

Company Registration Number: 2536455

Portsmouth Water Limited
Annual Report & Accounts 2009

TUESDAY



P8P07CBG

PC1

11/08/2009

598

COMPANIES HOUSE

Contents

02	Highlights
03	Board of Directors
04	Chairman's Statement
05	Operating and Financial Review
05	Our Business
07	Business Strategy
08	Current Development and Performance
14	Corporate Responsibility
16	Future Development and Performance
17	Risks and Uncertainties
19	Company Information
20	Area of Supply
21	Directors' Report
23	Corporate Governance
26	Report on Remuneration
28	Statement of Directors' Responsibilities
29	Report of the Independent Auditor
30	Profit and Loss Account
30	Statement of Total Recognised Gains and Losses
31	Balance Sheet
32	Cash Flow Statement
33	Notes to the Accounts
45	Notice of Meeting
46	Appendix - Key Performance Indicators

Highlights

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

- The Company is again rated as the most efficient water supply company by the industry regulator.
- The Company has continued to perform well in the customer service indicators used by the regulator to assess customer service.
- A high level of compliance with drinking water standards and water supplies maintained without any restrictions.
- On target with the AMP4 capital expenditure programme.
- Achievement of a major award in the RoSPA Occupational Health and Safety Awards for the water industry sector.

	2009
Turnover	£35.4m
Operating profit	£7.0m
Profit before taxation	£5.8m
Net debt	£82.9m
Capital expenditure	£11.8m

Board of Directors

Executive

Nicholas John Roadnight

F.C.A.³

Managing Director

Joined in 1978. Previously with Thornton Baker. Appointed to the Board in October 1994 and appointed Managing Director in July 1997.

John Edward Cogley

B.Sc., C.Eng., M.I.C.E.

Customer Services Director

Joined in 1978. Previously with Anglian Water. Appointed to the Board in June 1997.

Andrew Richard Neve

B.Sc., C.Eng., M.I.C.E., M.C.I.W.E.M., M.C.M.I.

Technical Director

Joined in 1981. Previously with Thames Water. Appointed to the Board in June 1997.

Neville Smith

B.A., F.C.M.A.

Finance Director

Joined and appointed to the Board in February 1998. Previously with Smiths Industries and GEC.

Non-Executive

Terence Michael Lazenby M.B.E.

FR.Eng.¹²³

Independent Non-Executive Chairman

Chairman of the Nomination Committee

Joined in June 2002 and appointed Chairman in January 2003. Chairman of the Engineering Construction Industry Training Board. Previously non-executive director of MTL Instruments Group and Expro International plc, before which he held a number of senior executive positions with British Petroleum.

Robert Leonard Sullivan

B.Sc., C.Dir.¹²³

Independent Non-Executive Director

Chairman of the Remuneration Committee

Joined in June 2002. Previously held senior executive positions with Scapa Group plc, Sellotape Group and SmithKline Beecham.

Raymond John Tennant

B.A., F.C.C.A., C.P.F.A.¹²³

Independent Non-Executive Director

Chairman of the Audit Committee

Joined in June 2002. Former Managing Director of South East Water plc and SAUR Water Services plc. Former Chairman of the Water Companies Association and WTI Training Group Ltd.

¹ Member of the Audit Committee

² Member of the Remuneration Committee

³ Member of the Nomination Committee

Chairman's Statement

It is pleasing to report that in the last year Portsmouth Water has continued to achieve industry leading levels of customer service and efficiency and at the lowest charges in the country. I am also especially pleased to report that the Company's commitment to the Health and Safety of employees has been recognised at the RoSPA Occupational Health and Safety Awards 2009 with a 'highly commends' award in the Water Industry Sector. The sector award is highly regarded in the industry and this is an outstanding achievement and is testimony to the hard work and dedication of all our employees over several years.

Portsmouth Water was again ranked as the most efficient water supply company in the latest league tables published by Ofwat, the economic regulator and continued to perform well in the customer service indicators used by Ofwat. Furthermore in a report published by the Consumer Council for Water, the Company was shown to have the lowest level of complaints in the industry.

Compliance with drinking water standards remains at a high level at 99.96% and water supplies to customers were maintained throughout the year without any restrictions.

Once again there was significant capital investment during the year including two new membrane water treatment plants being put into service. Three membrane water treatment plants have been commissioned in the last two years at a total cost of £11.4m.

Although 2008/09 has been a successful year for Portsmouth Water, it has been challenging. There have been significant cost pressures. Upon renewal of its electricity contract in November 2008, the unit price increased by over 40% and some chemical prices trebled. Customer debt remains a considerable problem for the industry and the recession does appear to be having an impact on bill payers. The provision for doubtful debt has been increased by 14% this year.

Considerable management resource has been committed to the Periodic Review, the process by which Ofwat sets the Company's price limits for 5 years. During the year Draft and Final Business Plans were produced together with a 25 Year Water Resources Management Plan. Costly consultancy services have been necessary to provide the evidence required by Ofwat to support these plans. There is no doubt that the requirements for this review (known as PR09) are more onerous and complicated than the previous review (PR04) and have resulted in significantly higher costs. The economic regulator will make its final decision on future price limits in November 2009.

The financial results for the year show a reduction in operating profit of £0.6m to £7.0m. An increase in turnover due to tariff increases was offset by the operating cost changes referred to above. In addition depreciation on infrastructure renewals was increased by £0.8m to reflect a revised view of the level of infrastructure renewals expenditure required in the future.

In the light of these results the Directors are recommending a final dividend of £2.6m, which will be paid in May 2009.

As noted above, the Company produced its Final Business Plan

in April 2009, which set out its investment plans through to 2015. Ofwat will use this plan as a basis for setting price limits for this period. We have asked for annual price increases of 2.1% above inflation with the major drivers being increases to particular elements of operating costs which are largely outside of the Company's control. It is appreciated that the proposed increases in bills will be unwelcome news for customers and we have done all we can to manage the impact of increased costs. Our charges will remain the lowest in the country by a considerable margin and the average household bill will still be below £100 per annum. Our plan includes the following proposals:

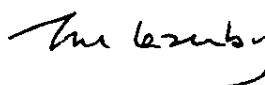
- Customers will continue to receive secure water supplies such that hosepipe bans are no more frequent than 1 in 20 years.
- To reduce our licensed abstractions to preserve the important wildlife habitats of the River Itchen and Chichester and Langstone Harbours.
- To reduce the risk of taste and odour issues at one treatment works by the year 2014.
- To renew 23 km of mains infrastructure each year to ensure service is maintained.
- To reduce leakage by 10% by 2015.

Although climate change is likely to have a significant impact on the Company's future water resource availability, the existing evidence for these impacts is not considered to be sufficiently robust. The current Business Plan therefore does not include any investment needs to meet the impact of climate change. New evidence from the UK Climate Impacts Programme is expected to be published shortly and it is anticipated this will have considerable impact on the Company's available water supplies. If this is the case we will need to seek agreement from Ofwat to finance water saving measures and new resource development activities.

One of the most significant challenges facing Portsmouth Water is the likely development of competition. The Cave Review published its final report in April 2009, and we are currently assessing its conclusions. We believe that the present vertical integration of the water supply business offers many advantages particularly in the management of water resources and water quality and that it is important that these are not lost in the development of competition. Competition should only be introduced where it can be shown to create significant and real benefits for customers.

After over 30 years with the Company (12 as a Director), John Cogley will retire in August 2009. On behalf of the Board I would like to thank John for his major contribution to the success of Portsmouth Water.

The success that Portsmouth Water has achieved has been dependent on the excellence of our employees who continue to show dedication and commitment. I am confident that their performance will enable us to rise to the challenges of the future.



T. M. Lazenby M.B.E.
Chairman

Operating and Financial Review

Our Business

Portsmouth Water provides water to 301,000 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 178 million litres of water through a network of over 3,200 kilometres of underground mains. Water supplied, which is generally of high quality, 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 nearly 30% of the total supply, are thought to be the largest group of springs used for public supplies in Europe.

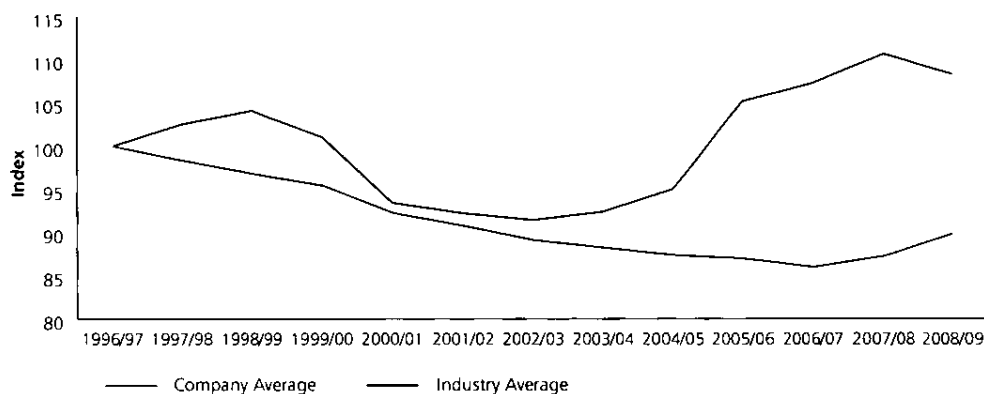
Source	Actual 2008/09 Abstraction (Million Litres)	% of Supply 2008/09	% of Supply 2007/08
Springs at Havant & Bedhampton	19,352	29	30
River Itchen	6,868	10	13
Boreholes, Wells & Adits	40,421	61	57
Totals	66,641	100	100

A map showing the Company's area of supply and the location of its sources and treatment works is shown on page 20.

Water from the springs at Havant and Bedhampton is treated at the Farlington treatment works and there are also treatment works at the River Itchen, Lovedean, Soberton and Fishbourne. The last three works accounted for approximately 7% of supplies in 2008/09. Water from the remaining sources requires less sophisticated treatment.

Portsmouth Water's charges are the lowest in England and Wales, the average annual bill for water being £89 per household, the equivalent of 24p per day. In real terms, the price of water for household customers has fallen by 11.6% over the last 13 years. This compares with a real increase of 11% for the industry as a whole, as illustrated in the chart below, where the 1996/97 prices are indexed at 100:

Comparison of Average Household Bills with Average Industry Tariffs



The water industry is subject to a range of UK and EU legislation. Standards, particularly those relating to the environment, are being tightened on a regular basis and require increasing levels of investment. The standards of service provided by Portsmouth Water are monitored by three main regulators - the Water Services Regulation Authority (Ofwat) for setting prices and to ensure value for customers, the Environment Agency (EA) for environmental protection and the Drinking Water Inspectorate (DWI) for drinking water quality. Customers are represented by the Consumer Council for Water (CCW), which monitors the quality of service provided by the Company. Portsmouth Water works closely with these and other organisations interested in the services it provides.

Ofwat is the water industry's economic regulator, and its principal duties are exercised through the price-setting process. Ofwat sets price limits for Portsmouth Water every five years. The last determination of prices was in December 2004 for the period 2005 to 2010. The price setting process is known as the Periodic Review and involves a series of consultations between water companies, Ofwat and the other regulators over a two year period. The review examines all aspects of the business and requires the Company to submit a detailed Business Plan to Ofwat. Water companies are allowed to increase prices to customers annually by inflation (RPI) plus or minus the price limit set by Ofwat. The price limits reflect the revenue, which the regulator believes an efficient company needs in order to finance its operations and capital programme, after making an assessment of potential future efficiency gains.

The next determination of price limits will be in November 2009 and the Company submitted its Business Plan in April 2009 to Ofwat.

Operating and Financial Review

Our Business

Portsmouth Water is recognised as one of the most efficient water companies in England and Wales (Source - Water and Sewerage Service Unit Costs and Relative Efficiency 2007/08 Report - published by Ofwat), and this has benefited customers through lower bills over many years, as shown on page 5.

Over the last twenty years, the Company has experienced falling demand for water, particularly from commercial customers. The future, however, is expected to see rising demand from domestic customers, with a significant house building programme planned in the Company's area of supply. A twenty five year Water Resources Plan is also produced at each Periodic Review. The plan is reviewed annually and enables the Company to balance supplies with forecast demand even at times of dry conditions. A new Draft Water Resources Management Plan looking at required resources through to 2035 was published for consultation in April 2008.

The Company is committed to sustainable development. It must balance the provision of water supply with the needs of the environment and play a part in ensuring that the UK complies with European and National environmental legislation.

ABOVE
Pipe jacking of water main under
railway line embankment

ABOVE RIGHT
New filtration plant building at
River Itchen Treatment Works

BELOW RIGHT
Drilling of new borehole at Lavant
Water Treatment Works

ABOVE
Checking pressure of mains water

Operating and Financial Review

Business Strategy

Mission Statement

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

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

- To maintain services to customers at the highest level
- To balance the provision of water supply with the needs of the environment
- To maintain the health and welfare of employees
- To ensure that customers continue to enjoy secure and reliable water supplies
- To meet present and future water quality obligations
- To maintain its leadership position at the water industry efficiency frontier
- To maintain the ability to finance its function

The strategy will be achieved by focusing on four key issues:

- Having a well developed and frequently updated long term water resources plan, which will meet the needs of the customer, through secure water supplies, whilst respecting the environment
- Putting customers at the heart of everything we do, and ensuring that they continue to receive excellent value for money
- Setting goals for efficiency which outperform regulatory targets
- Maintaining a motivated workforce, whilst ensuring that the health and safety of employees is given the highest priority

The progress of the Company against these objectives is measured by a number of key performance indicators (KPI) and these are highlighted in the following section of the Review.

Presentation of RoSPA
'Highly Commends' award
for the Water Industry Sector

Operating and Financial Review

Current Development and Performance

Financial Performance

Profit before tax

Turnover for the year increased by 4.4% to £35.4m. This reflected the 6.7% overall tariff increase implemented in July 2008, which was partially offset by a reduction in consumption by non-household customers of 2.1% and £0.3m in income from new property connections, and other non-tariff work.

Despite the increase in turnover, operating profit fell by £0.6m as analysed below:

	2008/09 £m	2007/08 £m
Operating profit before depreciation and FRS17 Pension Charge	16.4	16.6
Depreciation (including renewals)	7.7	6.7
FRS17 Pension Charge	1.7	2.3
Total Operating Profit	7.0	7.6

Operating costs, excluding depreciation and the FRS17 pension charge rose by £1.6m (9.0%). There were a number of significant elements to this increase. A new electricity contract took effect from November 2008 and increased costs by £0.25m. The provision for bad debt was increased by £0.2m reflecting a sharp rise in the level of unpaid bills. Activities associated with the 2009 price review accounted for £0.2m and abstraction charges and chemicals showed significant increases above inflation. The current service cost for the pension scheme reduced by £0.6m to £1.7m following a review by the Actuaries under FRS 17. Depreciation on infrastructure assets rose by £0.8m as a result of a re-assessment of the charge based on the projected expenditure included in the Company's Business Plan submitted to Ofwat in April 2009.

Interest receivable at £4.5m (2008 - £4.3m) relates mainly to interest received from group companies and is based on Libor plus 1%.

A reduction in other finance income of £1.2m represents a fall in the expected return on Pension Fund assets following a review by the actuaries under FRS 17.

Interest payable at £7.3m (2008 - £6.2m) includes a £4.0m indexation of the loan provided by Artesian Finance plc (2008 - £2.9m). Interest on the capital sum amounted to £3.0m (2008 - £2.8m). The indexation of the loan for 2009 was based on July 2008 RPI, which was 5.0%.

As a result primarily of the increased depreciation charge and lower potential income from the pension fund investments, profit before tax reduced to £5.8m (2008 - £8.4m).

Taxation

The taxation charge at £1.7m was £1.5m higher than last year when there was a large adjustment in respect of deferred tax arising from the effect of the removal of industrial buildings allowances and changes to corporation tax and capital allowance rates.

Dividends

The dividends paid during the year amounted to £4.664m (2008 - £4.209m). Dividends are paid up to the parent company and largely used to service debt held by the group.

Cashflow and Balance Sheet

Net cashflow from operations at £16.7m (2008 - £16.0m) increased marginally as a result of movement in working capital. Net cash outlay on fixed assets at £10.6m (2008 - £12.1m) reflected further progress on the mains renewal programme and work on a number of capital maintenance projects. Most of the large quality projects for AMP4 have been completed.

Net debt at £82.9m (2008 - £79.0m) increased during the year as a result of the indexation of the £66.5m Index Linked Loan of £4.0m. At the year end, net debt to regulatory capital value (RCV) was 77.4% (2008 - 72.3%). Although both the Index Linked Loan and the RCV are indexed with RPI, the year end loan position is indexed at the previous year's July RPI which was 5% and the year end RCV was indexed at the March RPI which was -0.4%.

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

Operating and Financial Review

Current Development and Performance

(subject to the above comments on the timing of RPI). Interest is charged at a fixed rate of 3.635% on the indexed amount of the loan. The indexed value of the loan at 31 March 2009 was £82.6m (2008 - £78.6m).

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 2008/09 all of the short term cash was deposited with the Company's bankers, RBS. Short term liquidity is achieved through a £15m working capital facility and an overdraft arrangement. At the end of the year, £4.0m of this facility had been drawn (2008 - £4.0m), while the overdraft arrangement remained unutilised.

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so it can provide returns for shareholders and benefit to customers.

The capital structure is set at a level which provides an appropriate risk profile to ensure the Company can obtain finance at competitive levels. As is common in the water industry the Company monitors capital in the ratio of debt to Regulatory Capital Value (RCV). RCV is a measure of the Company's asset value used in the setting of prices in the water industry. The level of RCV is published by the regulator (Ofwat) on an annual basis. The ratio achieved for 2008/09 is shown below, and the details of the calculation are shown on page 46.

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.

Accounting Policies

The accounts have been prepared in accordance with the accounting policies described in note 1 to the accounts on pages 33 to 34 and with UK GAAP.

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

Pensions

The Company accounts for the Brockhampton Pension Scheme in which it is the principal employer, in accordance with FRS17. The latest actuarial valuation carried out for the purposes of FRS17 showed a surplus after deferred tax of £12.2m (2008 - £21.6m).

Key Financial Performance Indicators

Gearing (net debt/regulatory capital value) and cash interest cover are recognised as key indicators for the Company. Performance in 2009 against the target ratios is shown in the table below.

KPI - 1 ¹	Target	Performance 2008/09	Performance 2007/08
Gearing - Debt/RCV ²	<83%	77.4%	72.3%
Cash interest cover ²	>2.2	2.56	2.53

¹ Each KPI is defined in the Appendix on page 46

² Definition of terms is contained in the Appendix on page 46

Customer Service

The Company measures its services to customers in three key areas:

- The Overall Performance Assessment provided by Ofwat
- The DG indicators provided by Ofwat
- Drinking Water Quality

KPI - 2 The Overall Performance Assessment

Target	Performance 2007/08	Performance 2006/07
To be in the upper quartile of performance for all water companies	Placed 11th out of 22 companies	Placed 4th out of 22 companies

Operating and Financial Review

Current Development and Performance

The Overall Performance Assessment for 2008/09 will be published by Ofwat after the Report and Accounts have been completed and therefore the performance shown above is for 2007/08. The position was adversely impacted by a fine of £10,000 for a pollution incident which occurred in 2007. This moved the Company from 4th to 11th place.

KPI - 3 DG Service Indicators

The DG service indicators data shown below is as recorded by the Company for 2008/09 and will be reported to Ofwat in the annual regulatory June Return.

DG Service Indicator	Target	Performance 2008/09	Performance 2007/08
DG2 No. of properties at risk of inadequate pressure	≤ 120	66	66
DG3 Unplanned interruptions to supply	≤ 0.3	0.05	0.14
DG4 Population subject to hosepipe bans	Nil	Nil	Nil
DG6 Billing contacts - answered within 5 days	100%	100%	100%
DG7 Written complaints - answered within 10 days	100%	99%	100%
DG8 Bills for metered customers - no. receiving bill based on meter reading	100%	100%	100%
DG9 Telephone contact - no. of calls abandoned	≤ 2.5%	2.8%	4.2%
- all lines busy	≤ 0.7%	0.4%	0.3%

In all categories Ofwat assessed the Company as having good performance for 2007/08. The Ofwat assessments for 2008/09 will not be published until September, but the results recorded by the Company meet the criteria for being assessed as good.

KPI - 4 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 2008	Performance 2007
Compliance samples passing standards	99.95%	99.96%	99.97%

The water quality performance indicator relates to the calendar year.

Operating Efficiency

Ofwat publishes a report each year which includes its assessment of the comparative operating efficiency of all water companies in England and Wales using econometric modelling. Companies are put in bands A to E according to their performance for operating efficiency, A being the top band. The latest report published is for the financial year 2007/08, which showed that Portsmouth Water was assessed as the top performing company. In the medium term this benefits customers through relatively lower prices and the Company intends to maintain its position in the efficiency rankings.

KPI - 5 Efficiency

Target	Performance 2007/08
To be ranked in Band A for Operating Efficiency	Operating Efficiency Band A

Operating and Financial Review

Current Development and Performance

Capital Investment

The Company made good progress with the five year capital programme agreed with the Regulator for the period 2005 to 2010. Details of progress are shown in the table below:

Capital Programme Agreed	Outcome
Infrastructure Assets Renewal of 25km of mains each year	Since April 2005, the Company has renewed an average of 24.6km per year
Water Quality Installation of membrane filtration plants to minimise the risk of cryptosporidium at - River Itchen - Soberton - Fishbourne	Completed Summer 2007 Completed 2008 Completed 2008
Remedial work on trunk mains in the Company's largest supply area to reduce the risk of discoloured water incidents	Completed Spring 2009
The installation of blending facilities at sources at risk from increasing nitrate levels	Will be completed by 2010
Optional Water Meters It was anticipated that 2,200 domestic customers would wish to switch from an unmeasured to a measured supply	In the 4 years to March 2009, over 18,000 customers had opted to switch, an average of 4,500 per year

Gross capital investment during the year was £11.8m (2008 - £12.0m) and included £5.2m (2008 - £4.8m) on infrastructure renewals. After receiving capital contributions and infrastructure charges of £0.9m, net capital expenditure was £10.9m (2008 - £11.2m). The chart below shows the level of net capital investment over a six year period in outturn prices.

Net Capital Expenditure

The major elements of expenditure in the year related to:

- Mains renewed - 24.9km (2008 - 27.0km) were renewed at a cost of £5.2m. The programme allowed for at the last Determination is now close to being met
- Membrane plants - now in service. Limited expenditure during the year
- Nitrate Blending Scheme - will be completed by 2010, expenditure in 2008/09 £2.2m
- Havant Thicket Winter Storage Reservoir - the Company has made good progress with the preparatory work for a winter storage reservoir at Havant Thicket, which should help ensure security of water supplies well into the future. A stakeholder group consisting of interested local bodies and interested parties is well established and we believe that there is strong local support. In order to obtain planning permission for this scheme, considerable environmental studies and public consultation has to be undertaken, which requires a range of design options and impact assessments. In 2008/09 this work resulted in expenditure of £0.7m

Water Resources - Outlook for 2009

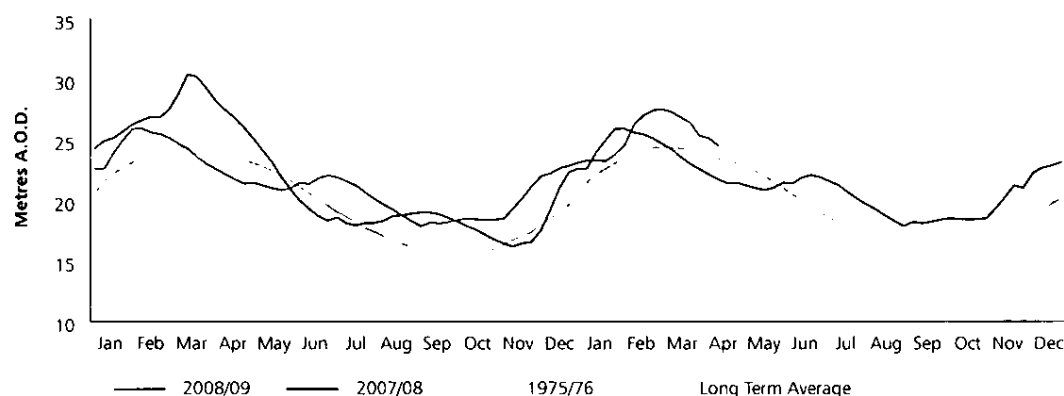
As detailed on page 5, 90% of water supplied to customers is from groundwater springs, boreholes and wells which abstract from the underground chalk of the South Downs. Groundwater levels are therefore critical to maintaining supplies to customers. The Company has for many years monitored the groundwater level at Idsworth Well, Rowlands Castle, which is unaffected by abstraction and is representative of groundwater conditions in the South Downs chalk.

Operating and Financial Review

Current Development and Performance

At the end of April 2009, groundwater levels were close to the long term average as outlined on the two year graph below, which includes the thirty year long term average and the drought year of 1976, when the Company last imposed a hosepipe ban.

Idsworth Well



Water resources are therefore expected to be sufficient to meet peak demands in the summer of 2009 and a hosepipe ban is not expected in our area of supply. However, the Company has used its newsletter, website and press releases to stress to customers the need to be conservative in their use of water.

Long Term Resource Planning

In April 2008, the Company published its Draft Water Resources Management Plan for public consultation. The plan examined the likely key influences on the demand for water from customers and on the Company's ability to meet that demand. The plan also identified the actions required to ensure that the supply/demand balance is met. Following representation from stakeholders, the Company has revised its plans and informed the Secretary of State of its proposed actions. The Secretary of State will consider the proposed actions and will advise in due course whether they are acceptable. Our plans are heavily influenced by the impact of climate change and we are awaiting the publication of new evidence by the UK Climate Change programme. It is unlikely that the Secretary of State will make a decision on our proposal until this evidence is available.

Leakage

Leakage for the year was recorded at an average of 30.4M/d. The leakage targets were set out in the Company's Business Plan for the last Periodic Review and agreed by Ofwat as part of the Final Determination in 2004.

KPI - 6 Leakage

Target

Average leakage of 29.7M/d

Performance 2008/09

Average leakage of 30.4M/d

Average leakage for the report year at 30.4M/d was above the target of 29.7M/d. This was due mainly to a high incidence of bursts as a result of the cold weather conditions in December 2008 and January 2009. Over the last three years, however, the average leakage rate is 29.7M/d and therefore at the target level.

Employees

The Company employs 218 people and believes it recruits and retains the right people key to the successful performance of the business.

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 Institution of Water Officers (IWO). The IWO is a professional body whose purpose is to promote the advancement of knowledge within the water industry. To this end, Area and National

Operating and Financial Review

Current Development and Performance

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 IWO and gain the benefit for both their personal and professional development by attending these events.

Staff turnover, excluding retirees was 7.5% in 2009 (2008 - 8.1%), which compares favourably with the national average which was 15.7% in 2007 (Source – EEF Absence and Rehabilitation Survey 2008).

Total absence (days per employee per year) is just under 4.1. This figure compares with 4.48 for last year and is below the average for private companies of the same size at 7.1 (Source: CIPD: Annual Survey Report 2008).

Health and Safety

Health and safety of employees is considered fundamental to the success of the business and the Company is committed to achieving high standards across the organisation. It has been 5 years since the Company embarked on a mission to improve its health and safety culture and therefore the record in this area. To achieve the initial step change the Company put health and safety at the top of the agenda and from the Board down has made it a high priority.

Last year saw the Company implement a number of campaigns and initiatives, aimed at increasing staff awareness of health and safety issues.

The graph below portrays a positive picture in respect of the improvement in the Company's health and safety performance, notably a fall of over 80% in the number of total accidents compared with the number in 2003. The improvement since 2003 reinforces the Company's decision to revitalise health and safety and the commitment of time and resources into that area.

Total Accidents

It is pleasing to report that our efforts have again been recognised externally through the RoSPA Health and Safety Award Scheme. The Company has, for the last three years, been awarded the Gold award. 2009 saw the Company enter the prestigious health and safety sector awards and we were awarded the second place of 'highly commends' in the industry sector.

Operating and Financial Review

Corporate Responsibility

Environmental Performance

The Company recognises its impact on the environment and seeks to carry out its activities in a sustainable manner, which is highlighted by the initiatives shown below.

Conservation

The Company's total licensed area of supply covers an attractive part of Southern England between the South Downs and the coastal areas of Hampshire and West Sussex. It includes the historic cities of Portsmouth and Chichester, and the popular holiday resorts of Bognor Regis, Selsey and Hayling Island. The harbours of Portsmouth, Langstone, Chichester and Pagham have a number of important environmental designations under the EU Habitats Directive and are popular water activity venues.

Biodiversity Action Plan

The Company's policy is to conserve and enhance the natural environment of its land and water areas and to preserve historic buildings and equipment, so far as is consistent with the primary duty of providing a sufficient supply of wholesome water at reasonable cost. Where possible, the Company explores opportunities to encourage recreational use.

Sustainable Procurement

In procuring goods and services, the Company has a policy which seeks to ensure that its impact on the environment is minimised. This includes the use of low sulphur content diesel fuel, timber from replanted forests and predominantly recycled material for reinstatement.

Specific Environmental Projects

The Company has been involved in three environmental investigations into the impact of water abstraction on species identified by the Habitats Directive. The investigations at the River Itchen, Chichester Harbour and Langstone Harbour are covered in more detail on page 17.

Water Efficiency

The Company has continued, through various channels of communication such as its newsletter and website, to promote the need for the efficient use of water, both by domestic and commercial customers. Specific initiatives have included:

Cistern Devices

Approximately 14,200 'Save-a-Flush' bags were issued to customers during the year.

Measured Customers

All new properties are charged on the basis of a metered supply and all customers opting to install a meter received a leaflet, 'Saving Water at Home,' to ensure that customers most likely to benefit from water efficiency are reminded of the advantages, and each customer receives two 'Save-a-Flush' bags.

Commercial Water Audits

A leaflet entitled 'Saving Water in Your Business' is included on the Company website.

In-House Efficiency Study

A series of initiatives at the Company's Head Office has resulted in an overall saving since 2004 of 50% of previous water usage.

Work in the Community

Amenities and Recreation

In September 2004 Portsmouth Water entered into Educational Partnership with Staunton Country Park. This was initially a three year partnership but it has been extended by a further 3 years and is now due to end in August 2010.

This partnership has seen the creation of a curriculum linked water themed programme, 'Water is Life', suitable for primary school children. The 'Water is Life' programmes cover all aspects of water from its role in the planet, the water cycle as well as the treatment and supply process. A key element of water Conservation underpins the whole programme. This is supported by water boxes (an educational source full of simple water related experiments), information sheets and activity instructions for teachers to use as a resource at school. The programmes are available by having pre-arranged school trips and are guided with the help of the Park's education officer.

Since its launch nearly 5,000 school children have completed either the complete water is life programme or elements of the programme contained within their visit.

2008 also saw Staunton provide a Schools Water Festival Fortnight offering all Havant and Portsmouth schools a free 'Water is Life' session. One school which participated was for special needs teenagers and this provided the education team with the first opportunity to deliver the session to this type of audience. During this fortnight all school groups completed the water trail for free and were able to participate in activities from the Water Box. There was a total of 27 school visits (750 children).

Operating and Financial Review

Corporate Responsibility

Other new themes in 2008 saw the addition of a water element to the already established 'eco-ranger' trail at the park which is now available to school trips or birthday parties as an activity for younger children to complete.

As part of the Hampshire Water Festival a 'Water is Life' week has been created for visitors to participate in as part of their visit to the park. 2008 was the most successful so far with 24 volunteers from the Company assisting the Park's staff allowing over 2,000 visitors to participate in a variety of water experiments and activities.

Charitable Trust Fund

Since 2004 the Company has been supporting a Charitable Trust Fund, which aims to provide assistance for customers who have difficulty paying their bills.

Drinking Water Bottles

'Be Cool, Stay Cool, Drink Tap Water at School'

The Company has continued to promote the benefits to children of drinking water and as part of our 'Water for Health' initiative we have offered a drinking water bottle at the subsidised cost of 30p per bottle for every child in local primary, infant and junior schools.

The Water Bottles for Schools offer has gone from strength to strength with 30,000 delivered last year and which has seen nearly 190,000 water bottles through the schools being delivered to our local children over the last five years.

Community Talks

Employees continue to give community talks to local schools, colleges, clubs and groups such as Age Concern, Rotary and the Women's Institute. To cope with the increasing demand for talks, a community talk team has been set up with volunteers from the Company.

Festivals and Fairs

The Company once again sponsored the Primary Schools Science Fair which is promoted by the Portsmouth and South East Hampshire Business and Education partnership. The three-day event held within the historic Dockyard utilising the HMS Warrior and Action Stations to house the exhibitor's stands saw over 1,200 children from local schools visiting the exhibits.

The Company's demonstrations this year included water treatment and how different filters work, the sampling process, and finished off with a short session on the need for all of us to conserve water.

Operating and Financial Review

Future Development and Performance

Cautionary statement regarding forward-looking statements

This section should be read in conjunction with the financial statements and notes thereto included elsewhere in this Annual Report. This Annual Report contains certain forward-looking statements with respect to the financial condition, results of operation and business of Portsmouth Water.

Statements that are not historical facts, including statements about Portsmouth Water's beliefs and expectations, are forward-looking statements. Words such as 'believes', 'anticipates', 'expects', 'intends', 'seeks' and 'plans' and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. These statements are based on current plans, estimates and projections and, therefore, undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been revised or updated in the light of new information or future events.

The Company will continue to focus on service delivery to customers and will aim to remain at the efficiency frontier for operating and capital maintenance expenditure.

For 2009/10, overall charges to customers will increase by 4% from July 2009.

Energy costs will increase further as the full year effect of the 40% price increase for electricity set in 2009 is felt. Electricity represents 11% of total operating costs.

Gross capital expenditure in 2009/10 will be £14.5m (2009 - £11.8m), a relatively high figure as the Company completes its AMP4 capital programme. Mains renewals will account for £5.4m and completion of blending facilities at £1.8m are also included.

As a result of these factors, the Company anticipates that debt will rise from the March 2009 level of £82.9m to £86.4m in 2010. The increase in debt will be met by existing loan facilities. It is anticipated that, by 2010, net debt to RCV will be approximately 80.5%. These projections assume negative RPI for much of 2009, which will reduce the value of the index linked debt and the regulatory capital value.

Performance beyond 2010 is dependent on the outcome of the periodic review process and Ofwat's final determination of price limits scheduled for November 2009. In April 2009, the Company submitted its Final Business Plan which called for price increases of 2.1% for each of the 5 years to 2015. The key drivers of these proposals were energy costs, charges for abstraction of water imposed by the Environment Agency and business rates.

Since the water and sewerage companies were privatised in 1989, the allowed weighted average cost of capital (WACC) has included a premium for water only companies to reflect the higher cost of securing finance, both debt and equity. At the last price review, Portsmouth Water was allowed a premium of 0.7% on the WACC. Ofwat have indicated that they do not believe such a premium is necessary, but have asked for evidence to support its retention. Evidence has been provided by the water only companies and it is for Ofwat to consider it.

Operating and Financial Review

Risks and Uncertainties

The Company identifies risks under six main headings - Operational, Water Quality, Financial, Environmental, Regulatory and Health and Safety of Employees. Individual risks facing the Company are identified and recorded in a risk register. For each risk the consequences, impact and likelihood of failure are identified, together with the management controls in place. The register also clearly allocates management responsibility and whether any further actions are required to control the risks.

The Board reviews the risk register and the controls established to mitigate these risks on an annual basis. It also receives regular reports on operational matters, including a monthly review of water quality matters directly with the Water Quality Manager and a quarterly review of health and safety matters with the Personnel and Safety Manager. The Directors also receive reports from independent regulatory bodies, which comment on the performance of the core water business.

The Audit Committee meets at least three times a year, monitors the effectiveness of the systems which are in place and reports to the Board as a whole.

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.

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 DWI standards. Furthermore, a telemetry system linked to all treatment works provides an alarm 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 risk of financial loss is addressed through comprehensive insurance cover for a range of risks, including damage to property, public and employee liability, fraud and terrorism. A system of internal controls is in place to manage the risks, the details of which are included in the Statement on Corporate Governance on pages 23 to 25. In early 2007, the Auditors conducted a special review of the Company's internal control systems. The review did not reveal any significant weaknesses. 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.

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 European Habitats Directive and the Water Framework Directive. Investigations have been carried out into the impact of abstraction by the Company at a number of sites covered by the Habitats Directive.

A study into the sustainability of abstraction from the River Itchen is complete and options have been reviewed with the EA and Southern Water for minimising the potential impact of abstraction on salmon migration, southern damselfly and invertebrates. The EA have made their decisions on the changes they require in the abstraction of water by both Portsmouth Water and Southern Water who also have an abstraction upstream of the Portsmouth facility. As a result of these changes, the Company will lose 10 ML/day of abstraction from the river at the time of peak demand. This equates to 22% of the available abstraction for the river. The Company has published its plans for addressing this reduction in its Water Resources Management Plan.

Chichester and Langstone Harbours are Special Protection Areas (SPA) under the Habitats Directive. A comprehensive ecological and hydrological study carried out by the Company examined the effects on Chichester Harbour and its wildlife of operating the Company's Fishbourne source within the existing abstraction licence. The study has focused particularly on the significance of an adequate freshwater flow into the Harbour for wading birds and on maintaining a habitat for the rare Desmoulins Whorl Snail. Another study conducted by the EA considered the importance of freshwater flows into Langstone Harbour from the Springs at Havant and Bedhampton. The EA has announced its conclusions on these licences and the Company believes the required changes will have little impact on its ability to match supply and demand.

The flooding in various parts of the UK during the summer of 2007 has prompted several national reports. Whilst the Company was not affected in 2007, it has conducted an assessment of the risks at each of its sites and included a small amount of expenditure in its Final Business Plan to remedy those sites where there is a risk of damage as a result of flooding.

Regulatory risk relates to decisions taken by Ofwat at the five yearly price review and the potential failure to meet the monitoring plan agreed with Ofwat, containing targets for the period 2005 to 2010 for the capital programme, customer service and leakage. Failure to meet the monitoring plan targets could result in Ofwat taking action, including financial penalties. The last price review was completed in 2004, for the period 2005 to 2010, and the next review will be in 2009, for the period 2010 to 2015. The price review is conducted

Operating and Financial Review

Risks and Uncertainties

in an open and transparent manner and the Company actively participates in the process. The performance against the monitoring plan is reviewed on a monthly basis by the Board or the Executive Directors. The performance against the measures in the monitoring plan are discussed on pages 10 to 11.

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
- A risk assessment programme that has seen over 500 assessments produced
- A system of workplace inspection ensuring that all manned premises are inspected at least twice per year
- Specific training for those at high risk of injury
- A limited free physiotherapy service for employees to deal with injuries



N. J. Roadnight
Managing Director



N. Smith
Finance Director

28 May 2009

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	658,000
Number of Properties Served	301,000
Length of Mains	3,273 km
Average Daily Output	178 MI

Auditors

Saffery Champness
Lion House
Red Lion Street
London WC1R 4GB

Bankers

National Westminster Bank plc
PO Box 34
15 Bishopsgate
London EC2P 2AP

Insurance Brokers

Heath Lambert Group
39 Basepoint Business Enterprise Centre
Andersons Road
Southampton
Hampshire SO14 5FE

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 640,000, 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 2009.

Principal Activity and Business Review

The Company is a water supplier operating under an Instrument of Appointment granted by the Secretary of State for the Environment under the Water Industry Act 1991.

Water is supplied to 658,000 domestic and commercial customers in an area of 868 square kilometres in Hampshire and West Sussex through a mains network of 3,273 kilometres.

The Company's Area of Supply is shown on page 20 of this report.

A detailed review of operations for the year is provided in the Chairman's Statement and the Operating and Financial Review on pages 4 to 18.

Financial Risk Management Objectives and Policies

A detailed review of the Company's financial risk management objectives and the policies employed are set out in the Operating and Financial Review on page 8 and in note 18 to the accounts on page 40.

Financial Results and Dividends

The Company's profit before taxation amounts to £5.814m (2008 - £8.369m). After deducting £1.683m for taxation (2008 - £0.147m), a profit of £4.131m has been transferred to reserves (2008 - £8.222m).

The Directors are recommending the payment of a final dividend of £2.613m (2008 - £2.088m).

Fixed Assets

Capital expenditure on tangible fixed assets was £11.781m (2008 - £12.033m), including £5.186m on infrastructure renewals (2008 - £4.775m). Information relating to these and other changes in fixed assets is shown in note 10 to the accounts on page 37.

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 31 March 2009, all of whom served throughout the year, are shown on page 3.

Mr. N. Smith and Mr. A. R. Neve, who retire by rotation, offer themselves for re-election. They both have a one year service contract with the Company.

The interests of the Directors in Group shares are detailed in the Report on Remuneration on page 26.

The Company maintains appropriate Directors' indemnity insurance.

Creditor Payment Policy

The Company does not intend to follow any specific code or standard in relation to payment practice. In the absence of dispute, bills will be settled in accordance with the suppliers' terms. Where such terms are considered unreasonable, the Company will seek to agree alternative payment arrangements to suit both parties. At 31 March 2009, the Company's creditor days were 13 (2008 - 10).

Substantial Shareholder

At 31 March 2009, Portsmouth Water Holdings Limited owned the entire voting capital of the Company.

Regulatory Accounts

A set of accounts for regulatory purposes is required by the Water Services Regulation Authority. These accounts relate solely to the regulated water supply business and copies may be obtained on request from the Registered Office.

Employees

Direct communication with employees is maintained through the Company in-house newsletter. In addition, Joint Consultative Committees meet regularly and ensure 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 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 three years, been awarded the Gold award in the RoSPA Occupational Health and Safety Awards. In 2009 the Company entered the prestigious water industry sector awards and achieved the second place of 'highly commends'.

The Company has adopted a policy which complies with the Disability Discrimination Act 1995. Every consideration is given to applications for employment from disabled persons, where the job requirements may be adequately covered by a handicapped or disabled person. Employees who become disabled during employment are given continued employment where possible and opportunities for training and career development are provided for all disabled employees.

The pension scheme to which the Company's employees belong makes provision for retirement due to ill-health or disablement.

Environment

The Company is most aware of its obligations to both customers and the environment. In recent years, it has adopted a more active approach to environmental issues and further information is set out in the Operating and Financial Review on pages 5 to 18.

Donations

The Company actively supports the Water Industry charity WaterAid and, during the year, customers were invited to make donations to WaterAid at the time of paying their water bills. The Company also makes donations to a Charitable Trust Fund, which aims to provide assistance for customers who have difficulty

Directors' Report

paying their bills. A donation of £25,000 was made during the year (2008 - nil).

Licence Requirement

In accordance with its Instrument of Appointment under the Water Industry Act 1991, the Directors are of the opinion that the Company is in compliance with paragraph 3.1 of Condition 'K' of that Instrument.

Auditors

The Auditors, Saffery Champness, have expressed their willingness to continue in office and a resolution providing for their reappointment will be proposed at the Annual General Meeting.

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.



By order of the Board

C. Hardyman
Secretary
Havant
28 May 2009

Corporate Governance

The Directors are committed to high standards of corporate governance and support the principles set out in the Combined Code, which was issued in 2006 and replaces the original code issued in 2003. This report and the Report on Remuneration describe how the Company complies with those principles.

COMPLIANCE

The Company has complied throughout the year with the provisions of the Combined Code, other than as indicated below:

As the ultimate shareholders of the Company have representation at Board meetings, it is not therefore considered necessary to have a senior independent non-executive Director (code provision A.3.3).

In accordance with the Company's Articles of Association, the Managing Director is not required to retire by rotation and seek re-election (code provision A.7.1).

The remuneration package of the executive Directors did not, for the current year, include a performance related element. From April 2009 their remuneration will include a performance related element, which will be based upon the achievement of agreed financial and customer service targets for the whole of the previous year (code provision B.1.1).

DIRECTORS

The Board

The Board of Directors retains full and effective control of the Company and is collectively responsible for setting its strategy, ensuring appropriate resources are in place to meet objectives and monitoring performance.

The non-executive Directors play a full part by constructively challenging and contributing to the development of strategy. They are responsible for determining appropriate levels of remuneration for the executive Directors and for recommending new appointments to the Board.

The members of the Board and the roles of each Director are shown on page 3, together with biographical notes. The Chairman is Mr. T. M. Lazenby M.B.E. and the Managing Director is Mr. N. J. Roadnight. The Board has not appointed a senior independent non-executive Director.

The Board meets monthly and has a schedule of matters specifically reserved to it for decision. It has control of the Company, but delegates the day to day conduct of business to the executive Directors and their senior management colleagues. However, there are a number of matters which must only be decided by the Board as a whole, including strategy, all contracts over £150,000, dividend policy and certain regulatory matters.

Committee membership, number of formal meetings held during the year and attendance are shown in the following table:

	Number of meetings held	Number of meetings attended
Audit		
R. J. Tennant (Chairman)	3	3
T. M. Lazenby M.B.E.	3	3
R. L. Sullivan	3	3
Remuneration		
R. L. Sullivan (Chairman)	1	1
T. M. Lazenby M.B.E.	1	1
R. J. Tennant	1	1
Full Board		
J. E. Cogley	11	10
T. M. Lazenby M.B.E. (Chairman)	11	11
A. R. Neve	11	11
N. J. Roadnight	11	11
N. Smith	11	11
R. L. Sullivan	11	11
R. J. Tennant	11	10
Nomination		
T. M. Lazenby M.B.E. (Chairman)	2	2
N. J. Roadnight	2	2
R. L. Sullivan	2	2
R. J. Tennant	2	2

The Chairman talks with and holds meetings on an informal basis with the other non-executive Directors without the executives present. The non-executive Directors meet without the Chairman present annually to appraise his performance.

There were no circumstances arising during the year where it was necessary to record unresolved concerns in the Board minutes.

Chairman and Managing Director

The roles of Chairman and Managing Director are separate with a clear division of responsibilities between them.

The Chairman is responsible for leading the Board and ensuring its effectiveness. He facilitates the contribution of the non-executive Directors and the relationship between them and the executive Directors.

Board Balance and Independence

The Board comprises a non-executive Chairman, four executive Directors and two other non-executive Directors. The non-executive Directors bring a wide range of experience and knowledge to the Board, which complements the expertise of their executive Director colleagues. They are all considered to be independent of management.

The Board considers that its structure achieves an appropriate balance of authority at the head of the Company, such that no one individual has an unfettered power of decision.

Appointments to the Board

The Nomination Committee comprises the Managing Director, Mr. N. J. Roadnight, and the three independent non-executive Directors, Mr. T. M. Lazenby M.B.E. (Chairman), Mr. R. L. Sullivan and Mr. R. J. Tennant. It is responsible for recommending new

Corporate Governance

appointments to the Board. Decisions regarding the appointment of Directors are taken by the Board as a whole.

The terms and conditions of appointment of non-executive Directors are available for inspection.

Information and Professional Development

Information is circulated to the Board in a timely fashion to ensure that all Directors are fully briefed on all issues arising at Board meetings. They are free to seek any further information considered necessary.

All Directors have access to the services of the Company Secretary and may take independent professional advice at the Company's expense in the furtherance of their duties.

Performance Evaluation

During the year, a formal performance evaluation of the Board, its committees and its Directors was undertaken. Each Director was required to complete a questionnaire, the responses to which were reviewed by the Board as a whole. The non-executive Directors also met without the executives to consider the performance of the Board and its committees, and without the Chairman to appraise his performance. The executive Directors are subject to a formal appraisal of performance which is reviewed by the Chairman. The Chairman also meets with each non-executive Director to review individual performance. The evaluation concluded that the Board and its committees operated effectively, and that each Director demonstrated commitment to the role and performed effectively.

Re-Election

In accordance with the Company's Articles of Association, all Directors, with the exception of the Managing Director, are required to retire by rotation and one third of the Board must seek re-election each year. All Directors are subject to election at the first Annual General Meeting after their appointment.

REMUNERATION

Policy and practice in relation to Directors' remuneration is dealt with in full in the Report on Remuneration on pages 26 and 27.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board believes that the Annual Report and Accounts play an important part in presenting a clear, balanced and understandable assessment of the Company's position and prospects. This is supported by the Chairman's Statement, together with a more detailed analysis of operations and financial matters in the Operating and Financial Review.

Internal Control

The Directors are responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to minimise rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. There has been no change 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 2009 and up to the date of approval of the Annual Report and Accounts, that it is regularly reviewed by the Directors and that it accords with the internal control guidance for Directors in the Combined Code.

The key procedures, which have been established with a view to providing effective internal control, are as follows:

Organisation

The Company's activities are operated through a Board of Directors with clearly defined reporting lines and delegation of authority. The Directors meet at least monthly to consider a schedule of matters required to be brought to them for decision. A standing sub-committee of the Board meets fortnightly for the purpose of ensuring that full and effective control is maintained over appropriate financial, regulatory and operational issues.

Budgetary Control

Each year the Directors approve an annual plan produced from a comprehensive budgeting system. Actual results are reported against the approved plan on a monthly basis to provide a timely and regular monitoring of performance.

Investment Appraisal

The Company has a clearly defined framework for assessing capital expenditure needs and options. Board approval is required for any project exceeding a quantified expenditure level.

Business, Operational and Compliance Risks

The Company assesses the risks facing its business on an ongoing basis and has identified them under six main headings - operational, water quality, financial, environmental, regulatory and health and safety of employees. They are subject to regular reporting to the Directors. The Board reviews the controls established to mitigate these risks and its insurance requirement on an annual basis. The Directors also receive reports from independent regulatory bodies, which comment on the performance of the core water business.

At the April 2009 Board meeting, the Directors carried out their annual assessment for the year to 31 March 2009, including consideration of events since the year end.

Audit Committee and Auditors

The Audit Committee comprises the three non-executive Directors Mr. R. J. Tennant (Chairman), Mr. T. M. Lazenby M.B.E. and Mr. R. L. Sullivan.

It meets at least three times during the year. The purpose of the Committee is to ensure the preservation of good financial practices throughout the Company, to monitor that controls are in force to ensure the integrity of those practices, to review the interim and annual financial statements and to provide, by way of timely meetings, a line of communication between the Board and the external auditors.

The Committee has formal Terms of Reference, which deal with 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,

Corporate Governance

raise concerns about possible improprieties in matters of financial reporting or other matters.

The Committee reviews the independence and objectivity of the external auditors. This includes reviewing the nature and extent of non-audit services supplied by the external auditors to the Company, seeking to balance objectivity and value for money. The only non-audit services provided during the year were those expected to be provided by the external auditors.

The Committee does not consider that an internal audit function is required for the Company due to the size and nature of the business. This recommendation is reviewed annually.

GOING CONCERN

The Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Report on Remuneration

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 and the Listing Rules of the Financial Services Authority.

INFORMATION NOT SUBJECT TO AUDIT

Remuneration Committee

The Remuneration Committee met only once during the year to consider and approve, on behalf of the Board, the conditions of service of the executive Directors of the Company. It comprises the three independent non-executive Directors, Mr. R. L. Sullivan (Chairman of the Remuneration Committee), Mr. T. M. Lazenby M.B.E. and Mr. R. J. Tennant.

The Level and Make-up of Remuneration

The objective is to attract, retain and motivate high calibre senior executives through pay arrangements which are competitive and fair and reasonable for the responsibilities involved. In addition to individual performance, reference is made to pay levels in companies of similar size and within the same industry.

The remuneration package of the executive Directors, as reported in the accounts, did not include a performance related element. From April 2009 their salary will include a performance related element, which will be based upon the achievement of agreed financial and customer service targets for the whole of the previous year.

All four executive Directors have one year service contracts with the Company, which are in accordance with the Combined Code. None of the executive Directors serves as a non-executive Director for another company. The non-executive Directors do not have service contracts.

Fees payable to the non-executive Directors are determined by the Board as a whole and reflect the time, commitment and responsibilities of the role.

No Director is involved in deciding his own remuneration.

INFORMATION SUBJECT TO AUDIT

Directors' remuneration:	2009 £000	2008 £000
Total remuneration	578	558
Highest paid Director	160	153

Remuneration is analysed by Director below:	Salary/Fees £000	Benefits £000	Total 2009 £000	Total 2008 £000
Executive:				
J. E. Cogley	102	12	114	110
A. R. Neve	102	9	111	107
N. J. Roadnight	144	16	160	153
N. Smith	108	14	122	118
Non-executive:				
T. M. Lazenby M.B.E. (Chairman)	31	-	31	30
R. L. Sullivan	20	-	20	20
R. J. Tennant	20	-	20	20
	527	51	578	558

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

Long-term incentive schemes

The Company does not operate any long-term performance linked bonus scheme.

Share options

The Company does not operate an Executive Share Option Scheme.

The Directors' holdings of shares in South Downs Capital Limited, the ultimate parent undertaking, are detailed below and, in total, represent 15% of the issued share capital of that Company. They have no interests in the shares of Portsmouth Water Limited.

	'C' Ordinary Shares
J. E. Cogley	30
A. R. Neve	30
N. J. Roadnight	48
N. Smith	42

Report on Remuneration

Pensions

The Company participates in the Brockhampton Pension Scheme to provide defined benefits based primarily on final pensionable pay for its employees, including the executive Directors. The maximum pension payable under this Scheme is $\frac{2}{3}$ of final pensionable pay.

Benefits in kind relating to company cars are considered to be part of pensionable pay for all employees under the Scheme.

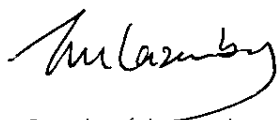
The executive Directors have accrued pension benefits under the Brockhampton Pension Scheme, which is a defined benefits scheme, during the year as detailed below:

	Increase in Accrued Pension During Year to 31 March 2009 £000	Transfer Value of Increase £000	Accumulated Accrued Pension at 31 March 2009 £000	Accumulated Accrued Pension at 31 March 2008 £000
J. E. Cogley	1	25	68	64
A. R. Neve	1	23	69	64
N. J. Roadnight	3	47	93	86
N. Smith	2	27	56	52

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.

The increase in accrued pension excludes any increase for inflation.

The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The transfer value of the increase (excluding inflation) is then reduced by the amount of each member's contribution paid during the year.



By order of the Board

T. M. Lazenby M.B.E.

Chairman

Havant

28 May 2009

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Company law in the United Kingdom requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for:

- keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985;
- safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities; and
- under applicable law and regulations, including the Disclosure and Transparency Rules, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with 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 2009; and
 - the Directors' Report and information referenced therein, taken together, includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

C. Hardyman
Secretary
Havant
28 May 2009



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 2009, 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. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein. We have also audited the information in the Report on Remuneration that is described as having been audited.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Report on Remuneration to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Report on Remuneration to be audited have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We also, at the request of the directors (because the Company applies the Financial Services Authority Listing Rules as if it were a listed company), review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2006 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the unaudited part of the Report on Remuneration, the Chairman's Statement and the Operating and Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with

the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Report on Remuneration to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Report on Remuneration to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Report on Remuneration to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2009 and of its profit for the year then ended;
- the financial statements and the part of the Report on Remuneration to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements for the year ended 31 March 2009


Saffery Champness
 Chartered Accountants
 Registered Auditors
 Lion House
 Red Lion Street
 London
 WC1R 4GB
 28 May 2009

Profit and Loss Account

For the year ended 31 March 2009

	Notes	2009 £000	2008 £000
Turnover	2	35,404	33,906
Cost of sales		(18,961)	(17,078)
Gross profit		16,443	16,828
Net operating expenses	3	(9,454)	(9,243)
Operating profit		6,989	7,585
(Loss) on sale of fixed assets		(37)	(183)
Profit on ordinary activities before interest		6,952	7,402
Interest receivable	5	4,537	4,331
Other finance income	28	1,676	2,851
		13,165	14,584
Interest payable and similar charges	6	(7,351)	(6,215)
Profit on ordinary activities before taxation	7	5,814	8,369
Taxation on profit on ordinary activities	8	(1,683)	(147)
Profit for the financial year	20	4,131	8,222

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 2009

	Notes	2009 £000	2008 £000
Profit for the financial year		4,131	8,222
Actuarial (loss)/gain on pension scheme	28	(13,020)	7,602
Deferred tax relating to actuarial loss/(gain) on pension scheme	17	3,646	(2,129)
Effect of change to corporation tax rate on pension asset		-	(292)
Total recognised gains and losses relating to the year		(5,243)	13,403

The accompanying notes form an integral part of these accounts.

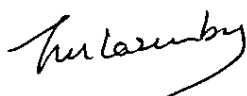
Balance Sheet

As at 31 March 2009

	Note	2009 £000	2009 £000	2008 £000	2008 £000
Fixed assets					
Tangible assets	10	90,459		87,308	
Investments	11	60,633	151,092	60,478	147,786
Current assets					
Stocks		415		468	
Debtors	12	4,032		4,049	
Investments	13	4		4	
Cash at bank and in hand	14	2,604		2,494	
		7,055		7,015	
Creditors: amounts falling due within one year	15	(17,054)		(18,016)	
Net current liabilities			(9,999)		(11,001)
Total assets less current liabilities			141,093		136,785
Creditors: amounts falling due after more than one year	16		(81,263)		(77,239)
Provisions for liabilities	17		(9,131)		(8,344)
Net assets excluding pension asset			50,699		51,202
Pension asset	28		12,180		21,584
Net assets including pension asset			62,879		72,786
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		57,012		66,919
Shareholders' funds	21		62,879		72,786

The accompanying notes form an integral part of these accounts.

The accounts were authorised for issue and approved by the Board on 28 May 2009, and signed on its behalf by;



T. M. Lazenby M.B.E.
Chairman

Cash Flow Statement

For the year ended 31 March 2009

	Notes	2009 £000	2009 £000	2008 £000	2008 £000
Net cash inflow from operating activities	22		16,719		15,996
Returns on investments and servicing of finance					
Interest received		4,417		3,780	
Interest paid		(3,327)	1,090	(3,257)	523
Taxation					
UK corporation tax paid		(724)		(687)	
Payments for group relief		(1,284)	(2,008)	(1,223)	(1,910)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(11,521)		(12,914)	
Sale of tangible fixed assets		19		32	
Capital contributions received		890	(10,612)	753	(12,129)
Equity dividends paid			(5,079)		(4,946)
Cash inflow/(outflow) before management of liquid resources and financing			110		(2,466)
Management of liquid resources					
(Purchase) of short term deposits			-		(60)
Financing					
New loans			-		2,500
Increase/(decrease) in cash in the year	23		110		(26)

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 1985, except for the treatment of capital contributions as detailed in note 1.(c).

In view of the licence conditions under which the Company operates as a water supplier, it has to publish information about its annual results as if it were a company covered by the Listing Rules of the Financial Services Authority, except where it is considered inappropriate to do so. Earnings per share disclosures required by FRS 22 are not presented as the Company is a wholly owned subsidiary.

The principal accounting policies, which have been applied consistently, are as follows:

(a) Turnover

Turnover, which excludes value added tax, represents the income receivable for goods and services provided to external customers in the ordinary course of business. It comprises the value of water supplied and other related charges. Turnover from the regulated water business includes amounts billed for the year, together with an estimation of amounts unbilled at the year end, for measured water customers. Unmeasured income bills are based on the rateable value of properties. Measured income arises from customers who have meters fitted at their premises and amounts billed, therefore, are based on actual water consumption. The estimation of the amounts unbilled at the year end uses a defined methodology based upon a measure of unbilled water consumed, which is calculated from historical customer data.

(b) Fixed assets

(i) Infrastructure assets - mains

Infrastructure assets comprise a network of systems. Expenditure on infrastructure assets relating to increases in capacity or enhancement of the network and on maintaining the operating capability of the network in accordance with defined standards of service is treated as an addition and included in tangible fixed assets at cost.

The 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

Depreciation is provided on all other fixed assets with the exception of freehold land. It is calculated to write off the cost of assets less estimated residual values over their estimated useful economic lives using the straight line method. Those lives are estimated as follows:

Buildings and Reservoirs	100 years
Pumping Plant	15-25 years
Vehicles and Mobile Plant	5-7 years
Office Equipment	7 years

(c) Capital contributions

(i) Mains contributions

In certain circumstances third parties make non-returnable contributions towards the cost of specific infrastructure assets. They are treated as capital contributions and the Directors consider it appropriate that, in order to present a true and fair view, they should be deducted from fixed assets, as shown in note 10 to the accounts on page 37. In accordance with the Companies Act 1985 requirement to include fixed assets at cost, such contributions would normally be treated as deferred income and released to the profit and loss account over the useful life of the corresponding assets. However, the assets to which they relate do not have determinable finite lives and, accordingly, no basis exists on which to recognise those contributions as deferred income.

(ii) Infrastructure charges

Infrastructure charges are made in respect of new connections in accordance with Condition 'C' of the Instrument of Appointment. These charges are treated as capital contributions and deducted from fixed assets, as more fully explained in note 1.(c)(i) above.

(d) Investments

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

(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.

Notes to the Accounts

(f) Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or the right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

The deferred tax balances have been discounted using a post-tax yield to maturity that could be obtained at the balance sheet date on government bonds with maturity dates similar to those of the deferred tax liabilities.

(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 43 and 44.

(i) Financial instruments

The Company's financial instruments consist of loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments.

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 using the effective rate method.

Other financial assets consist of short term bank deposits and are classified as financial assets at fair value through the profit and loss account. They are measured at fair value.

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 financial liabilities and are measured at amortised cost. There are also variable rate loans which are measured at fair value.

Notes to the Accounts

2 Turnover	2009	2008
	£000	£000
Unmeasured supplies	22,367	21,546
Measured supplies	11,517	10,636
Bulk supply to Southern Water Services	518	530
Chargeable work	1,002	1,194
	35,404	33,906

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

3 Net operating expenses	2009	2008
	£000	£000
Administrative expenses	9,665	9,506
Other operating income	(211)	(263)
	9,454	9,243

4 Directors and employees	2009	2008
	£000	£000
Employment costs:		
Wages and salaries	5,946	5,593
Social security costs	470	448
Other pension costs (note 28)	1,718	2,304
	8,134	8,345
Transferred to capital schemes	(108)	(67)
Net employment costs	8,026	8,278

Average numbers employed during year:	2009	2008
	Number	Number
Operations	144	143
Administration	74	73
	218	216

Directors' remuneration:	2009	2008
	£000	£000
Total remuneration	578	558
Highest paid Director	160	153

Further details relating to Directors' remuneration are set out in the Report on Remuneration on pages 26 and 27. The information set out in that Report which is subject to audit forms part of these financial statements.

5 Interest receivable	2009	2008
	£000	£000
Loan to Group company	4,303	4,223
Interest on short term deposits	81	78
Repayment interest	138	-
Other interest receivable	15	30
	4,537	4,331

6 Interest payable and similar charges	2009	2008
	£000	£000
£66.5m. loan		
- interest	2,956	2,827
- indexation	3,967	2,900
- amortisation of fees	57	57
- administration expenses	22	22
	7,002	5,806
Other bank loans and overdraft	312	384
Debenture stocks	10	10
Other interest payable	27	15
	7,351	6,215

Notes to the Accounts

7 Profit on ordinary activities before taxation	2009	2008
	£000	£000
Profit on ordinary activities is after charging:		
Depreciation		
- infrastructure assets	4,420	3,633
- non infrastructure assets	3,264	3,027
Rates	2,360	2,267
Water abstraction charges	1,865	1,718
Auditors' remuneration:		
Audit services	28	27
Non-audit services	33	16
- statutory audit	1	3
- regulatory reporting	3	2
- taxation		
- general advice		
Fees in respect of the Brockhampton Pension Scheme	2	2
- statutory audit*		
Hire of plant and machinery	10	51
Other operating leases	345	345

* These fees are not paid by Portsmouth Water Limited.

8 Taxation	2009	2008
	£000	£000
Current tax		
United Kingdom corporation tax at 28% (2008 - 30%)	1,430	1,951
Adjustment in respect of prior periods	(522)	(7)
	908	1,944
Deferred tax		
Origination and reversal of timing differences	644	915
Decrease/(increase) in discount	143	(141)
Effect of removal of industrial buildings allowances	-	(1,403)
Effect of changes to corporation tax and capital allowance rates	-	(592)
Difference between pension cost charge and pension cost relief	(12)	153
Effect of change to corporation tax rate on pension asset	-	(729)
	775	(1,797)
Tax on profit on ordinary activities	1,683	147

The adjustment in respect of prior periods relates to a tax refund received following a change in the tax treatment of infrastructure renewals expenditure.

The tax charge for the year is lower (2008 - lower) than the standard rate of corporation tax in the UK of 28% (2008 - 30%). The difference is explained as follows:

	2009	2008
	£000	£000
Profit on ordinary activities before tax	5,814	8,369
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008 - 30%)	1,628	2,511
Effect of:		
Expenses not deductible for tax purposes	23	69
Capital allowances for the period in excess of depreciation	(447)	(671)
Revenue items charged to capital	214	206
Difference between pension cost charge and pension cost relief	12	(164)
Adjustments to tax charge in respect of prior periods	(522)	(7)
Current tax charge for year	908	1,944

9 Dividends	2009	2008
	£000	£000
Equity: Ordinary/A' Ordinary		
Interim paid	2,576	2,422
Final paid	2,088	1,640
Special paid	-	147
	4,664	4,209

The Directors are proposing the payment of a final dividend of £2.613m for the year ended 31 March 2009. 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 2008	42,518	102,039	32,363	10,851	187,771
Additions	1,026	7,586	1,418	1,751	11,781
Disposals	(9)	(246)	-	(740)	(995)
At 31 March 2009	43,535	109,379	33,781	11,862	198,557
Depreciation					
At 1 April 2008	6,837	58,854	9,787	7,097	82,575
Charge for year	398	4,420	1,775	1,091	7,684
Disposals during year	(2)	(246)	-	(691)	(939)
At 31 March 2009	7,233	63,028	11,562	7,497	89,320
Net book value					
At 31 March 2009	36,302	46,351	22,219	4,365	109,237
At 31 March 2008	35,681	43,185	22,576	3,754	105,196
Capital contributions					
At 1 April 2008	-	17,888	-	-	17,888
Received during year	-	890	-	-	890
At 31 March 2009	-	18,778	-	-	18,778
Net book value after deducting capital contributions					
At 31 March 2009	36,302	27,573	22,219	4,365	90,459
At 31 March 2008	35,681	25,297	22,576	3,754	87,308
11 Fixed asset investments				Loans to Group undertakings £000	
At 1 April 2008				60,478	
Additions				155	
At 31 March 2009				60,633	

Notes to the Accounts

12 Debtors	2009	2008
	£000	£000
Trade debtors	1,133	1,064
Amounts owed by Group companies	26	66
Prepayments and accrued income	2,749	2,811
Other debtors	124	108
	4,032	4,049

All of the above amounts fall due within one year.

As at 31 March 2009, trade debtors with a carrying value of £2.919m (2008 - £2.573m) were impaired and provided for. Aged debtors are provided for in full, but only an element of current debt is provided for. The amount of the provision was £2.042m as at 31 March 2009 (2008 - £1.794m).

The ageing of these debtors was as follows:

	2009	2008
	£000	£000
Up to 12 months	1,137	976
Over 12 months	1,782	1,597
	2,919	2,573

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:

	2009	2008
	£000	£000
At 1 April 2008	1,794	1,607
Provision for bad debt required in the year	589	396
Debt written off in the year as uncollectable	(341)	(209)
At 31 March 2009	2,042	1,794

The other classes within debtors do not contain balances that may be irrecoverable. The maximum exposure to credit risk at the reporting date is the fair value of each class of debtor mentioned above. The Company does not hold any collateral as security.

13 Current asset investments

Unlisted investments: £4,000 (2008 - £4,000).

14 Cash at bank and in hand

Of the total amount shown of £2.604m, £1.464m (2008 - £1.463m) is held specifically for the payment of the next half yearly loan interest charges.

15 Creditors: amounts falling due within one year	2009	2008
	£000	£000
3% Perpetual debenture stock	60	60
3½% Perpetual debenture stock	185	185
4% Perpetual debenture stock	39	39
Bank loan	4,000	4,000
Payments received on account	972	1,273
Trade creditors	920	714
Amounts owed to Group companies	2,600	3,015
Corporation tax	-	995
Social security and other taxation	215	208
Other creditors	2,431	2,203
Accruals	574	463
Water rates in advance	5,058	4,861
	17,054	18,016

The £4.0m. bank loan is part of a five year £15m. working capital facility, which is secured upon the assets of the Company and bears interest at London Interbank rates.

Notes to the Accounts

16 Creditors: amounts falling due after more than one year	2009	2008
	£000	£000
In five years or more:		
Bank loan	82,600	78,633
Less: deferred arrangement costs	1,337	1,394
	81,263	77,239

The thirty year £66.5m. index-linked loan was issued on 26 June 2002 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 inflated amount at 3.635% per annum.

17 Provisions for liabilities	2009	2008
	£000	£000
Deferred taxation:		
At 1 April 2008	8,344	9,565
Provided during the year in profit and loss account	787	(1,221)
At 31 March 2009	9,131	8,344

The total deferred tax balance before the effect of discounting is £10.069m. (2008 - £9.426m.). The amount provided for deferred taxation represents timing differences caused by the excess of tax allowances over depreciation.

	2009	2008
	£000	£000
Deferred tax excluding that relating to pension asset:		
Accelerated capital allowances	9,131	8,344
Pension asset (note 28)	4,736	8,394
Total provision for deferred tax	13,867	16,738
At 1 April 2008	16,738	16,114
Deferred tax charge in profit and loss account (note 8)	775	(1,797)
Deferred tax charged to the statement of total recognised gains and losses	(3,646)	2,421
At 31 March 2009	13,867	16,738

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 £0.694m. (2008 - £0.694m.). At present it is not envisaged that any tax will become payable in the foreseeable future.

Notes to the Accounts

18 Financial instruments

The Financial Review on page 8 provides an explanation of the objectives and policies for holding financial instruments. The numerical disclosures in this note deal with financial assets and liabilities. Short term debtors and creditors have been excluded from all disclosures. The fair value of all financial instruments is not materially different to the book value.

Financial assets

The financial assets of the Company are detailed below. The fixed asset investment earns interest based on London Interbank rates. Cash at bank and in hand includes a sterling cash deposit of £1.460m., which is placed on the money market at a six monthly rate and is held specifically for the payment of the next half yearly loan interest charges. The remaining cash balances on bank accounts receive interest at commercial rates.

Financial liabilities

The Company has no foreign currency contracts. The interest rate profile of its financial liabilities at 31 March 2009 is detailed below:

Sterling	2009 £000	2008 £000
Assets		
Fixed asset investment	60,633	60,478
Current asset investments	4	4
Cash at bank and in hand	2,604	2,494
	63,241	62,976

Sterling	Fixed Rate 2009 £000	Fixed Rate 2008 £000	Floating Rate 2009 £000	Floating Rate 2008 £000	Total 2009 £000	Total 2008 £000
Liabilities						
Bank loans and overdraft	81,263	77,239	4,000	4,000	85,263	81,239
Debenture stock	284	284	-	-	284	284
	81,547	77,523	4,000	4,000	85,547	81,523

Fixed rate	Weighted Average Interest Rate %	Weighted Average Interest Rate %	Weighted Average Period for which Rate is Fixed Years	Weighted Average Period for which Rate is Fixed Years
Sterling	2009	2008	2009	2008
	3.6	3.6	23	24

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 2009 is detailed below:

	2009 £000	2008 £000
In one year or less	4,284	4,284
In more than five years	81,263	77,239
	85,547	81,523

The Company had undrawn committed borrowing facilities at 31 March 2009, in respect of which all conditions precedent had been met, as follows:

	2009 £000	2008 £000
Expiring in one year or less	2,000	2,000
Expiring between one and two years	11,000	-
Expiring in more than two years	-	11,000
	13,000	13,000

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

Notes to the Accounts

19 Called up share capital	2009 £000	2008 £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 2008	1,539	3,250	66,919
Profit for the financial year	-	-	4,131
Dividends	-	-	(4,664)
Actuarial (loss) on pension scheme	-	-	(13,020)
Movement on deferred tax relating to pension scheme	-	-	3,646
At 31 March 2009	1,539	3,250	57,012

21 Reconciliation of movements in shareholders' funds	2009 £000	2008 £000
Profit for the financial year	4,131	8,222
Dividends	(4,664)	(4,209)
	(533)	4,013
Actuarial (loss)/gain on pension scheme	(13,020)	7,602
Movement on deferred tax relating to pension scheme	3,646	(2,129)
Effect of change to corporation tax rate on pension asset	-	(292)
Net (reduction)/addition to shareholders' funds	(9,907)	9,194
Opening shareholders' funds	72,786	63,592
Closing shareholders' funds	62,879	72,786

22 Reconciliation of operating profit to net cash inflow from operating activities	2009 £000	2008 £000
Operating profit	6,989	7,585
Other pension costs	1,718	2,304
Depreciation charge	7,684	6,660
Decrease/(increase) in stocks	53	(6)
Decrease/(increase) in debtors	110	(316)
Increase/(decrease) in creditors	165	(231)
Net cash inflow from operating activities	16,719	15,996

Notes to the Accounts

23 Reconciliation of net cash flow to movement in net debt	2009	2008
	£000	£000
Increase/(decrease) in cash in the year	110	(26)
Cash outflow from increase in liquid resources	-	60
Cash (inflow) from (increase) in debt	-	(2,500)
Change in net debt resulting from cash flows	110	(2,466)
Non cash movement	(4,024)	(2,957)
Movement in net debt in the year	(3,914)	(5,423)
Net debt at 1 April 2008	(79,025)	(73,602)
Net debt at 31 March 2009	(82,939)	(79,025)

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	Cash	Non cash	At
	1 April 2008	Flow	Movements	31 March 2009
	£000	£000	£000	£000
Cash at bank and in hand	1,034	110	-	1,144
Debt falling due within one year	(4,284)	-	-	(4,284)
Debt falling due after one year	(77,239)	-	(4,024)	(81,263)
	(81,523)	-	(4,024)	(85,547)
Short term deposits	1,460	-	-	1,460
Current asset equity investments	4	-	-	4
	1,464	-	-	1,464
	(79,025)	110	(4,024)	(82,939)

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

25 Capital commitments	2009	2008
	£000	£000
Contracted for but not provided in these financial statements	4,609	3,158

The Company has a further commitment under operating leases relating to computer hardware and associated software of £0.339m. per annum (2008 - £0.345m.) which expire as set out below:

	2009	2008
	£000	£000
Within one year	-	345
Within two to five years	339	-

26 Contingent liabilities

There were no reportable contingent liabilities at 31 March 2009 or at 31 March 2008.

27 Ultimate parent undertaking

Portsmouth Water Limited is a wholly-owned subsidiary of Portsmouth Water Holdings Limited and has, therefore, taken advantage of the exemption under FRS 8 : Related Party Disclosures not to provide information on related party transactions with other undertakings within the Group. The ultimate parent undertaking is South Downs Capital Limited and is the largest and smallest company for which Group accounts are prepared. Copies of these accounts can be obtained on request from the Registered Office.

Notes to the Accounts

28 Pensions

Portsmouth Water Limited is the principal employer and its parent company, Brockhampton Holdings Limited, is the participating employer in the Brockhampton Pension Scheme. This scheme provides defined benefits based primarily on final pensionable earnings. The assets of the scheme are held in a separate trustee administered fund.

The formal actuarial valuation as at 31 March 2008 was updated to the accounting date by an independent qualified actuary in accordance with FRS 17. As required by FRS 17, the value of the defined benefit liabilities has been measured using the projected unit method.

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

	2009 % per annum	2008 % per annum	2007 % per annum
Price inflation	3.2	3.7	3.2
Discount rate	6.9	6.7	5.2
Pension increases (RPI)	3.2	3.7	3.2
Salary growth	5.45	6.45	5.95

On the basis of the assumptions used for life expectancy, a male pensioner currently aged 60 would be expected to live for a further 28.6 years (2008 - 26.8 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:

	2009 Expected Return % per annum	2009 Fair Value £000	2008 Expected Return % per annum	2008 Fair Value £000	2007 Expected Return % per annum	2007 Fair Value £000
Equities	8.0	53,382	7.7	66,777	7.8	76,283
Bonds	4.2	29,017	4.5	33,139	4.5	27,670
Other	1.9	4,325	3.9	7,780	5.4	4,758
	6.4	86,724	6.4	107,696	6.9	108,711

The expected return on assets is derived by taking the weighted average of the long-term expected return on each of the asset classes.

	2009 £000	2008 £000
Total fair value of scheme assets	86,724	107,696
FRS 17 value of scheme liabilities	69,808	77,718
Gross pension asset	16,916	29,978
Related deferred tax liability	4,736	8,394
Net pension asset	12,180	21,584

Under FRS 17, the scheme is represented on the balance sheet at 31 March 2009 as an asset of £16.916m (2008 - £29.978m), which amounts to £12.180m net of deferred tax (2008 - £21.584m).

The Company remains on a contribution holiday at the present time, although it has agreed to begin paying contributions from 1 April 2010 at a rate of 12.4% of earnings. Members pay contributions at a rate of 5% of earnings.

Notes to the Accounts

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

	2009 £000	2008 £000
Opening scheme liabilities	77,718	86,882
Employer's part of current service cost	1,718	2,304
Interest cost	5,175	4,500
Contributions by scheme participants	277	177
Benefits paid	(2,968)	(3,161)
Actuarial gain	(12,112)	(12,984)
Closing scheme liabilities	69,808	77,718

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

	2009 £000	2008 £000
Opening fair value of scheme assets	107,696	108,711
Expected return on assets	6,851	7,351
Contributions by scheme participants	277	177
Benefits paid	(2,968)	(3,161)
Actuarial loss	(25,132)	(5,382)
Closing fair value of scheme assets	86,724	107,696

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

	2009 £000	2008 £000
Current service cost (employer's part only)	1,718	2,304
Past service credit	-	-
Total operating charge	1,718	2,304

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

	2009 £000	2008 £000
Expected return on pension scheme assets	6,851	7,351
Interest on post retirement liabilities	(5,175)	(4,500)
Net return	1,676	2,851
Total (expense)/credit recognised in the profit and loss account	(42)	547

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

	2009 £000	2008 £000
Actual return less expected return on scheme assets	(25,132)	(5,382)
Experience gains arising on scheme liabilities	4,722	-
Gain due to changes in assumptions underlying the FRS 17 value of scheme liabilities	7,390	12,984
Actuarial (loss)/gain recognised in the STRGL	(13,020)	7,602

The actual return on plan assets was a loss of £18.281m in the year to 31 March 2009 (2008 - gain of £1.969m).

The history of experience gains and losses is:

	2009	2008	2007	2006	2005
Present value of scheme liabilities (£000)	(69,808)	(77,718)	(86,882)	(84,086)	(71,593)
Total fair value of scheme assets (£000)	86,724	107,696	108,711	104,899	87,984
Surplus (£000)	16,916	29,978	21,829	20,813	16,391
Actual return less expected return on scheme assets (£000)	(25,132)	(5,382)	(535)	13,587	3,565
Percentage of scheme's assets	(29)%	(5)%	0%	13%	4%
Experience gains arising on scheme's liabilities (£000)	4,722	-	-	65	61
Percentage of the FRS 17 value of the scheme's liabilities	7%	-	-	-	-
Total amount recognised in the STRGL (£000)	(13,020)	7,602	(519)	4,527	2,237
Percentage of the FRS 17 value of the scheme's liabilities	19%	10%	0%	5%	3%

The cumulative amount recognised in the STRGL as at 31 March 2009 was a loss of £19.997m (2008 - loss of £6.977m).

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 2009, on the following business:

1. To receive and consider the Directors' Report and Accounts for the year ended 31 March 2009 and the Auditors' Report thereon.
2. To re-elect Mr. N. Smith a Director of the Company.
3. To re-elect Mr. A. R. Neve a Director of the Company.
4. To reappoint Saffery Champness as Company Auditors and to authorise the Directors to fix their remuneration.

Registered Office

PO Box 8
West Street Havant
Hants PO9 1LG
28 May 2009

By order of the Board
C. Hardyman
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	2009	2008
a) Gearing - Debt/RCV	£000	£000
(i) Debt		
Bank loan (note 16)	82,600	78,633
Bank loan (note 15)	4,000	4,000
Debenture stock (note 15)	284	284
Cash at bank and in hand	(2,604)	(2,494)
	84,280	80,423

For the purposes of this ratio, debt excludes the deferred arrangement costs of £1.337m (note 16) and the current asset investment of £0.004m (note 13).

(ii) Regulatory Capital Value (RCV)

Value established by Ofwat in Final Determination in 2004

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.

	2009	2008
	£000	£000
Regulatory capital value indexed to 31 March	108,896	111,172
(iii) Gearing - Debt/RCV ratio (i) ÷ (ii)	77.4%	72.3%

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 32 and is calculated as follows:

	2009	2008
	£000	£000
Net cash flow from operating activities	16,719	15,996
Interest received	4,417	3,780
Taxation	(2,008)	(1,910)
Capital expenditure	(10,612)	(12,129)
New borrowings	-	2,500
	8,516	8,237
(ii) Interest paid	3,327	3,257
(iii) Cash interest cover ratio (i) ÷ (ii)	2.56	2.53

KPI - 2 and 3 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 - 4 Water Quality

This indicator is based on figures reported to the DWI.

KPI - 5 Efficiency

The results for this indicator are provided by Ofwat in its publication 'Water and Sewerage Unit Costs and Efficiency'.

KPI - 6 Leakage

This indicator is based on figures supplied to Ofwat and confirmed in its report 'Security of Supply, Leakage and the Efficient Use of Water'. The figures for 2008/09 have been supplied to Ofwat, but will not be confirmed in the Ofwat document until later in 2009.