

PORTSMOUTH WATER LIMITED



**Unaudited interim results
for the six months ended
30 September 2014**

CHAIRMAN'S STATEMENT

The Company remains focused on delivering our customers with the highest levels of customer service and excellent value for money. Continued progress has been made in both of these areas.

Financial Results

In the six months to 30 September 2014 turnover increased by 4.0% to £18.9m (2013: £18.2m). The increases arose from measured water revenue, which was £0.5m higher than the previous period, and an increase in revenue from chargeable works of £0.3m. Measured revenue was higher due to a 2% increase in consumption, mostly as a result of the increase in the measured customer base arising from the continuation of optional metering, higher standing charges and the 2.6% volumetric tariff increase from 1 July 2014. The revenue increase from rechargeable works arose as a result of higher activity on both new services and diversionary work.

Operating profit remained in line with the previous period, as analysed below:

6 months to the 30 September	2014	2013
	£m	£m
Turnover	18.9	18.2
Operating cost excluding depreciation and FRS17 pension charge	<u>10.8</u>	<u>10.3</u>
Operating Profit before depreciation and FRS17 pension charge	8.1	7.9
Depreciation (including renewals)	4.5	4.4
FRS17 pension charge	0.2	0.1
Total Operating Profit	<u>3.4</u>	<u>3.4</u>

Operating costs excluding depreciation and the FRS17 pension charge increased by £0.5m to £10.8m in the first half of the year. The increase in operating costs arises mainly from general cost increases across the business, in particular staff costs, and also an increase in rechargeable work costs connected with the higher activity. The FRS17 pension charge is an estimate based on the full year charge to March 2014. Operating costs are below the level assumed by Ofwat at the Final Determination.

Interest receivable was in line with the previous year as LIBOR rates have remained virtually unchanged. Interest payable was lower than the previous year as borrowings have been lower this year.

As a result of the above, profit before tax was £1.8m (2013: £1.6m).

Taxation for the first six months of the year was £0.2m (2013: £0.3m). Of this £0.1m relates to deferred tax on the estimated increase in the pension asset, and a further £0.1m relates to current tax, which is based on an estimate of what the full year charge is likely to be at the 2015 year end.

The Company has a low tax charge mainly due to the fact that it benefits from relief obtained by the claiming of capital allowances on its capital expenditure programme.

Net cashflow from operating activities was £7.2m, £1.1m higher than for the same period last year, largely as a result of more positive movements in working capital.

Capital expenditure at £5.0m (2013: £5.3m) includes £2.7m of mains renewals (2013: £2.7m). The most significant expenditure has been on mains for new developments, metering and small plant, vehicles and office systems.

Service to Customers

The Company consistently receives the lowest level of complaints of any water company in England and Wales and the analysis produced by the Consumer Council for Water for 2013/14 confirms this standard was maintained.

We received 8 complaints per 10,000 customers versus an average of 40 across the country. However in the six months to September 2014, complaints have increased on last year's figures although we would still expect to record the lowest level in the Industry.

Ofwat, the economic industry regulator, monitor service performance by a series of customer surveys. In the surveys conducted for the first six months of 2014/15 Portsmouth Water is shown as having the best performance.

Periodic Revenue 2014

In the Draft Determination published in August 2014, the revenue limits proposal by Ofwat were close to those in the Company's revised Business Plan. We were one of only two companies who were allowed a premium to the Industry weighted average cost of capital, although this was 0.15% as opposed to the 0.5% proposed by the Company.

The Company's Business Plan for the Period 2015-2020 was based on delivering the outcomes that our customers value whilst enabling average bills to remain constant in real terms – only increasing by the changes in RPI over the period. The Plan was regarded as being of high quality by the Portsmouth Water Customer Challenge Group, Ofwat and our customers.

The business awaits the Final Determination by Ofwat on 12 December and the investment team led by Rod Porteous are well advanced in planning their approach to delivering the Capital Programme identified in the Business Plan.

Water Resources Management Plan

Each water company in England and Wales is required to publish a Water Resources Management Plan which considers the requirement for public water supplies covering the next 25 years and how any shortfall in resources must be met. The plans are subject to public consultation and must be approved by the Secretary of State for the Environment, Food and Rural Affairs (DEFRA).

Our Draft Plan was approved by the Secretary of State and our Final Plan was published in July 2014.

Market Reform

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

Information Systems

In 2012 we implemented a new billing and customer relationship management system. We are currently in the process of developing a new works management and asset management system, the first part of which went live in August 2014 with the remainder due to be implemented in late 2015.

Organisational Changes

Terry Lazenby retired as Chairman after 12 years as a Director of the Company. I would like to take this opportunity to thank him for his contribution to the success of the Company during this period.

Martin Johnson was appointed as an Independent Non-Executive Director in July 2014. Martin is Managing Director of BMI Healthcare.

Nick Sheeran has decided to step down from his position as Finance and Regulation Director effective from 1 January 2015.

I would like to thank Nick for his contribution over the last three years.

Staff

The Board is committed to providing a safe and healthy environment for its employees and is proud of the ongoing progress being made by staff in safety matters.

In the next few years we will have to prepare for Market Reform and deliver significant changes to our Information Systems. I have every confidence in the ability of the staff to deliver these changes whilst continuing to provide excellent service to customers.

M KIRK
Chairman
28 November 2014

**UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS
ENDED 30 SEPTEMBER 2014**

	6 months ended 30.9.14 <u>£000</u>	6 months ended 30.9.13 <u>£000</u>	12 months ended 31.3.14 <u>£000</u>
TURNOVER	18,881	18,163	37,109
OPERATING PROFIT			
Water supply	3,136	3,274	5,577
Chargeable works	301	104	309
	3,437	3,378	5,886
Profit/(loss) on sale of fixed assets	(1)	1	(10)
PROFIT ON ORDINARY ACTIVITIES BEFORE EXCEPTIONAL ITEM	3,436	3,379	5,876
Exceptional item	-	-	(611)
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST	3,436	3,379	5,265
Interest receivable	477	482	961
Other finance income	949	949	1,636
	4,862	4,810	7,862
Interest payable and similar charges	(3,028)	(3,240)	(6,533)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1,834	1,570	1,329
Taxation (charge)/credit on profit on ordinary activities	(227)	(277)	2,331
PROFIT FOR THE FINANCIAL PERIOD	1,607	1,293	3,660

**SUMMARISED BALANCE SHEET
AS AT 30 SEPTEMBER 2014**

	As at 30.9.14	As at 30.9.13	As at 31.3.14
	<u>£000</u>	<u>£000</u>	<u>£000</u>
FIXED ASSETS	156,490	159,639	159,427
CURRENT ASSETS	9,368	10,324	11,809
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	(11,715)	(18,292)	(19,118)

NET CURRENT LIABILITIES	(2,347)	(7,968)	(7,309)
TOTAL ASSETS LESS CURRENT LIABILITIES	154,143	151,671	152,118
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR	(95,428)	(92,718)	(94,216)
PROVISIONS FOR LIABILITIES	(8,021)	(9,414)	(8,021)
NET ASSETS EXCLUDING PENSION ASSET	50,694	49,539	49,881
PENSION ASSET	16,729	15,978	16,130
NET ASSETS INCLUDING PENSION ASSET	<u>67,423</u>	<u>65,517</u>	<u>66,011</u>
CALLED UP SHARE CAPITAL	1,078	1,078	1,078
RESERVES	66,345	64,439	64,933
SHAREHOLDERS' FUNDS	<u>67,423</u>	<u>65,517</u>	<u>66,011</u>

**SUMMARISED CASH FLOW STATEMENT FOR THE
SIX MONTHS ENDED 30 SEPTEMBER 2014**

	6 months ended 30.9.14	6 months ended 30.9.13	12 months ended 31.3.14
	<u>£000</u>	<u>£000</u>	<u>£000</u>
NET CASH INFLOW FROM OPERATING ACTIVITIES	7,195	6,121	15,140
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(1,348)	(1,313)	(2,638)
TAXATION	5	(412)	(412)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(3,842)	(4,758)	(10,625)
EQUITY DIVIDENDS PAID	(195)	(556)	(1,107)
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CASH INFLOW/(OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING	1,815	(918)	358
MANAGEMENT OF LIQUID RESOURCES	(25)	(25)	(42)
FINANCING	(2,200)	1,584	84
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(DECREASE)/INCREASE IN CASH	(410)	641	400
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NOTES

1. The interim results for the six months to 30 September 2014 have been prepared on the basis of accounting policies consistent with those adopted for the year ended 31 March 2014.

The interim financial information is unaudited and does not constitute statutory accounts as defined in s.434 of the Companies Act 2006. The results for the year to 31 March 2014 have been extracted from the latest published accounts, which have been filed with the Registrar of Companies and on which the report of the auditors was unqualified.

2. The tax charge is based on the estimated effective rate of tax, including deferred tax, for the full year to 31 March 2015.

3. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	6 months ended 30.9.14	6 months ended 30.9.13	12 months ended 31.3.14
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Profit for the financial period	1,607	1,293	3,660
Dividends	(195)	(556)	(1,107)
	<u>1,412</u>	<u>737</u>	<u>2,553</u>
Actuarial (loss) on pension scheme (net of deferred tax)	-	-	(1,322)
	<u>1,412</u>	<u>737</u>	<u>1,231</u>
Opening shareholders' funds	66,011	64,780	64,780
	<u>67,423</u>	<u>65,517</u>	<u>66,011</u>

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

For further information please contact:

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