

PORTSMOUTH WATER LIMITED



**Unaudited interim results
for the six months ended
30 September 2017**

CHAIRMAN'S STATEMENT

I am pleased to report on continued positive performance as we move into the third year of the current 5 year business plan, with sound financial results and a consistently strong performance in customer service.

OPERATING UPDATE

Management have committed significant resources into the preparation of its Business Plan for PR19 and its Water Resources Management Plan. Significant work has also been undertaken to allow us to provide an additional bulk supply to Southern Water in Hampshire. This supply, of up to 15 MI/d, will be available from Summer 2018.

The Water Resources Management Plan which will be published for consultation in January 2018 is progressing well and will include further bulk supplies to Southern Water. These supplies will necessitate the inclusion of Havant Thicket Winter Storage Reservoir in our plans, as well as reduction in leakage and water efficiency savings.

The Company was confirmed as having the highest overall SIM score for 2016/17 for the second consecutive year. We are currently ranked sixth overall in aggregate across the 2 surveys undertaken in 2017/18. Our billing score remains third in the industry.

The number of written complaints in the 6 months to date is lower than last year and at 6.4 complaints per 10,000 customers (annualised 12.74 complaints) continues to compare very well to the industry average of 30.0 complaints per 10,000 customers for 2016/17.

The market for non-household customers opened in April 2017. The business transition into the wholesale market ran smoothly and the company continues to meet market requirements and responsibilities.

As part of the monitoring of our performance against the PR14 objectives the company has 13 Outcome Deliver Incentives (ODIs) which apply from 1 April 2015 for the 5 year business plan. Nine of these ODIs have financial rewards and penalties attached (with any reward or penalty impacting the company in the following 5 year business plan period). We remain on track in terms of performance against the ODIs in all but two areas.

Number of customer contacts for water quality. Following the implementation of a new billing system in 2012, the company identified that reporting levels had previously been understated and consequently the ODI level set for at PR14 was too low.

Whilst we have continued to invest in and focus on managing this ODI and our performance in the first nine months of 2017 is better than 2016, it is unlikely that this 5 year ODI will be met. We note, however, that our water quality contacts level remains significantly below the 2016 industry annual average of 1.35 contacts per 1,000 customers, where we were ranked third in the industry.

Leakage. The Company missed its annual leakage target in 2016/17 primarily because of the increase in leakage in the early part of the winter following a period of rapid temperature fluctuations.

Despite significant additional resource being applied to leakage detection and repairs the Company has not achieved the reduction it had targeted in the first half of this year. Whilst we continue to focus significant time and resources in this area it is possible that we will miss the annual target for 2017/18. This is a 5 year average target and the company will continue to focus on achieving the overall ODI.

FINANCIAL RESULTS

The results for the period have been prepared in compliance with UK Accountancy Standards and reflect the provisions of Financial Reporting Standard 102 (FRS102) and on a Going Concern basis. A summary of the financial performance for the 6 months to 30 September 2017 is set out below.

	6 months to 30 September 2017	6 months to 30 September 2016
	£m	£m
Turnover	20.1	19.9
Operating costs (excluding depreciation)	(14.2)	(13.8)
Depreciation and amortisation	(3.0)	(2.8)
Gain on disposal of NHH operations	1.8	-
Loss on disposal of Fixed Asset	-	(0.1)
Profit before interest and tax	4.7	3.2

The Company took the decision to exit the NHH market and entered a transaction with Castle Water resulting in a £1.8m gain on disposal on 1 April. In addition the company will provide meter reading services for a period of 5 years for which it has received payment in advance as part of the transaction.

Cash and Cash Flow

Operating cash generated in the year of £7.3m is significantly higher than in the prior half year period (2016: £2.2m) but consistent with the 2015 position. Operating cash flow has benefited from reduced trade debtors and the 2016 position was adversely impacted by £2.4m delayed cash receipts under the operating agreement for NHH operations.

Cash outflow for capital expenditure has fallen by £3m this is primarily due to levels of planned activity which in 2016 were particularly high due to a number of significant large capital programmes.

During the period £4m was repaid under the revolving capital facility (2016:£3.5m draw down). In addition the 2016 6 month cash flow had benefited from the receipt of £2.9m relating to the disposal of the NHH operations and related meter reading services.

The period-end cash balance was £11.3m (2016 £10.5m).

Capital programme

During the half year the Company renewed 12.5km of mains at a cost of £2.2m (2016 half year 10.8km cost of £1.9m). In accordance with the requirements of FRS102 this cost is charged to the income statement as an operating cost. In addition a further 0.6km of new mains were laid in the six month period and 788 boundary boxes, considered as an enhancement to the mains network resulting in capitalisation of £0.3m.

Major capital schemes

The most significant capital spend in the first six months of this year has been associated with completing the UV treatment and wash-water recovery work at Farlington WTW, £0.855m, this scheme is now substantially complete and operational.

Financing

The Company has a £10m working capital facility and a £2m overdraft facility. The working capital facility was successfully renewed for a further five years in August 2017. At 30 September the working capital facility was unused (30 September 2016: £3.5m utilised).

The Company's financial projections, taking into account expected trading, indicate that the Company is forecast to operate comfortably within the levels of current facilities

Ratios

Net debt to regulatory capital value is a key covenant defined by the Company's index linked bond. Gearing at 64.9% showed an improvement from the previous half year end (2016 71.3%) but is broadly in line with the prior year end ratio of 68.6% primarily due to the profile of capital expenditure. This remained comfortably within the 86% ceiling imposed by the bond covenants.

Outlook


As we move into the second half of the year the whole business will focus on the dual challenges of excellent ongoing ODI performance together with the development of a high quality PR19 business plan.

Ofwat published its draft methodology for PR19 in July 2017. The general themes are improving the level of service to customers, a more resilient water supply in the future, ensuring bills are affordable to all and promoting innovation in the industry.

The Company is well placed to respond to each of these issues given its generally high level of service, its positive water supply position and its relatively low bill and cost base. We have established an extensive customer engagement programme and have gained support from our CCG for our overall strategy and plans.

The Business Plan will be presented to Ofwat on 3 September 2018.

We will continue to see a focus on cost reduction and efficiency savings to offset other cost pressures seen in the business.

A handwritten signature in black ink, appearing to read 'Mike Kirk', with a horizontal line underneath.

MIKE KIRK
CHAIRMAN
23 NOVEMBER 2017

**UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS
ENDED 30 SEPTEMBER 2017
INCOME STATEMENT**

	6 months ended 30.9.17 <u>£000</u>	6 months ended 30.9.16 <u>£000</u>	12 months ended 31.3.17 <u>£000</u>
TURNOVER	20,079	19,936	40,342
OPERATING PROFIT			
Water supply	2,677	2,994	5,333
Chargeable works	175	286	417
	<u>2,852</u>	<u>3,280</u>	<u>5,750</u>
Gain/loss on sale of fixed assets	14	(147)	(143)
Gain on disposal of NHH business	1,843	-	-
	<u>4,709</u>	<u>3,134</u>	<u>5,607</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST			
Investment income	421	507	953
Other finance income	101	191	625
	<u>5,231</u>	<u>3,832</u>	<u>7,185</u>
Finance costs	(3,796)	(2,400)	(5,696)
	<u>1,435</u>	<u>1,432</u>	<u>1,489</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			
Taxation on profit on ordinary shares	(345)	(229)	368
	<u>1,090</u>	<u>1,203</u>	<u>1,857</u>
PROFIT FOR THE FINANCIAL PERIOD	<u><u>1,090</u></u>	<u><u>1,203</u></u>	<u><u>1,857</u></u>

**UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS
ENDED 30 SEPTEMBER 2017
INCOME STATEMENT (CONTINUED)**

	6 months ended 30.9.17	6 months ended 30.9.16	12 months ended 31.3.17
	<u>£000</u>	<u>£000</u>	<u>£000</u>
STATEMENT OF OTHER COMPREHENSIVE INCOME			
Profit for the financial period	1,090	1,203	1,857
Remeasurement of net defined benefit asset	(450)	(666)	(4,147)
Movement in deferred tax relating to pension asset	77	120	705
Effect of change to corporation tax rate on pension asset	-	-	63
	<u>717</u>	<u>657</u>	<u>(1,522)</u>

**SUMMARISED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2017**

	As at 30.9.17 <u>£000</u>	As at 30.9.16 <u>£000</u>	As at 31.3.17 <u>£000</u>
NON CURRENT ASSETS	183,025	182,668	183,416
CURRENT ASSETS	20,066	19,392	23,023
PAYABLES: AMOUNTS FALLING DUE WITHIN ONE YEAR	(16,207)	(20,149)	(22,864)
NET CURRENT ASSETS/(LIABILITIES)	3,859	(757)	159
TOTAL ASSETS LESS CURRENT LIABILITIES	186,884	181,911	183,575
PAYABLES: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	(127,458)	(123,156)	(124,625)
PROVISIONS FOR LIABILITIES	(6,659)	(6,466)	(6,703)
NET ASSETS EXCLUDING PENSION ASSET	52,767	52,289	52,247
PENSION ASSET	11,097	14,186	11,446
NET ASSETS INCLUDING PENSION ASSET	<u>63,864</u>	<u>66,475</u>	<u>63,693</u>
CALLED UP SHARE CAPITAL	1,078	1,078	1,078
RESERVES	62,786	65,397	62,615
SHAREHOLDERS' FUNDS	<u>63,864</u>	<u>66,475</u>	<u>63,693</u>

**SUMMARISED STATEMENT OF CHANGES IN EQUITY
AS AT 30 SEPTEMBER 2017**

	6 mths ended 30.09.17 <u>£000</u>	6 mths ended 30.09.16 <u>£000</u>	12 mths ended 31.03.17 <u>£000</u>
CALLED UP SHARE CAPITAL	1,078	1,078	1,078
SHARE PREMIUM ACCOUNT	1,539	1,539	1,539
CAPITAL REDEMPTION RESERVE	3,250	3,250	3,250
RETAINED EARNINGS BROUGHT FORWARDS	57,826	60,553	60,553
	<u>63,693</u>	<u>66,420</u>	<u>66,420</u>
PROFIT FOR THE PERIOD	1,090	1,203	1,857
REMEASUREMENT OF DEFINED BENEFIT ASSET	(450)	(666)	(4,147)
MOVEMENT OF DEFERRED TAX RELATING TO PENSION SCHEME	77	120	705
EFFECT OF CHANGE IN CORPORATION TAX RATE ON PENSION ASSET	-	-	63
	<u>64,410</u>	<u>67,077</u>	<u>64,898</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	64,410	67,077	64,898
DIVIDENDS	(546)	(602)	(1,205)
	<u>63,864</u>	<u>66,475</u>	<u>63,693</u>
CLOSING BALANCE	63,864	66,475	63,693

**SUMMARISED STATEMENT OF CASH FLOWS FOR THE
SIX MONTHS ENDED 30 SEPTEMBER 2017**

	6 months ended 30.9.17 £000	6 months ended 30.9.16 £000	12 months ended 31.3.17 £000
Cash generated from operations	7,264	2,206	10,422
UK corporation tax	664	(356)	(555)
	7,928	1,850	9,867
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Investing Activities			
Sale of tangible fixed assets	22	-	37
Purchase of tangible fixed assets	(2,721)	(5,844)	(11,144)
Purchase of intangible fixed assets	-	-	(823)
Capital contributions and infrastructure charges received	509	768	1,165
Interest received	421	489	953
	(1,769)	(4,587)	(9,812)
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Financing Activities			
Proceeds from sale of NHH retail activities	-	2,900	2,900
(Repayment)/Receipt working capital facility	(4,000)	3,500	4,000
Inter-company loan repaid by South Downs	-	-	500
Interest on index linked loan	(1,841)	(1,816)	(3,700)
Interest on other loan facilities	(114)	-	(112)
Dividend payments	(546)	(599)	(1,205)
	(6,501)	3,985	2,383
Net increase in cash and cash equivalents	(342)	1,248	2,438
Cash at beginning of year	11,644	9,206	9,206
	11,302	10,454	11,644
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Comprising			
Debt Service Account	1,827	1,832	1,847
Other Cash accounts	9,475	8,622	9,797
	11,302	10,454	11,644
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NOTES

1. The interim results for the six months to 30 September 2017 have been prepared under FRS102 and on the basis of accounting policies consistent with those adopted for the year ended 31 March 2017.

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 2017 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 2018.
3. 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 or from our website www.portsmouthwater.co.uk/news/publications/accounts.

For further information please contact:

Neville Smith - Managing Director
Helen Orton – Finance and Regulation Director
023 9249 9888