

PORTSMOUTH WATER LIMITED



**Unaudited interim results
for the six months ended
30 September 2018**

CHAIRMAN'S STATEMENT

I am pleased to report a continued positive performance as we move into the fourth year of the current 5-year regulatory period, with sound financial results and a consistently strong performance in Customer Service.

OPERATING UPDATE

This has been a very busy year and the management team committed significant internal and external resource to the preparation and submission of both the PR19 Business Plan and the Water Resources Management Plan. We were delighted to have good support, from our Customer Challenge Group ("CCG"), for the Business Plan and would like to thank our CCG for their engagement and constructive challenge throughout the process which had a positive impact on the quality of the Business Plan.

Both the Business Plan and Water Resources Management Plan included plans for the development of Havant Thicket Winter Storage Reservoir as an enabler for increased levels of bulk water supplies to Southern Water in Hampshire. This is a significant project for the Company and the region, with the reservoir having an approximately 10 year planning and delivery timeline, to enable Portsmouth Water to meet Southern Water's increased bulk water supply demand by 2029. Accordingly, the Company has invested circa £0.5m in early planning and development work in order to meet the key delivery deadline of being operational by 2029.

The Company was confirmed as having the second highest SIM score for 2017/18. We are currently ranked 2nd overall across the surveys undertaken in 2018/19 with a score of 4.53.

We were also ranked first (best) in the number of written complaints report by CCWater for 2017/18. Our performance per 10,000 connected properties was 10.3 compared to the industry average of 23.0. In the six months to 30th September 2018, the number of written complaints is 12% lower than the same period a year earlier. An outline of all written complaints is reviewed by the board each month, and there are no specific recurring issues.

As part of monitoring our performance against the PR14 company objectives we have 13 Outcome Delivery Incentives (ODIs) which apply from 1st April 2015 for 5 years. Nine of these ODI's have financial rewards and penalties attached. We remain in a positive position in terms of our performance in all but three areas; water quality contacts, leakage and bursts

The number of customers contacting us for water quality has continued to fall following our sustained efforts in this area. Whilst in overall terms we are unlikely to meet our target for the five years, in 2017 our performance was the best in the industry with 0.55 contacts per 1,000 population served, compared with an industry average of 1.31.

Despite significant additional investment and resource being applied, the Company has not yet achieved the reduction targeted as part of our leakage recovery programme. Whilst we continue to focus significant management attention in this area, it is likely that we will miss the 2018/19 annual target, though we are committed to meeting the 5 year average target of 29.9 Ml/d. This remains an area of utmost importance for the Board and for the Company.

The number of bursts on our network increased over the summer period primarily due to the sustained period of dry weather which adversely impacted soil conditions. We do not believe that this trend is indicative of an overall reduction in asset serviceability and expect to meet the overall target for the 5-year period.

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 2018 is set out below.

	6 months to 30 September 2018 £m	6 months to 30 September 2017 £m
Turnover	20.9	20.1
Operating costs (excluding depreciation)	(14.0)	(14.2)
Depreciation and amortisation	<u>(2.9)</u>	<u>(3.0)</u>
Profit before exceptional items	4.0	2.9
Exceptional gain on disposal of NHH operations	-	1.8
Loss on disposal of Fixed Asset	<u>(0.2)</u>	<u>-</u>
Profit before interest and tax	<u>3.8</u>	<u>4.7</u>

Cash and Cash Flow

Operating cash flow in the half year of £3.3m outflow, is significantly lower than in the prior half year period (2017 cash generated: £7.3m) due to the exceptional payment of payroll taxes (£11.1m) in April 2018, relating to the payment of sale proceeds to employees on 16 March 2018. This is explained in detail in note 31 of the 2018 Annual Report.

Cash outflow for capital expenditure is higher than previous half year position and this is primarily due to capitalisation of mains renewals, Havant Thicket Winter Storage Reservoir development costs and planned levels of capital activity.

A second interim dividend of £1.8m for the year ended 31 March 18, was paid from Portsmouth Water (including £0.4m servicing intercompany debt).

During the period, £3m was repaid under the revolving capital facility and an amount of £2.5m was drawn down at the half year end. An intercompany loan of £1.8m was also received. The period-end cash balance was £17.1m (2017 £11.3m).

Capital programme

During the period the Company renewed 7.3km of mains (31 March 2018 13.8km and 30 September 2017 12.5km) at a cost of £2.1m (March 2018 £2.8m and 30 September 2017 £2.2m) charged to the income statement. A further 3.4km (March 2018 16.8km and September 2017 0.6km), of new mains and enhancement to the network were capitalised at a cost of £1.3m (March 2018 £2.7m and September 2017 £0.3m).

Major capital schemes

Gross capital investment in the half year was £5.0m (30 September 2017 - £2.6m, 31 March 2018- £7.5m). Amounts totalling £0.5m relating to the development of Havant Thicket Winter Storage Reservoir were included in this balance.

Financing

The Company has a £10m working capital facility and a £0.5m overdraft facility. The working capital facility was successfully renewed for a further five years in August 2017. At 30 September the utilised working capital facility was £2.5m (30 September 2017: £nil utilised). An intercompany loan of £1.8m was received from a group company.

The Company has concluded that it has adequate funding to meet both ongoing working capital requirements and the needs to the planned capital investment programme over the 2 remaining years of the current regulatory period.

Ratios

Gearing

Net debt to regulatory capital value is a key covenant defined by the Company's index linked loan documents. Gearing at 64.5% (31 March 2018 (adjusted) 63.6%, 30 September 2017 64.9%) has remained broadly consistent from the prior year. Gearing remained comfortably within the 86% ceiling imposed by the bond covenants.

Artesian Interest cover

The interest cover ratio, of 1.43 times (March 2018 2.20 times, September 2017 1.49 times) remains above the 1.4 times covenant required.

Outlook

As we progress through the second half of the year, the business will be focused on continuing to deliver exceptional customer service, alongside the challenges of delivering against our ODI performance targets in relation to leakage reduction and water quality contacts. In addition, the activity in relation to progressing planning for the Havant Thicket Winter Storage Reservoir project, will materially increase during this period.

In early 2019 we will expect feedback from Ofwat on our PR19 business plan submission and feel we will be well placed to address any matters raised. We have already begun development of our PR19 programme implementation plans.

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

Neville Smith, Managing Director, will retire on 1 January 2019 after 20 years of service with the Company. We are pleased to announce the appointment of Bob Taylor as company CEO effective 1 January 2019.



Mike Kirk
Chairman
22 November 2018

**UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS
ENDED 30 SEPTEMBER 2018
INCOME STATEMENT**

	6 months ended 30.9.18 <u>£000</u>	6 months ended 30.9.17 <u>£000</u>	12 months ended 31.3.18 <u>£000</u>
TURNOVER	20,940	20,079	40,489
OPERATING PROFIT			
Water supply	3,481	2,677	6,430
Chargeable works	484	175	32
	<u>3,965</u>	<u>2,852</u>	<u>6,462</u>
(Gain)/loss on sale of fixed assets	(189)	14	(16)
Gain on disposal of NHH business	-	1,843	1,843
Exceptional staff costs relating to sale of business	-	-	(2,988)
	<u>3,776</u>	<u>4,709</u>	<u>5,301</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST	3,776	4,709	5,301
Investment income	506	421	841
Other finance income	100	101	346
	<u>4,382</u>	<u>5,231</u>	<u>6,488</u>
Finance costs	(3,701)	(3,796)	(7,603)
	<u>681</u>	<u>1,435</u>	<u>(1,115)</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	681	1,435	(1,115)
Taxation of profit /(loss) on ordinary shares	89	(345)	(41)
	<u>770</u>	<u>1,090</u>	<u>(1,156)</u>
PROFIT/ (LOSS) FOR THE FINANCIAL PERIOD	<u>770</u>	<u>1,090</u>	<u>(1,156)</u>

**UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS
ENDED 30 SEPTEMBER 2018
INCOME STATEMENT (CONTINUED)**

	6 months ended 30.9.18	6 months ended 30.9.17	12 months ended 31.3.18
	<u>£000</u>	<u>£000</u>	<u>£000</u>
STATEMENT OF OTHER COMPREHENSIVE INCOME			
Profit/(loss) for the financial period	770	1,090	(1,156)
Remeasurement of net defined benefit asset	-	(450)	16,602
Movement in deferred tax relating to pension asset	-	77	(2,822)
	<u>770</u>	<u>717</u>	<u>12,624</u>

**SUMMARISED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2018**

	As at 30.9.18 <u>£000</u>	As at 30.9.17 <u>£000</u>	As at 31.3.18 <u>£000</u>
NON CURRENT ASSETS	186,768	183,025	184,534
CURRENT ASSETS	26,531	20,066	35,518
PAYABLES: AMOUNTS FALLING DUE WITHIN ONE YEAR	(23,312)	(16,207)	(31,080)
NET CURRENT ASSETS	3,219	3,859	4,438
TOTAL ASSETS LESS CURRENT LIABILITIES	189,987	186,884	188,972
PAYABLES: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	(130,887)	(127,458)	(128,787)
PROVISIONS FOR LIABILITIES	(6,676)	(6,659)	(6,764)
NET ASSETS EXCLUDING PENSION ASSET	52,424	52,767	53,421
PENSION ASSET	24,794	11,097	24,794
NET ASSETS INCLUDING PENSION ASSET	<u>77,218</u>	<u>63,864</u>	<u>78,215</u>
CALLED UP SHARE CAPITAL	1,078	1,078	1,078
RESERVES	76,140	62,786	77,137
SHAREHOLDERS' FUNDS	<u>77,218</u>	<u>63,864</u>	<u>78,215</u>

**SUMMARISED STATEMENT OF CHANGES IN EQUITY
AS AT 30 SEPTEMBER 2018**

	6 mths ended 30.09.18 <u>£000</u>	6 mths ended 30.09.17 <u>£000</u>	12 mths ended 31.03.18 <u>£000</u>
CALLED UP SHARE CAPITAL	1,078	1,078	1,078
SHARE PREMIUM ACCOUNT	4,527	1,539	1,539
CAPITAL REDEMPTION RESERVE	3,250	3,250	3,250
RETAINED EARNINGS BROUGHT FORWARDS	69,360	57,826	57,826
	<u>78,215</u>	<u>63,693</u>	<u>63,693</u>
PROFIT/(LOSS) FOR THE PERIOD	770	1,090	(1,156)
NEW SHARE CAPITAL/PREMIUM ISSUED	-	-	2,988
REMEASUREMENT OF DEFINED BENEFIT ASSET	-	(450)	16,602
MOVEMENT OF DEFERRED TAX RELATING TO PENSION SCHEME	-	77	(2,822)
EFFECT OF CHANGE IN CORPORATION TAX RATE ON PENSION ASSET	-	-	-
	<u>78,985</u>	<u>64,410</u>	<u>79,305</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	78,985	64,410	79,305
DIVIDENDS	(1,767)	(546)	(1,090)
	<u>77,218</u>	<u>63,864</u>	<u>78,215</u>
CLOSING BALANCE	77,218	63,864	78,215

**SUMMARISED STATEMENT OF CASH FLOWS FOR THE
SIX MONTHS ENDED 30 SEPTEMBER 2018**

	6 months ended 30.9.18 £000	6 months ended 30.9.17 £000	12 months ended 31.3.18 £000
Cash (used)/generated from operations	(3,265)	7,264	23,601
UK corporation tax refund	-	664	494
	(3,265)	7,928	24,095
Investing Activities			
Sale of tangible fixed assets	9	22	36
Purchase of tangible fixed assets	(5,050)	(2,721)	(7,884)
Purchase of intangible fixed assets	-	-	(83)
Capital contributions and infrastructure charges received	710	509	1,120
Interest received	381	421	840
	(3,950)	(1,769)	(5,971)
Financing Activities			
Net (Repayment) working capital facility	(500)	(4,000)	(1,000)
Inter-company loan	1,800	-	-
Interest on index linked loan	(1,953)	(1,841)	(3,733)
Interest on other loan facilities	(40)	(114)	(189)
Dividend payments	(1,767)	(546)	(1,090)
Equity payment received	-	-	2,988
	(2,460)	(6,501)	(3,024)
Net (decrease)/ increase in cash and cash equivalents	(9,675)	(342)	15,100
Cash at beginning of year	26,744	11,644	11,644
	17,069	11,302	26,744
Comprising			
Debt Service Account	1,953	1,827	1,909
Other Cash accounts	15,116	9,475	24,835
	17,069	11,302	26,744

NOTES

1. The interim results for the six months to 30 September 2018 have been prepared under FRS102 and on the basis of accounting policies consistent with those adopted for the year ended 31 March 2018.

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 2018 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 2019.
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:

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