PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2015

Portsmouth Water Limited, a supplier of water to Hampshire and West Sussex, announced its results for the year to 31 March 2015.

HIGHLIGHTS

- Top industry performer in Ofwat SIM customer survey
- President's Award from RoSPA for ten years of strong health & safety performance
- Exceeded water efficiency target set by Ofwat
- Price Review completed - prices only to rise by RPI in the period 2015 - 2020
- Water Resources Management Plan approved by Secretary of State

	2015	2014
Turnover	**£38.3m**	£37.1m
Operating profit	**£5.9m**	£5.9m
Profit before taxation	**£3.1m**	£1.3m
Net debt	**£90.2m**	£95.0m
Capital expenditure	**£9.5m**	£10.7m
Regulatory Capital Value	**£113.9m**	£117.9m

Portsmouth Water

CHAIRMAN'S STATEMENT

I have great pleasure in introducing my first Annual Report as Chairman of the Company. It has again been an eventful year with the conclusion to the Periodic Review, and the preparations for Market Reform in 2017. At the same time we have continued to deliver excellent service to our customers and a strong financial performance. I am also delighted to announce that we have received the President's Award from RoSPA for our consistent approach to Health and Safety over the last ten years.

In December 2014, Ofwat published the Final Determination of revenue limits for the period 2015 to 2020. This followed three years of intense activity, including the largest consultation with our customers we have ever undertaken. The revenue allowed was very close to the amount included in our Business Plan - an indication of the considered approach taken by the Board with the approval of its shareholders and will result in no real increases in customer bills for this period. Overall, the Board supported the approach taken by the regulator and is committed to the successful delivery of our Business Plan. The key performance indicators used for the Outcome Delivery Incentives will be challenging, but I am confident we will rise to those challenges. Our attention now turns to the delivery of the Investment Programme and we are intending to put in place framework agreements for the major expenditure items.

Once again the Company delivered excellent customer service as measured by the Service Incentive Survey conducted on behalf of Ofwat. For 2014/15, Ofwat have trialled a new approach, and over the four surveys conducted in the year, Portsmouth was ranked 1st overall and individually for billing and operational matters. The number of complaints received by the Company increased, but at 10.9 complaints per 10,000 customers, is likely to remain the lowest in the industry. In 2013/14, the next lowest company had 12.4 complaints per 10,000 customers.

Leakage for the year was below the target of 30 Ml/day, and we continued to review and improve our methodology. There were no restrictions to customer supplies last year, and the current groundwater levels are such that we do not expect any restrictions this summer.

From April 2017 all Non-Household customers will be able to choose their retailer of water services. The "Open Water" programme has been established to deliver the rules and systems to allow the market to function effectively for all participants. The Company is actively involved in this programme to ensure it will be ready to participate at Market opening and meet the legal and regulatory compliance requirements. For Portsmouth Water the Non-Household retail revenue amounts to approximately £0.6m per annum and the Board is actively reviewing its strategic options for this market.

In response to the principles of Corporate Governance published by Ofwat the Company has established a Governance Code and this is on our website. The Board believes that it complies with the principles although the structure of the Board, when at its full complement, does not strictly comply in accordance with the Ofwat guidelines. The Ofwat principles suggest that independent Non-Executives should constitute the largest faction of Directors. The Board of Portsmouth Water, upon the appointment of a Finance and Regulation Director, will consist of three independent Non-Executive Directors (including the Chairman) and three Executive Directors. The Chairman has the casting vote. We believe that this structure is appropriate for a company of our size and satisfies the overall principle that the Independent Directors have considerable influence. Details of our compliance with the Ofwat principles is shown in the Corporate Governance section on pages 27 to 29 of this report.

As noted above the Company has received the President's Award from the Royal Society for the Prevention of Accidents (RoSPA) in recognition of ten consecutive years of Gold Awards. The Health and Safety of our employees is our number one priority and we are immensely proud of this achievement which is testimony to the efforts of everyone in the Company. I must pay a special tribute to my predecessor, Terry Lazenby MBE, who championed the drive to improve the record when he joined the Board in 2002.

The financial results for 2014/15 show Operating Profit unchanged at £5.9m, although this included an increase in the provision for bad debts of £0.4m as a result of a change in the method of calculation, to ensure that our provisions more accurately reflected the actual experience with accounts in arrears.

Turnover increased by 3.1% to £38.2m reflecting a tariff increase of 2.5% and increased income from developers for connecting new properties and diverting mains.

Operating costs increased by £1.1m (3.5%), including the impact of the calculation change on the provision for bad debt of £0.4m and the increased costs of generating the income from developers of £0.4m. Excluding these two items operating costs increased by 1.0%, lower than the average Retail Prices Index for the year.

Gross capital investment during the year was £9.5m (2014 - £10.7m) and included £4.5m (2014 - £5.4m) on infrastructure renewals and £1.3m of new mains for housing developments. After receiving capital contributions and infrastructure charges of £1.3m, net capital expenditure was £8.2m (2014 - £9.6m).

Cash Flow from operating activities at £15.6m was £0.5m ahead of last year and after deducting interest and capital expenditure cash inflow before financing was £4.2m (2014 - £0.4m). This, together with part repayment of an inter-company loan of £3.05m, allowed the Company to repay £5.0m of bank loans.

Gearing at the end of the year was reduced to 80.0% (2014 - 81.4%).

I wish to pay a tribute to my predecessor as Chairman, Terry Lazenby MBE, who retired in September 2014, for his considerable contribution to the success of the Company. His leadership was crucial in developing a Health and Safety culture in the Business.

The focus for the business is to deliver on our promises to customers made in our Business Plan and to prepare for market reform. I am confident that the management team and their staff can rise to these challenges.

M. P. Kirk
Chairman

Financial Performance
Operating profit was unchanged at £5.9m, however the results reflect a change in the method of calculation for bad debt provisions which resulted in a one-off charge of £0.4m. A summary of the operating profit is shown below.

	2014/15 £m	2013/14 £m
Turnover	38.3	37.1
Operating profit before change in calculation method for bad debt provision	6.3	5.9
Impact of change in calculation method for bad debt provision	(0.4)	-
Total Operating Profit	**5.9**	**5.9**

Turnover for the year increased by 3.1% to £38.3m. (2014 - £37.1m). Revenue from water supplied to unmeasured and measured customers increased by 2.5% mostly reflecting the tariff increases in July 2014 of 2.5%.

Income from developers for chargeable work increased by £0.7m in the year, firstly from an increase in laying new supplies to housing developments and also from a number of mains diversion schemes. The revenue for chargeable work in 2015 was back to the long term average level after two years of low activity. Income from bulk supplies to Southern Water was £0.4m lower as the agreement ended in June 2014, and the fixed charge to cover the initial capital investment was fully paid. The agreement is likely to be renewed, but with the capital element fully repaid, will be as a volumetric charge only.

Operating costs before the change in bad debt calculation increased by £0.8m (2.6%) mainly as a result of higher depreciation (£0.2m) and the higher costs of undertaking the chargeable work (£0.4m). As noted above, the Company reviewed the level of provisioning for its unrecovered debt from customers. Since the method of calculation was last reviewed there has been a significant increase in metered customers, including those in new properties, and on reviewing the profile and payment history of those in debt over the last few years the Company decided to increase the rate of provisioning for measured household customers in debt and for the first year of unmeasured customer debt. This new method of calculation will be in place for the next five years and on a 'like for like' basis the underlying debt provision showed an increase of £0.1m.

Interest receivable at £1.0m (2014 - £1.0m) mainly relates to interest received from another Group company and is based on Libor plus 1%. Other finance income has increased by £0.7m to £2.3m as a result of higher than expected returns on assets in the pension scheme. This is a notional figure as the Company has no rights to this income and there is no impact on the cashflow of the Company.

Interest payable at £6.1m (2014 - £6.5m) includes £2.4m for indexation of the loan provided by Artesian Finance plc (2014 - £2.9m). The indexation of the loan for 2015 was based on RPI for July 2014 of 2.5%, whereas, RPI for July 2013 was 3.1%. Interest on the capital sum amounted to £3.5m (2014 - £3.4m).

As a result of the above, the profit before tax increased to £3.1m (2014 - £1.3m).

Taxation
The taxation charge of £0.8m includes current tax of £0.1m and deferred tax £0.7m. In 2014 the deferred tax credit in the year amounted to £2.3m. This arose from the Government's proposed reductions to corporate tax rates to 20% from 2015 onwards. This meant that a large credit resulted from the recalculation of the deferred tax balances on both the capital allowance pools and the pension asset. The current tax charge of £0.1m represents only 2% of profit before tax, however as the other finance income of £2.3m is a notional figure for which the Company receives no benefit and is not taxable, the tax charge as a percentage of profit before this income is 8%. This is much lower than the standard rate of 21% mostly due to the effect of capital allowance claims.

Dividends
The dividends paid during the year amounted to £0.8m (2014 - £1.1m). Dividends are paid up to the parent company, part of which are ultimately paid to shareholders with the remainder used to service interest payments on an inter-company loan.

The breakdown of the dividend in the year is as follows:
Dividend to the shareholders - £0.391m
Inter company dividend - £0.382m

Cash Flow and Balance Sheet
Net cash inflow from operating activities of £15.6m was higher than the previous year (2014 - £15.1m) reflecting the impact of the higher operating profit before the adjustment for the bad debt provision.

The expenditure on tangible fixed assets was less than the previous year at £9.2m (2014 - £11.7m). Capital contributions from Developers and infrastructure charges at £1.3m (2014 - £1.1m) reflected a variance in activity in the area. The cash expenditure (after contributions) was £7.9m in the year (2014 - £10.6m).

The cash flow before management of liquid resources and financing of £4.2m (2014 - £0.4m), largely the result of lower capital expenditure allowed for the repayment of the amount outstanding on the authorised loan facility. In addition, £3.1m of the inter-company loan was repaid by South Downs Limited which was carried out as part of a policy to reduce gearing in Portsmouth Water Limited.

Net debt (excluding deferred arrangement costs) at £91.2m (2014 - £96.0m) includes an index linked loan with a carrying value of £97.7m (2014 - £95.3m). The carrying value is indexed each year by the previous July's recorded RPI. 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 but at the March (year end) figure. The ratio is known as the Regulatory Asset Ratio (RAR). At the year end, the ratio was 80.0% (2014 - 81.4%). However the Regulatory Asset Ratio will reduce significantly at the beginning of the next review period (starting in April 2015) as a result of the “Midnight Adjustment”. The Midnight Adjustment allows the Company's RCV to be amended to reflect actual expenditure in 2009/10 which was higher than allowed in the Determination. The Midnight Adjustment has been calculated in accordance with Ofwat's methodology and the resulting adjustment to the Company's RCV for PR14 is plus £6.2m. This adjustment if applied on 31 March rather than the 1 April 2015, would make the RAR 75.9%.

Capital Investment

Gross capital investment during the year was £9.5m (2014 - £10.7m) and included £4.5m (2014 - £5.4m) on infrastructure renewals and £1.3m of new mains for housing developments. After receiving capital contributions and infrastructure charges of £1.3m, net capital expenditure was £8.2m (2014 - £9.6m).

During the year the Company renewed 15km of mains at a cost of £4.5m. This included the renewal and relocation of a sensitive main close to Fishbourne Roman Palace. The main was relocated because the Palace has an important Roman Mosaic floor which was at risk of being damaged if our existing main had burst.

During the year the Company completed its above ground Capital Expenditure programme for AMP5, with a number of small schemes undertaken in the year. The highest value items were the installation of 3,544 meters at a cost of £0.9m for customers who chose to switch to a measured supply and £0.4m for the introduction of a new Works and Asset Management System. The full implementation of this system will be completed by March 2016, although some elements were implemented in 2014.

Accounting Policies

The accounts have been prepared in accordance with the accounting policies described in note 1 to the accounts on pages 41 to 43 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 Conduct Authority. From April 2005, listed groups were 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. The Company has now decided to adopt Financial Reporting Standard number 102 (FRS102) as its reporting basis going forward and the year 2015/16 will be the first year of reporting under this new standard.

Pensions

The Company takes account of the Brockhampton Pension Scheme, in which it is the principal employer, under the principles of FRS17. The latest actuarial valuation carried out for the purposes of FRS17 as at 31 March 2015 showed a surplus after deferred tax of £9.0m (2014 - £16.1m). The actuarial loss in the year before deferred tax of £10.8m (£2014 - £0.9m), which is shown in the Statement of Total Recognised Gains and Losses (STRGL) on page 38, results mostly from a large fall in the yields of A A Corporate Bonds which are used to calculate the value of liabilities.

In the most recent triennial actuarial valuation conducted at March 2013, the Scheme had a surplus of £20.1m. Until March 2010, the Company had not made contributions for a number of years. For the year ended 31 March 2015, the Company made contributions of £0.7m, these being at a rate of 12.4% of earnings. The Company will commence making contributions to the Scheme at the rate of 20.6% of earnings from April 2015.

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2015

	Notes	**2015** **£000**	2014 £000
Turnover	2	**38,271**	37,109
Cost of sales		**(20,839)**	(20,225)
Gross profit		**17,432**	16,884
Net operating expenses	3	**(11,490)**	(10,998)
Operating profit		**5,942**	5,886
Profit/(loss) on sale of fixed assets		**3**	(10)
Profit on ordinary activities before exceptional item		**5,945**	5,876
Exceptional item	10	**-**	(611)
Profit on ordinary activities before interest		**5,945**	5,265
Interest receivable	5	**974**	961
Other finance income	28	**2,323**	1,636
		9,242	7,862
Interest payable and similar charges	6	**(6,106)**	(6,533)
Profit on ordinary activities before taxation	7	**3,136**	1,329
Taxation on profit on ordinary activities	8	**(798)**	2,331
Profit for the financial year	20	**2,338**	3,660

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 2015

	Notes	**2015** **£000**	2014 £000
Profit for the financial year		**2,338**	3,660
Actuarial (loss) on pension scheme	28	**(10,825)**	(932)
Deferred tax relating to actuarial loss on pension scheme	17	**2,165**	186
Effect of change to corporation tax rate on pension asset	17	**-**	(576)
Total recognised gains and losses relating to the year		**(6,322)**	2,338

The accompanying notes form an integral part of these accounts.

BALANCE SHEET
As at 31 March 2015

	Note	**2015 £000**	**2015 £000**	2014 £000	2014 £000
Fixed assets					
Tangible assets	10	**99,119**		100,043	
Investments	11	**56,334**	**155,453**	59,384	159,427
Current assets					
Stocks		**744**		544	
Debtors	12	**7,030**		6,760	
Investments	13	**2**		2	
Cash at bank and in hand	14	**6,776**		4,503	
		14,552		11,809	
Creditors: amounts falling due within one year	15	**(15,083)**		(19,118)	
Net current liabilities			**(531)**		(7,309)
Total assets less current liabilities			**154,922**		152,118
Creditors: amounts falling due after more than one year	16		**(96,673)**		(94,216)
Provisions for liabilities	17		**(8,363)**		(8,021)
Net assets excluding pension asset			**49,886**		49,881
Pension asset	28		**9,030**		16,130
Net assets including pension asset			**58,916**		66,011
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		**53,049**		60,144
Shareholders' funds	21		**58,916**		66,011

The accompanying notes form an integral part of these accounts.
The accounts were authorised for issue and approved by the Board on 28 May 2015, and signed on its behalf by;

M. P. Kirk
Chairman

Company Number: 2536455

CASH FLOW STATEMENT
For the year ended 31 March 2015

	Notes	**2015 £000**	**2015 £000**	2014 £000	2014 £000
Net cash inflow from operating activities	22		**15,558**		15,140
Returns on investments and servicing of finance					
Interest received		**974**		964	
Interest paid		**(3,657)**	**(2,683)**	(3,602)	(2,638)
Taxation					
UK corporation tax refund/(paid)		**19**		(110)	
Payments for group relief		**5**	**24**	(302)	(412)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(9,230)**		(11,684)	
Sale of tangible fixed assets		**10**		3	
Capital contributions received		**1,317**	**(7,903)**	1,056	(10,625)
Equity dividends paid			**(773)**		(1,107)
Cash inflow before management of liquid resources and financing			**4,223**		358
Management of liquid resources					
Sale/(purchase) of short term deposits		**1,757**		(44)	
Sale of investments		**-**	**1,757**	2	(42)
Financing					
Repayment of loans		**(5,000)**		-	
Loan repayment from Group company		**3,050**	**(1,950)**	84	84
Increase in cash in the year	23		**4,030**		400

The accompanying notes form an integral part of these accounts.

NOTES

1. The financial information included in this announcement as regards the Company has been prepared in accordance with United Kingdom accounting standards and does not constitute statutory accounts for the relevant periods within the meaning of Section 434 of the Companies Act 2006.

2. Statutory accounts for the Company for the financial year ended 31 March 2014, upon which the Auditors of the Company have given an unqualified report, have been delivered to the Registrar of Companies. Statutory accounts for the Company for the financial year ended 31 March 2015 will be delivered to the Registrar of Companies as soon as practicable after approval at the next Annual General Meeting.

For further information, please contact:

Neville Smith, Managing Director 023 9249 9888