

PORTSMOUTH WATER LIMITED



**Unaudited interim results
for the six months ended
30 September 2016**

CHAIRMAN'S STATEMENT

I am pleased to report on continued good performance as we move into the second year of the current 5-year business plan, with sound financial results and a consistent industry-leading performance in customer service.

OPERATING UPDATE

Customer Service

The Company has continued its good customer performance in the industry Service Incentive Mechanism survey and was ranked second overall in aggregate across the 2 surveys undertaken to date. The number of written complaints that we received at 6 complaints per 10,000 customers for the 6 month period (12 complaints annualised) are marginally higher than those we experienced in 2015/16. We have attributed this to greater operational activity during the period and the transition to our new ERP system. However, this overall position is still 65% lower than the industry annual average of 33.7 complaints per 10,000 customers for 2015/16.

Market Reform

From April 2017 all Non-Household ("NHH") customers will be able to choose their retailer of water services. The Company has progressed well in executing its Open Market implementation plans achieving a number of key milestones during the first half of the year. The "Shadow Market" opened on 1 October 2016 and we remain on track for market opening in April 2017.

The Company took the decision to exit the NHH retail market and entered into a transaction with Castle Water. This agreement was structured with an operating agreement for retail services from April 2016 until market opening and the sale of the NHH retail operations at the point of market opening.

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

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 5 year business plan. Nine of these ODIs have financial rewards and penalties attached (although any reward or penalty will only impact the company in the following 5-year business plan period.). There is no concern over our underlying water quality performance and we expect that this will remain the case during the remainder of the plan period. We remain on track in terms of performance against the ODIs in all areas except the number of customer contacts for water quality.

As a result of the introduction of our Customer Management system we have further improved the accuracy of our reporting for this measure which has resulted in an increase in the number of customer contacts recorded and we are therefore likely to fail this ODI over the 5 year period. However, we remain focused on delivering a strong underlying operating performance that aims to continue to reduce the number of instances that customers have to contact us regarding an issue with their 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) and on a Going Concern basis. A summary of the financial performance for the 6 months to 30 September 2016 is set out below.

	6 months to 30 September 2016	6 months to 30 September 2015
	£m	£m
Turnover	19.9	19.4
Operating costs (excluding depreciation)	(13.8)	(12.4)
Depreciation	(2.8)	(2.9)
Total Operating Profit	3.3	4.1

Income statement

In the first six months to 30 September 2016 turnover increased by £0.2m (2.6%). This was primarily driven by the tariff increase of 1.6% for household customers and 2.1% for non-household customers (effective from July 2016). There were 2,384 new connections in the period and net revenue was offset by a small reduction in chargeable works.

Operating costs (excluding depreciation) increased by a number of factors. The most significant elements were;

	£m movement	
Mains renewals costs	0.9	Activity in 2015/16 was very low following a change of contractors. The increased renewals activity is now almost at a steady state level.
Castle retail costs	0.2	Retail operating costs under the outsourced Non Household agreement with Castle Water.
Electricity costs	0.1	Increased power usage & tariff.

Depreciation remains broadly consistent period on period and there was a reduction in the level of write off on fixed assets. This write off arose, primarily, as a result of a further detailed review of the fixed asset register and asset verification exercise in preparation for implementation of the Company's new ERP system (which went live on 1 October 2016).

Interest receivable is primarily in respect of an intercompany loan balance and remains comparable to the prior period. Other finance income relates to the expected return on the pension scheme assets and has fallen slightly by £0.1m. This is a notional figure and has no impact on the Company's cash flow position.

Interest payable in respect of the Artesian Loan, at £2.4m has remained static. This includes, non-cash indexation of £0.6m (2015 £0.5m).

The tax charge in the period of £0.2m includes a current tax charge of £0.1m relating to the projected annual tax rate and deferred tax charge of £0.1m.

As a result of the above profit before tax fell by £0.7m to £1.4m (2015 £2.1m).

The dividend proposed at the half year is £602,971. The Company's dividend policy aims to show sustainable growth in real terms and is based on a 1.65% growth rate.

Cash and Cash Flow

Operating cash generated in the year of £3.0m is £3.0m lower than that of the prior year (2015 £6.0m). This reduction is due to an increase in the cash spend for mains renewals of £0.9m and the impact of the delayed timing of cash receipts under the current operating agreement with Castle Water of £2.4m. This has been partially offset by improved cash receipts for measured income.

During the period £3.5m was withdrawn from the revolving credit facility to fund the capital programme.

The period-end cash balance was £10.5m (2015 £8.0m).

Capital programme

Capital expenditure in the half year of £5.9m increased in line with the phasing of the overall capital programme for the year, and was particularly impacted by three large capital schemes at water treatment works.

Financing

The Company has a £10m working capital facility and a £4m overdraft facility. The working capital facility is scheduled for renewal in August 2018. At 30 September 2016 £3.5m of the working capital facility had been utilised (30 September 2015: none) and the overdraft facility was unutilised.

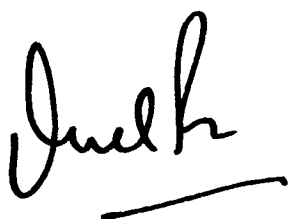
The Company's financial projections, taking into account expected trading, indicate that the Company is forecast to operate comfortably within the levels of current facilities

Ratios

Gearing, calculated as Net debt to regulatory capital value, at 71.3% remained consistent with the previous half year end (2015 71.2%) but increased marginally on the prior year end ratio of 70.2% primarily due to the profile of capital expenditure.

Outlook

The sector has evolved significantly since privatisation and the introduction of competition in the NHH retail market is the most recent example of this. Portsmouth Water has worked hard to ensure that there will be a smooth transition when it formally exits this segment of the market in April 2017. Management and staff continue to focus on delivering excellent services every day to our customers, whilst ensuring that the business is able to meet the future challenges of the evolving regulatory and competitive environment and deliver appropriate returns to our shareholders.



M KIRK
Chairman
25 November 2016

**UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS
ENDED 30 SEPTEMBER 2016
INCOME STATEMENT**

	6 months ended 30.9.16 <u>£000</u>	6 months ended 30.9.15 <u>£000</u>	12 months ended 31.3.16 <u>£000</u>
TURNOVER	19,936	19,436	39,795
OPERATING PROFIT			
Water supply	2,994	3,730	7,669
Chargeable works	286	330	533
	<u>3,280</u>	<u>4,060</u>	<u>8,202</u>
Loss on sale of fixed assets	(147)	(355)	(562)
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST	3,134	3,705	7,640
Investment income	507	486	996
Other finance income	191	305	382
	<u>3,832</u>	<u>4,496</u>	<u>9,018</u>
Finance costs	(2,400)	(2,391)	(4,778)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1,432	2,105	4,240
Taxation on profit on ordinary shares	(229)	(406)	(712)
PROFIT FOR THE FINANCIAL PERIOD	<u><u>1,203</u></u>	<u><u>1,699</u></u>	<u><u>3,528</u></u>

**UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS
ENDED 30 SEPTEMBER 2016
INCOME STATEMENT (CONTINUED)**

	6 months ended 30.9.16 <u>£000</u>	6 months ended 30.9.15 (Restated) <u>£000</u>	12 months ended 31.3.16 <u>£000</u>
STATEMENT OF OTHER COMPREHENSIVE INCOME			
Profit for the financial period	1,203	1,699	3,528
Remeasurement of net defined benefit asset	(666)	520	6,274
Movement in deferred tax relating to pension asset	120	(104)	(1,129)
Effect of change to corporation tax rate on pension asset	-	-	225
	<u>657</u>	<u>2,115</u>	<u>8,898</u>

**SUMMARISED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2016**

	As at 30.9.16 <u>£000</u>	As at 30.9.15 <u>£000</u>	As at 31.3.16 <u>£000</u>
NON CURRENT ASSETS	182,668	176,247	179,504
CURRENT ASSETS	19,392	13,714	17,697
PAYABLES: AMOUNTS FALLING DUE WITHIN ONE YEAR	(20,149)	(11,509)	(16,817)
NET CURRENT ASSETS/(LIABILITIES)	(757)	2,205	880
TOTAL ASSETS LESS CURRENT LIABILITIES	181,911	178,452	180,384
PAYABLES: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	(123,156)	(120,731)	(122,153)
PROVISIONS FOR LIABILITIES	(6,466)	(8,558)	(6,386)
NET ASSETS EXCLUDING PENSION ASSET	52,289	49,163	51,845
PENSION ASSET	14,186	9,330	14,575
NET ASSETS INCLUDING PENSION ASSET	<u>66,475</u>	<u>58,493</u>	<u>66,420</u>
CALLED UP SHARE CAPITAL	1,078	1,078	1,078
RESERVES	65,397	57,415	65,342
SHAREHOLDERS' FUNDS	<u>66,475</u>	<u>58,493</u>	<u>66,420</u>

**SUMMARISED STATEMENT OF CHANGES IN EQUITY
AS AT 30 SEPTEMBER 2016**

	6 mths ended 30.09.16 <u>£000</u>	6 mths ended 30.09.15 <u>£000</u>	12 mths ended 31.03.16 <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	60,553	51,091	52,820
	<hr/>	<hr/>	<hr/>
	66,420	56,958	58,687
PROFIT FOR THE PERIOD	1,203	1,699	3,528
REMEASUREMENT OF DEFINED BENEFIT ASSET	(666)	520	6,274
MOVEMENT OF DEFERRED TAX RELATING TO PENSION SCHEME	120	(104)	(1,129)
EFFECT OF CHANGE IN CORPORATION TAX RATE ON PENSION ASSET	-	-	225
	<hr/>	<hr/>	<hr/>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	67,077	59,073	67,585
DIVIDENDS	(602)	(580)	(1,165)
	<hr/>	<hr/>	<hr/>
CLOSING BALANCE	66,475	58,493	66,420
	<hr/>	<hr/>	<hr/>

**SUMMARISED STATEMENT OF CASH FLOWS FOR THE
SIX MONTHS ENDED 30 SEPTEMBER 2016**

	6 months ended 30.9.16 £000	6 months ended 30.9.15 £000	12 months ended 31.3.16 £000
Net cash from operating activities	3,000	6,023	13,651
Taxation paid	(356)	-	(287)
Net cash generated from operating activities	<u>2,644</u>	<u>6,023</u>	<u>13,364</u>
Net cash used in investing activities	(2,455)	(2,763)	(6,384)
Net cash used in financing activities	1,059	(2,093)	(4,550)
Net increase in cash & cash equivalents	<u>1,248</u>	<u>1,167</u>	2,430
Cash and cash equivalents at beginning of year	9,206	6,776	6,776
Cash and cash equivalents at end of year	<u>10,454</u>	<u>7,943</u>	<u>9,206</u>
Cash and cash equivalents consisting of cash at bank and in hand	<u>10,454</u>	<u>7,943</u>	<u>9,206</u>

NOTES

1. The interim results for the six months to 30 September 2016 have been prepared under FRS102 and on the basis of accounting policies consistent with those adopted for the year ended 31 March 2016.

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 2016 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 2017.
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