%
Experience gains and (losses) arising on scheme's liabilities (£000)	**285**	1,003	-	1,783	-
Percentage of the FRS 17 value of the scheme's liabilities	**0%**	1%	0%	1%	0%
Total amount of gain/(loss) recognised in the STRGL (£000)	**(10,825)**	(932)	(1,215)	(10,245)	14,904
Percentage of the FRS 17 value of the scheme's liabilities	**(8%)**	(1%)	(1%)	(10%)	16%

The cumulative amount of actuarial gains and losses recognised in the STRGL at 31 March 2015 was a loss of £30.946m (2014 - loss of £20.121m).

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 Thursday, the 30th day of July 2015, on the following business:

1. To receive and consider the Directors' Report and Accounts for the year ended 31 March 2015 and the Auditors' Report thereon.

2. To approve the Report on Remuneration.

3. To elect Mr. M. P. Johnson a Director of the Company.

4. To re-elect Mr. M. P. Kirk a Director of the Company.

5. To approve a total final dividend of £580,000 to be made to the holders of Ordinary and 'A' Ordinary Shares.

6. 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
28 May 2015

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 **a) Gearing - Debt/RCV**	**2015** **£000**	2014 £000
(i) Debt		
Bank loan (note 16)	**97,668**	95,268
Bank loan (note 15)	**-**	5,000
Debenture stock (note 15)	**284**	284
Cash at bank and in hand	**(6,776)**	(4,503)
	91,176	96,049

For the purposes of this ratio, debt excludes the deferred arrangement costs of £0.995m (note 16) and the current asset investment of £0.002m (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.

	2015 **£000**	2014 £000
Regulatory capital value indexed to 31 March	**113,935**	117,938
(iii) Gearing - Debt/RCV ratio (i) ÷ (ii)	**80.0%**	81.4%

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 40 and is calculated as follows:

	2015 **£000**	2014 £000
Operating profit, after adding back Employee Benefit Trust payments	**7,099**	6,972
Notional pension costs	**374**	421
Depreciation charges	**9,105**	8,947
Other items	**10**	-
Interest received, excluding amounts for inter-company loan	**19**	13
Taxation, excluding payments for group relief	**19**	(110)
Capital expenditure	**(7,903)**	(10,625)
Loan repayment from Group company	**3,050**	84
Repayment of loan	**(5,000)**	-
	6,773	5,702
(ii) Interest paid	**3,657**	3,602
(iii) Cash interest cover ratio (i) ÷ (ii)	**1.85**	1.58

c) Return on regulatory equity

This ratio represents the return on regulatory equity in terms of the equity element of the regulatory capital value.

	2015 **£000**	2014 £000
Revenue	**38,271**	37,109
Operating costs, excluding Employee Benefit Trust payments	**22,067**	21,190
Current cost depreciation	**5,911**	5,893
Infrastructure renewals charge	**5,261**	5,177
Earnings before interest and tax	**5,032**	4,849
Current tax charge/(credit)	**67**	(9)
Interest payable, excluding indexation and amortisation	**3,649**	3,576
(i) Return	**1,316**	1,282
(ii) Average Regulatory Capital Value, equity element only	**23,159**	22,135
(iii) Return on regulatory equity (i) ÷ (ii)	**5.7%**	5.8%

APPENDIX - KEY PERFORMANCE INDICATORS

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 Leakage

This indicator is based on figures supplied to Ofwat.

Designed and produced by Portsmouth Water