# PORTSMOUTH WATER LIMITED

**Unaudited interim results**
**for the six months ended**
**30 September 2012**

# CHAIRMAN'S STATEMENT

The Company continues to deliver a high standard of performance for its customers, delivering both value for money and excellent levels of service.

The Company consistently achieves the lowest level of complaints in the industry and the lowest charges of any Company in England & Wales. In Ofwat's qualitative SIM score analysis for the first quarter of the year Portsmouth Water came 4th out of 21 companies and who rated 2nd for the whole of 2011. The Company continues to strive to maintain and improve the level of service it provides to customers.

**Financial Results**

In the six months to 30 September 2012 turnover fell by 0.4% to £17.7m (2011: £17.8m). In the first quarter to 30 June 2012 bills on average were 2.6 % higher than the previous billing year. In the second quarter, following the start of the new billing year on 1 July, bills were 3.5% higher due to the RPI + K charging formula. However, consumption from non domestic customers was down 3.6% on the previous year. Income from chargeable work was also down by £0.4m (58%) when compared to the prior year, due to lower activity on mains diversions and water connections to new housing developments.

However Operating profit increased to £3.3m from £2.9m as analysed below:

| | 2012<br>£m | 2011<br>£m |
|---|---|---|
| **Turnover** | **17.7** | **17.8** |
| Operating cost excluding depreciation and FRS17 pension charge | 9.9 | 9.5 |
| **Operating Profit before depreciation and FRS17 pension charge** | **7.8** | **8.3** |
| Depreciation (including renewals) | 4.4 | 4.2 |
| FRS17 pension charge | 0.1 | 1.2 |
| **Total Operating Profit** | **3.3** | **2.9** |

Operating costs excluding depreciation and the FRS17 pension charge increased by £0.4m to £9.9m in the first half of the year. However, an additional cost of £0.5m was incurred as a result of the contribution made by the Company to an Employee Benefit Trust (EBT). The EBT owns 73% of the shares issued by Portsmouth Water's Parent Company and following repayments of loans to the previous majority investors in November of last year, is now entitled to payments. The previous Investors' shares are now permanently deferred and not entitled to a dividend. In previous years the cash now being paid to the EBT would have been paid as a dividend to the previous investor and was therefore not included in the operating cost line. The Company commenced six monthly contributions to the EBT and these will be recorded against operating profit as they are contributions wholly and exclusively for the benefit of the Company's business. Excluding the impact of the EBT payment, operating costs excluding depreciation and the FRS17 pension charge actually fell by £0.1m (1%) despite inflation running at approximately 3% during the period. Operating costs are below the level assumed by Ofwat at the Final Determination. The FRS17 pension charge is an estimate based on the full year charge to March 2012. The charge has decreased significantly from the prior year and has reduced from £1.2m to £0.1m. This is as a result of changes which were made to the scheme during 2011 to reduce the long term cost of providing the pension scheme and to reduce the risks to the Company associated with defined benefits pensions. New employees now receive a pension on a defined contribution basis. Existing employees remain on a defined benefit basis, although on a career average basis.

The costs associated with indexation and amortisation amounted to £1.4m during the period. This was a significant reduction on the cost in the prior year (£2.1m) and has resulted from lower inflation.

As a result of the above, profit before tax was £1.8m (2011: £0.7m).

Taxation for the first six months of the year was £0.3m (2011: £0.1m). Of this £0.2m relates to deferred tax on the estimated increase in the pension asset.

Net cashflow from operating activities was £7.1m, £0.3m higher than the same period last year, largely as a result of a more favourable movement in working capital.

Capital expenditure at £8.1m (2011: £3.4m) includes £2.5m of mains renewals. The increase in capital expenditure is due to works at the River Itchen Water Treatment Works in order to comply with an undertaking by March 2013 to reduce the level of Trihalomethanes in the treated water.

The River Itchen Treatment Works abstracts water from the river and this includes bank side storage for mitigation of pollution incidents. During the summer months algae grows in the river, bankside storage and treatment plant which results in elevated levels of Trihalomethane (THM's) in the distribution system, close to the PCV levels stipulated in the Water Supply (Water Quality) Regulations 2000.

In order to mitigate against this risk a scheme to cover elements of the works and bankside storage was funded at the Final Determination. Construction works are in progress and on programme to a cost of £5.2m, approximately £5.0m of which will occur in 2012/13.

Mains renewals cost is greater than 2011 in part due to phasing and part due to the increased length of mains laid in structural highways rather than open fields. The Company continues to renew approximately 20% of the mains renewed in the year using no dig technology to avoid costly open excavation of the public highway.

Net debt at 30 September 2012 was £91.1m (2011: £89.5m) with the increase being due to the indexation on the index linked loan. The level of gearing is an important ratio in the Company's loan covenants and is measured by the ratio of net debt to the Company's Regulatory Capital Value (RCV) which was determined by Ofwat at the 2009 Price Determination. The RCV is also indexed by RPI. The ratio is known as the Regulatory Asset Ratio and at 30 September, the ratio was 77.5% (2011: 77.0%).

In the second half of the year, the Company results will be adversely affected by additional spend on PR14 (Price Review 2014) costs and extra expenditure to reduce our leakage (see below). However, despite this and the impact of the EBT payment on operating costs, we anticipate our financial ratios to still meet our expectations as well as remaining well within our covenants.

**Leakage**

During the year the Company has reviewed its assessment of leakage and has identified that it is higher than previously thought. Following this review, the Company has decided to commit additional funds this year in order to reduce its level of leakage. The cost of the enhanced activity to achieve the reduction will amount to £0.4m. of operating cost and £0.5m. of capital expenditure. Despite the expenditure the Company will remain comfortably within its covenants for interest cover and gearing.

**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 next draft Water Resource Management Plan is due for submission to the Secretary of State in early 2013 and good progress has been made in the development of the plan. Initial results indicate that the Company will not have to plan to cover a deficit in its water resources, although further work in this area is necessary before this conclusion can be put into our draft plan.

## Organisational Changes

In April 2012 the Engineering Director, Andy Neve, retired after 30 years with the Company. Rod Porteous, the Supply and Investment Manager, was promoted to take up Andy's role on the Board.

In October 2012 two of the Company's Non Executive Directors, Ray Tennant and Robert Sullivan retired after ten years with the Board. Two new Non Executive Directors have been appointed and will formally join the Company in November. Mike Kirk is a former partner at Cazenove and Heather Benjamin has previously been Chief procurement officer at Centrica plc.

The Board would like to thank Ray Tennant and Robert Sullivan for their valuable contribution to the Company over the last ten years and welcome Mike Kirk and Heather Benjamin to the Board.

### 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 2012, the Company has had one reportable accident to date resulting in the employee having more than 3 days absence and has reduced the number of vehicle accidents by over 60%.

In October 2012 the Company implemented a new customer billing and customer relationship management system. This has required a tremendous effort from the management and staff of Customer Services and IT departments and across the business generally. The system has now been running for a number of weeks and so far we have not experienced any significant issues. This has been a great achievement and this shows the level of commitment from our employees and the Board would like to thank everyone for their hard work.

**T M LAZENBY MBE**
**Chairman**
**22 November 2012**

# UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

| | 6 months ended 30.9.12 £000 | 6 months ended 30.9.11 £000 | 12 months ended 31.3.12 £000 |
|---|---|---|---|
| **TURNOVER** | 17,716 | 17,790 | 36,665 |
| **OPERATING PROFIT** | 3,288 | 2,897 | 6,514 |
| Profit/(Loss) on sale of fixed assets | 1 | - | (21) |
| **PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST** | 3,289 | 2,897 | 6,493 |
| Interest receivable | 709 | 643 | 1,317 |
| Other finance income | 949 | 949 | 2,492 |
| | 4,947 | 4,489 | 10,302 |
| Interest payable and similar charges | (3,162) | (3,823) | (7,652) |
| **PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION** | 1,785 | 666 | 2,650 |
| Taxation on profit on ordinary activities | (309) | (69) | 1,016 |
| **PROFIT FOR THE FINANCIAL PERIOD** | 1,476 | 597 | 3,666 |

## SUMMARISED BALANCE SHEET
## AS AT 30 SEPTEMBER 2012

| | 6 months ended 30.9.12 | 6 months ended 30.9.11 | 12 months ended 31.3.12 |
|---|---|---|---|
| | £000 | £000 | £000 |
| **FIXED ASSETS** | 157,099 | 153,871 | 153,937 |
| **CURRENT ASSETS** | 9,748 | 7,005 | 9,679 |
| **CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR** | (17,578) | (14,601) | (15,546) |
| **NET CURRENT LIABILITIES** | (7,830) | (7,596) | (5,867) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | 149,269 | 146,275 | 148,070 |
| **CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR** | (90,147) | (86,998) | (88,924) |
| **PROVISIONS FOR LIABILITIES** | (9,940) | (10,419) | (9,940) |
| **NET ASSETS EXCLUDING PENSION ASSET** | 49,182 | 48,858 | 49,206 |
| **PENSION ASSET** | 15,326 | 21,096 | 14,674 |
| **NET ASSETS INCLUDING PENSION ASSET** | 64,508 | 69,954 | 63,880 |
| **CALLED UP SHARE CAPITAL** | 1,078 | 1,078 | 1,078 |
| **RESERVES** | 63,430 | 68,876 | 62,802 |
| **SHAREHOLDERS' FUNDS** | 64,508 | 69,954 | 63,880 |

## SUMMARISED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

| | 6 months ended 30.9.12 | 6 months ended 30.9.11 | 12 months ended 31.3.12 |
|---|---|---|---|
| | £000 | £000 | £000 |
| **NET CASH INFLOW FROM OPERATING ACTIVITIES** | 7,120 | 6,837 | 15,718 |
| **RETURNS ON INVESTMENTS AND SERVICING OF FINANCE** | (1,022) | (1,026) | (2,042) |
| **TAXATION** | (96) | (200) | (193) |
| **CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT** | (6,613) | (3,447) | (6,670) |
| **EQUITY DIVIDENDS PAID** | (848) | (1,192) | (2,496) |
| **CASH (OUTFLOW)/INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING** | (1,459) | 972 | 4,317 |
| **MANAGEMENT OF LIQUID RESOURCES** | (30) | (35) | (65) |
| **FINANCING** | 2,500 | (1,000) | (3,500) |
| **INCREASE/(DECREASE) IN CASH** | 1,011 | (63) | 752 |

## NOTES

**1.** The interim results for the six months to 30 September 2012 have been prepared on the basis of accounting policies consistent with those adopted for the year ended 31 March 2012.

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 2012 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 2013.

**3. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

| | 6 months ended 30.9.12 | 6 months ended 30.9.11 | 12 months ended 31.3.12 |
|---|---|---|---|
| | £000 | £000 | £000 |
| Profit for the financial period | 1,476 | 597 | 3,666 |
| Dividends | (848) | (1,192) | (2,496) |
| | 628 | (595) | 1,170 |
| Actuarial (loss) on pension scheme (net of deferred tax) | - | - | (7,839) |
| Net addition/(reduction) to shareholders' funds | 628 | (595) | (6,669) |
| Opening shareholders' funds | 63,880 | 70,549 | 70,549 |
| Closing shareholders' funds | 64,508 | 69,954 | 63,880 |

**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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