

# **PORTSMOUTH WATER LIMITED**



**Unaudited interim results  
for the six months ended  
30 September 2015**

## CHAIRMAN'S STATEMENT

I am pleased to report on an excellent start to the new Regulatory reporting cycle, with good financial results and Industry leading performance in customer service.

### 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) which becomes applicable for the full year ending 31 March 2016. As such, comparative financial information has been restated and a reconciliation to the unaudited interim results presented for the period ending 30 September 2014 is set out in the notes to these accounts.

#### Income statement

In the first six months to 30 September 2015 turnover increased by £0.3m (1.6%). This was primarily driven by an increase in measured income of £0.3m, with unmeasured income remaining broadly static. There was a general tariff increase of 2%, which came into effect on 1<sup>st</sup>.July 2015. The measured income also benefited from the effect of meter optants and new properties coming into charge. Unmeasured income is unchanged as the tariff increase is offset by the reduction in the charging base due to the meter optants. In addition chargeable works increased by £0.1m offset by a fall in bulk supplies to Southern Water of £0.1m.

	<b>6 months to 30 September 2015</b>	<b>6 months to 30 September</b>
	<b>£m</b>	<b>2014</b>
		<b>£m</b>
Turnover	19.4	19.1
Operating costs (excluding depreciation)	(12.4)	(13.1)
Depreciation	(2.9)	(2.4)
Total Operating Profit	4.1	3.6

Operating costs are lower by £0.7m, principally as a result of the infrastructure renewals expenditure charged to profit and loss accounts being lower by £1.2m in the current year, compared with the previous year. The mains renewals expenditure is currently behind target as a result of a transition to a new main laying contractor, and as such is expected to increase in the second half. This was offset, primarily by the write off of £0.3m recycled reinstatement material from the Bedhampton tip.

Depreciation is higher by £0.5m primarily as a result of a revision to the depreciation policy for small plant items of £0.3m.

A one off charge of £0.4m also arose as a result of a write off of old items following a review of the small plant fixed asset register. The £0.4m relates to the residual values for these items.

Interest receivable at £0.5m (2014 - £0.5m) relates mainly to interest received from another Group company and is based on Libor plus 1%. Other finance income has reduced marginally by £0.1m to £0.3m as a result of a small reduction in the 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 cash flow of the Company.

Interest payable at £2.4m (2014 - £3.0m) includes £0.5m for indexation of the loan provided by Artesian Finance plc (2014 - £1.2m). The indexation of the loan for 2015/16 was based on RPI for July 2015 of 1.0%, whereas RPI for July 2014 was 2.5%. Interest on the capital sum amounted to £1.8m (2014 - £1.8m).

As a result of the above, the profit before tax increased to £2.1m (2014 - £1.4m).

The tax charge of £0.4m (2014 £0.4m) is based on a forecast effective rate of current tax for the year, together with the deferred tax arising from the increase in the pension asset.

### **Cash Flow**

Net cash generated from operations was £0.7m higher than the previous year period due to lower renewals expenditure expensed of £1.2m, offset by working capital movements of £0.4m.

The net expenditure on tangible fixed assets was higher than the previous period at £3.2m (2014 - £2.0m) as set out below.

The principal reason for this increase was incremental expenditure of £1.0m on the replacement of membrane filters.

Interest received and interest paid were consistent period on period.

Receipts from discretionary loan repayments from South Downs Limited at £0.4m were significantly lower than in the equivalent period (£2.8m) as there had been a large property disposal in the previous period which was used to repay a part of the loan.

As there had been no draw down on the company's working capital facility at 31 March 2015 there were no capital repayments in the period (2014 £5.0m). Dividends paid were £0.6m.

In overall terms, net cash flow for the period improved by £1.6m.

### **Ratios**

Gearing as measured by Debt/Regulatory Capital Value (RCV) reduced to 72.1%, (2014: 79.1%). The principal reason was an increase in the RCV as a result of a regulatory adjustment at the start of this regulatory cycle to reflect expenditure before March 2015, which had not been included in the RCV.

### **Service to Customers**

The Company has continued its good customer performance in the Service Incentive survey undertaken on behalf of Ofwat during the six month period ending 30 September 2015. The surveys, which are carried out four times per year, are the barometer of the level of service for the industry. The Company was ranked first in the two surveys undertaken in the period and in aggregate are ranked first for both billing and operational matters. The number of written complaints in the period are lower than those we experienced in 2014/15 (which was the second best performance in the industry) equating to 10 complaints per 10,000 customers (2014/15 – 11), compared to the industry average for 2014/15 of 35.

### **Market Reform**

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. The first step of this process will be the assurance, in February 2016, that the Company has an appropriate Market Opening Readiness Plan in place.

### **Performance against the Key Performance measures (ODIs) agreed at the 2014 Price Determination (PR14)**

The company has now started the first six months of delivering the PR14 business plan (AMP6). As part of the monitoring of our performance against the objectives set at the determination the company has 13 Outcome Deliver Incentives (ODIs) which apply from 1 April 2015 for the duration of the AMP. Nine of these ODIs have financial rewards and

penalties attached (although any reward or penalty will only impact the company in the following AMP). We remain on track in terms of performance against the ODIs in all areas except the number of customer contacts for water quality. There is no concern over our underlying water quality performance. However, as a result of the introduction of our Customer Management system we have improved the accuracy of our reporting for this ODI. This has resulted in an increase in the number of customer contacts recorded. Without revising our target we are likely to fail this ODI over the period.

### **Organisational Changes**

I am pleased to report that Helen Orton joined the Company as Finance and Regulation Director in October. Helen was previously a Director at PricewaterhouseCoopers LLP.

### **Outlook**

Market Reform and changes to the regulatory environment is really the biggest change to the Water Industry since privatisation. I have every confidence in the ability of the Management and staff to continue to deliver for our customers and shareholders.

**M KIRK**  
**Chairman**  
**11 December 2015**

**UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS  
ENDED 30 SEPTEMBER 2015  
INCOME STATEMENT**

	6 months ended 30.9.15 <u>£000</u>	6 months ended 30.9.14 (Restated) <u>£000</u>	12 months ended 31.3.15 (Restated) <u>£000</u>
<b>TURNOVER</b>	19,436	19,165	38,838
<b>OPERATING PROFIT</b>			
Water supply	3,730	3,272	6,092
Chargeable works	330	301	598
	4,060	3,573	6,690
(Loss)/profit on sale of fixed assets	(355)	(1)	3
Gain on revaluation of investment property	-	-	30
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST</b>	3,705	3,572	6,723
Investment income	486	477	974
Other finance income	305	351	859
	4,496	4,400	8,556
Finance costs	(2,391)	(3,028)	(6,106)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	2,105	1,372	2,450
Taxation expense	(406)	(357)	(651)
<b>PROFIT FOR THE FINANCIAL PERIOD</b>	1,699	1,015	1,799

**UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS  
ENDED 30 SEPTEMBER 2015  
INCOME STATEMENT (CONTINUED)**

	6 months ended 30.9.15 <u>£000</u>	6 months ended 30.9.14 (Restated) <u>£000</u>	12 months ended 31.3.15 (Restated) <u>£000</u>
<b>STATEMENT OF COMPREHENSIVE INCOME</b>			
Profit for the financial period	1,699	1,015	1,799
Actuarial gain/(loss) on pension asset	520	598	(9,361)
Movement in deferral tax relating to Pension asset	(104)	(120)	1,872
	<u>2,115</u>	<u>1,493</u>	<u>(5,690)</u>

**SUMMARISED STATEMENT OF FINANCIAL POSITION  
AS AT 30 SEPTEMBER 2015**

	As at 30.9.15	As at 30.9.14 (Restated)	As at 31.3.15 (Restated)
	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>NON CURRENT ASSETS</b>	176,247	176,579	177,217
<b>CURRENT ASSETS</b>	13,714	9,368	14,552
<b>PAYABLES: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	(11,509)	(11,222)	(14,793)
<b>NET CURRENT ASSETS/(LIABILITIES)</b>	2,205	(1,854)	(241)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	178,452	174,725	176,976
<b>PAYABLES: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>	(120,731)	(118,211)	(120,490)
<b>PROVISIONS FOR LIABILITIES</b>	(8,558)	(8,524)	(8,558)
<b>NET ASSETS EXCLUDING PENSION ASSET</b>	49,163	47,990	47,928
<b>PENSION ASSET</b>	9,330	16,729	9,030
<b>NET ASSETS INCLUDING PENSION ASSET</b>	<u>58,493</u>	<u>64,719</u>	<u>56,958</u>
<b>CALLED UP SHARE CAPITAL</b>	1,078	1,078	1,078
<b>RESERVES</b>	57,415	63,641	55,880
<b>SHAREHOLDERS' FUNDS</b>	<u>58,493</u>	<u>64,719</u>	<u>56,958</u>

**SUMMARISED STATEMENT OF CASH FLOWS FOR THE  
SIX MONTHS ENDED 30 SEPTEMBER 2015**

	6 months ended 30.9.15 £000	6 months ended 30.9.14 (Restated) £000	12 months ended 31.3.15 (Restated) £000
<b>Net cash from operating activities</b>	6,023	5,338	11,892
Taxation refunded	-	5	24
<b>Net cash generated from operating activities</b>	<u>6,023</u>	<u>5,343</u>	<u>11,916</u>
<b>Cash flow from investing activities</b>			
Net cash outflow from tangible assets	(3,250)	(1,985)	(4,237)
Interest received	487	477	974
<b>Net cash used in investing activities</b>	<u>(2,763)</u>	<u>(1,508)</u>	<u>(3,263)</u>
<b>Cash flows from financing activities</b>			
Receipt of inter-company loan	350	2,800	3,050
Repayment of revolver loan facility	-	(5,000)	(5,000)
Equity dividends paid	(580)	(195)	(773)
Interest paid	(1,863)	(1,825)	(3,657)
<b>Net cash used in financing activities</b>	<u>(2,093)</u>	<u>(4,220)</u>	<u>(6,380)</u>
<b>Net increase/(decrease) in cash &amp; cash equivalents</b>	1,167	(385)	2,273
<b>Cash and cash equivalents at beginning of year</b>	6,776	4,503	4,503
Cash and cash equivalents at end of year	<u>7,943</u>	<u>4,118</u>	<u>6,776</u>
Cash and cash equivalents consisting of cash at bank and in hand	<u>7,943</u>	<u>4,118</u>	<u>6,776</u>

## NOTES

1. The interim results for the six months to 30 September 2015 have been prepared on the basis of accounting policies consistent with those adopted for the year ended 31 March 2015. Details of the transition to FRS102 are disclosed in note 4.

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 2015 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 2016.

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

	6 months ended 30.9.15 £000	6 months ended 30.9.14 (Restated) £000	12 months ended 31.3.15 (Restated) £000
Profit for the financial period	1,699	1,015	1,799
Dividends	(580)	(195)	(773)
	<hr/>	<hr/>	<hr/>
	1,119	820	1,026
Actuarial gain/(loss) on pension scheme (net of deferred tax)	416	478	(7,489)
	<hr/>	<hr/>	<hr/>
Total comprehensive income for the period	1,535	1,298	(6,463)
	<hr/>	<hr/>	<hr/>
Opening shareholders' funds	58,916	66,011	66,011
Changes on transition to FRS102	(1,958)	(2,590)	(2,590)
	<hr/>	<hr/>	<hr/>
Balance as at 1 April 2015/2014 as restated	56,958	63,421	63,421
	<hr/>	<hr/>	<hr/>
Closing shareholders funds	58,493	64,719	56,958
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

#### 4. TRANSITION TO FRS102

This is the first period that the Company has presented its results under FRS102. The date of transitions to FRS102 was 1 April 2015. Set out below are the significant changes in accounting policies which have occurred on transitions together with a reconciliation between previously reported GAAP and FRS102. A further detailed reconciliation will be provided in the financial statements for the year ending 31 March 2016.

**A) Removal of Infrastructure Renewals Accounting**

Previously under UKGAAP specific provision was made to allow Infrastructure Renewals Accounting. This has now been removed and as such adjustment has been made to reflect the capitalisation of relevant infrastructure works, provision of depreciation on infrastructure assets, the expensing of infrastructure works that cannot be capitalised and the grossing up of fixed assets to reflect developer contributions received.

**B) Valuation of Investment Properties**

Certain properties, which qualify as investment properties, have been reclassified and revalued in accordance with FRS102.

**C) Deferred Income**

As noted above, contributions towards capital items, made by developers, have been grossed up and recognised in deferred income. These are amortised to turnover over the period to which the related assets will be used.

**D) Holiday Pay Accrual**

The accrued value of holiday pay has been provided for in accordance with FRS102.

**E) Defined Benefit Scheme**

Under FRS102 a net interest expense, based on the net defined benefit liability, is recognised in the profit and loss account. This would previously have been included in the statement of total recognised gains and losses as a component of the expected return on assets. There is no impact on the net defined benefit asset.

**F) Deferred Tax**

Discounting of deferred tax is not permitted under FRS102. Accordingly an adjustment has been made to reverse the effect of discounting.

**G) Tax Effect**

Each of the adjustments described above have been tax effected as appropriate.

**H) Presentation and Disclosure**

The balance sheet and cash flow presentation has been revised to reflect the requirements of FRS102.

#### 4. TRANSITION TO FRS102 (CONTINUED)

	6 months Ended 30.09.14	FRS102 Adjustments	6 month Ended 30.09.14 (restated)	12 months Ended 31.03.15	FRS102 Adjustments	12 months Ended 31.03.15 (restated)
	£000	£000	£000	£000	£000	£000
TURNOVER	18,881	284	19,165	38,271	567	38,838
OPERATING PROFIT	3,437	136	3,573	5,942	748	6,690
(Loss)/profit on sale of fixed assets	(1)	-	(1)	3	-	3
Gain on revaluation of investment property	-	-	-	-	30	30
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST	3,436	136	3,572	5,945	778	6,723
Investment Income	477	-	477	974	-	974
Other finance income	949	(598)	351	2,323	(1,464)	859
Finance costs	(3,028)	-	(3,028)	(6,106)	-	(6,106)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1,834	(462)	1,372	3,136	(686)	2,450
Taxation Expense	(227)	(130)	(357)	(798)	147	(651)
PROFIT FOR THE FINANCIAL PERIOD	1,607	(592)	1,015	2,338	(539)	1,799

#### 4. TRANSITION TO FRS102 (CONTINUED)

	6 months Ended 30.09.14	FRS102 Adjustments	6 month Ended 30.09.14 (restated) £000	12 months Ended 31.03.15 £000	FRS102 Adjustments £000	12 months Ended 31.03.15 (restated) £000
FIXED ASSETS	156,490	20,089	176,579	155,453	21,764	177,217
CURRENT ASSETS	9,368	-	9,368	14,552	-	14,552
PAYABLES: AMOUNTS FALLING DUE WITH ONE YEAR	(11,715)	493	(11,222)	(15,083)	290	(14,793)
NET CURRENT ASSETS/(LIABILITIES)	<u>(2,347)</u>	<u>493</u>	<u>(1,854)</u>	<u>(531)</u>	<u>290</u>	<u>(241)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>154,143</u>	<u>20,582</u>	<u>174,725</u>	<u>154,922</u>	<u>22,054</u>	<u>176,976</u>
PAYABLES: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	(95,428)	(22,783)	(118,211)	(96,673)	(23,817)	(120,490)
PROVISIONS FOR LIABILITIES	(8,021)	(503)	(8,524)	(8,363)	(195)	(8,558)
NET ASSETS EXCLUDING PENSION ASSET	50,694	(2,704)	47,990	49,886	(1,958)	47,928
PENSION ASSET	16,729	-	16,729	9,030	-	9,030
NET ASSETS INCLUDING PENSION ASSET	<u>67,423</u>	<u>(2,704)</u>	<u>64,719</u>	<u>58,916</u>	<u>(1,958)</u>	<u>56,958</u>
CALLED UP SHARE CAPITAL	1,078	-	1,078	1,078	-	1,078
RESERVES	66,345	(2,704)	63,641	57,838	(1,958)	55,880
SHAREHOLDERS' FUNDS	<u>67,423</u>	<u>(2,704)</u>	<u>64,719</u>	<u>58,916</u>	<u>(1,958)</u>	<u>56,958</u>

5. 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](http://www.portsmouthwater.co.uk/news/publications/accounts).

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