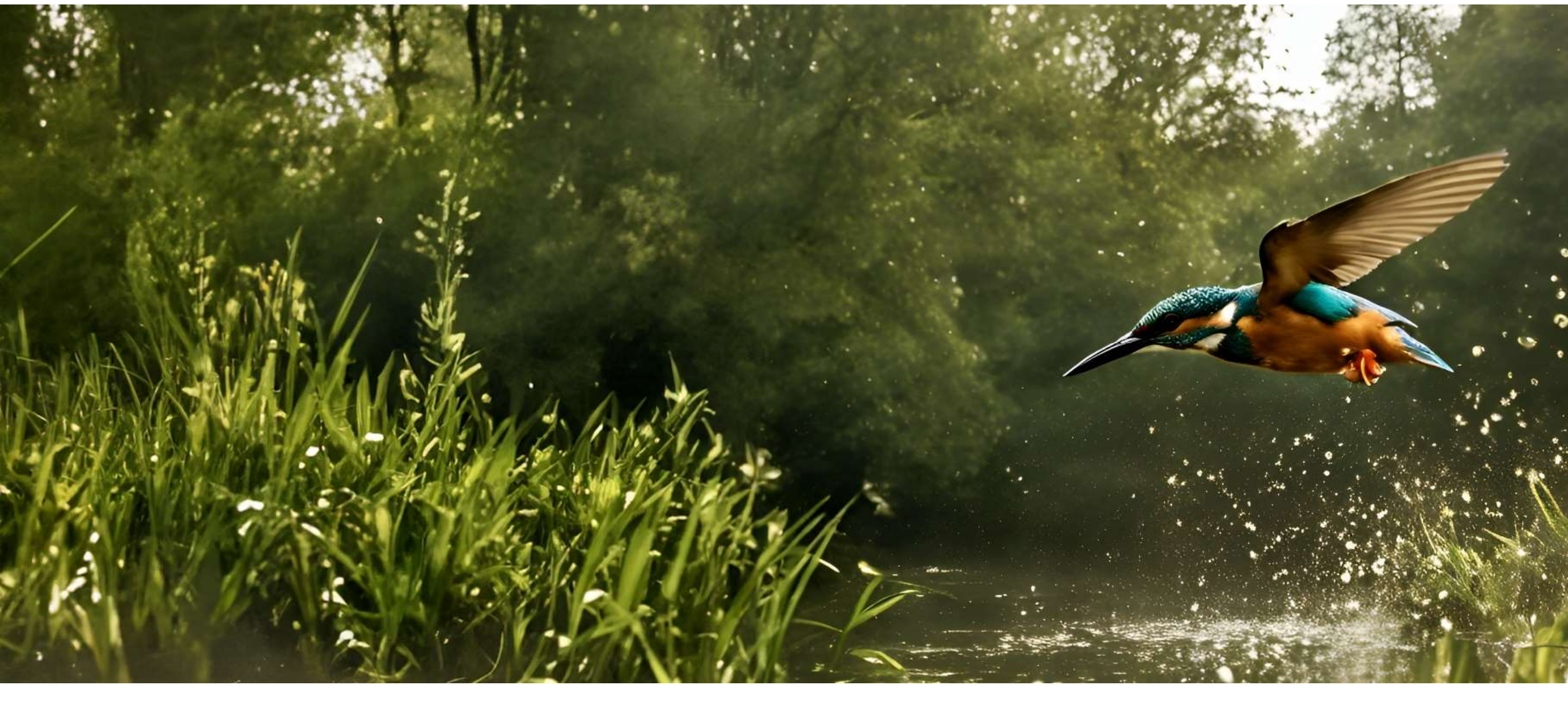
Portsmouth Water

Half Year Report 2024

Unaudited Interim Results
for the 6-month period ended 30 September 2024



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Chairman’s Statement

Christopher Deacon, Independent Chair
17 December 2024

As we mark the midpoint of the fifth and final year of our five-year business plan, I am pleased to present the operating and financial update for the six-month period ending on 30 September 2024. Our focus in this period has been delivering against our commitments in our 2020-25 business plan, while mobilizing our resources to deliver our next five-year plan. We await the publication of the Final Determination of our PR24 business plan later this month. We could not accept the position published in Ofwat’s Draft Determination, but we have had a constructive dialogue with Ofwat about the areas where we are seeking changes.

The new Labour government came to power in July and has already embarked on bringing in new legislation and recently initiated the biggest review of the Water Sector since privatization. The Water (Special Measures) Bill aims to strengthen the powers of water industry regulators to hold failing water companies accountable, including blocking executive bonuses for pollution, imposing severe fines, and ensuring better environmental and customer protections. We are supportive of the reforms but are seeking to ensure they are proportionate for ‘water only’ companies given the lower risks to environmental concerns of the public. We are pleased that Ofwat acknowledged the action we took as a Board to amend our bonus policies to ensure better alignment with delivery for customers, the environment, and our communities.

The Independent Commission into the Water Sector was launched by the UK and Welsh governments on 23 October 2024, chaired by Sir Jon Cunliffe, former Deputy Governor of the Bank of England. It aims to address systematic issues in the water sector. We welcome the interventions to restore trust in our sector and will contribute fully with the review to ensure we are able to continue delivering for our customers, the environment and our communities while continuing to deliver value for our investors and attract much needed investment to support our longer-term plans.

From an operational perspective we have continued to make progress on recovering our leakage performance. We delivered a large reduction in leakage last year and we have seen further improvement in the first six months this year, however we will fail to meet our performance criteria this year as this is assessed on a rolling three-year average. We have addressed a number of the challenges on water quality risks and expect to meet our Compliance Risk Index measure this year and our performance on Interruptions to Supply performance continues to lead the industry.

In October, we published our long-term Water Resource Management Plan for 2025-2075. This included the plan to install water meters for all customers and we have taken a significant step forward in our preparations for this programme by successfully migrating our customers to our new smart meter enabled Kraken Customer Relationship Management system. Kraken is the technology platform that supports Octopus Energy’s award-winning customer service, and we are the first company to use it in the UK water sector. Our partnership with Kraken is a key part of our strategy to develop innovations to help our customers to reduce their water usage and help reduce water lost from the system.

Another milestone achieved in the first half of the year was the ‘ground breaking’ ceremony on our reservoir project at Havant Thicket. We were joined by our Board, senior stakeholders from Southern Water, Ofwat and the Environment Agency to officially recognise commencement of full construction. Construction work in the first six months has been delayed as we incorporate some changes to the design of the embankment and the changes to the pipeline to accommodate the second source of water into the reservoir. We continue to support Southern Water with the development of their planned water recycling and transfer scheme and have agreed to increase the scope of our scheme to enable this second source of water, and ultimately, help reduce abstraction and protect Hampshire’s gold medal chalk streams, the Rivers Itchen and Test. These changes will increase the level of investment and delay the completion of the reservoir to 2032 but reduce cost and environmental impact in the long run. We expect to agree the cost and programme impacts with Ofwat and Southern Water through a Cost Adjustment Mechanism in 2025.

We have seen an improvement in financial performance in the first half of the year. In recent years, high inflation has resulted in losses due to the impact on our index-linked debt. The fall in inflation has resulted in a return to profitability, reporting a £1.3m profit after tax for the first six months of this year. Operating profits have grown 8% to £4.0m compared to the equivalent period in the previous year, largely due to increased revenues and lower energy costs. Our gearing remains the lowest in the sector following the receipt of shareholder funding to support the long-term investment in the Havant Thicket reservoir. Our shareholders have now contributed £170m additional capital investment since the start of 2023, with a further £30m provided in September 2024.

Chief Executive Officer's Statement

Bob Taylor, Chief Executive Officer
17 December 2024

Operating Results

I am pleased to present an overview of our business performance for the 6 months ended 30 September 2024.

Customer Service

C-MeX
C-MeX is the standard water industry measure of customer service and satisfaction, as measured by independently run customer surveys. We currently sit 5th in the industry rankings. Q2 performance was impacted by increased operational demand experienced following customer data migrations to our new Kraken CRM system. Contact volumes and service levels have since improved and we anticipate our C-Mex scores will recover in the second half year when we traditionally perform well. We are continuing to promote social tariffs to support customers facing financial hardship along with assistance with payment holidays, flexible payment plans, and cross industry collaboration and we engage in proactive dialogue with our customers to support them wherever we can.

D-MeX
At Q2 in the current year, for the Developers Measure of Experience (D-MeX), we are currently ranked 4th for D-Mex. This is lower than in the previous year, when we were ranked 1st in the industry, but again, we expect the current year's performance to improve in the second half.

Health, Safety and Wellbeing

During the first half of the year, we have relaunched our health and safety strategy, increasing our ambition from 'Safety First' to 'Safety Always'. Our focus in this area is maintained by openly sharing information on accidents and near misses inside and outside the Company. We achieve this with an ongoing programme of company-wide campaigns and initiatives and through our extensive staff training and development. These activities have enabled the business to record a dramatic fall in the number of accidents over the last 10 years. We are in the process of putting in place 'best in class' health and safety management arrangements for the Havant Thicket reservoir project. Our wider approach also includes the area of wider employee wellbeing, as shown in our annual policy statement endorsed by the Board. Mental health and wellbeing is an area that is becoming more prominent in wider society and the workplace. We have a long history of supporting our employees in many areas of wellbeing, including mental health. Overall employee wellbeing is now considered on an equal footing to conventional Health and Safety throughout the business.

Investing in our People - a highly skilled and motivated workforce delivering for our customers

We work hard to ensure that our staff demonstrate behaviours which align with our core values – 'Excellence, Integrity, and Future Focus.' We believe this work is key to successfully achieving our vision of 'Excellence In Water. Always.' We continue to invest heavily in our people and have now utilised over £0.5m from the Apprenticeship Levy - this has been allocated in the main to our front-line operations staff and helps ensure that we have highly trained staff delivering the best service to our customers.

Pure Excellence

The 'Pure Excellence' programme has been established to deliver against the 'Management and Training' legal notice issued to the Company by the Drinking Water Inspectorate (DWI) in 2021. Improvements are required across three main areas of the business including documentation, training, and the management of disinfection and treatment of water. The programme also focusses on delivering cultural change throughout the business to ensure that future processes are in line with DWI expectations. Progress against the notice is monitored on a six-monthly basis by the DWI and the Company has received satisfactory feedback to date. Key areas of development include delivery of a competency-based training programme for our Production Operators and the development of a document management system that will satisfy the requirements of the notice, as well as deliver a company-wide system for the management of documentation.

Capital Investments

Capex Forecast Headlines

The Investment target expenditure for the 2024/25 financial year (excluding spend on the Havant Thicket reservoir project) is £30m gross Total Capex. This includes £18m of AMP7 investment associated with our PR19 business plan and £12m of accelerated investment associated with early delivery of our AMP8 plan. Above ground investment in the first half year was £4.9m with a focus on commissioning a number of AMP7 projects as we reach the end of the five-year investment cycle. Mains Renewal investment in the 6 months to 30 September 2023 was £2.1m, delivering 8.1km of Mains Renewal pipelines. We remain on track to deliver £12km of Mains Renewals by year end. We delivered a further 1.7km of new mains for third party developers. Early investment in AMP8 schemes included £3.5m on our Smart and CRM programme, including the successful migration of our customer database to the new Kraken CRM system. We have also established a £5m wider ‘early start’ programme on early feasibility and design work on our enhancement programme, with £0.9m spent in the first six months of the year.

Havant Thicket Winter Storage Reservoir

The Havant Thicket programme continues to progress. We have seen lower levels of capital expenditure from the original budgets for the year as we re-plan the scheme to fully integrate the changes to design for the alignment works with Southern Water’s planned water recycling scheme. We have also, following construction of trial embankments on the site, reviewed the full embankment design to address risks identified with ground conditions on site. We have agreed with Southern Water and Ofwat that the amendments associated with these engineering changes will be addressed through a second cost adjustment mechanism. We anticipate this will take place in 2025, following the conclusion of the planning process on the changes to the pipeline to accommodate this second source of water.

PR24 and AMP8 Readiness

We received the Ofwat Draft Determination on our business plan for 2025/30 in July 2024, which was delayed due to the UK General Election. While a lot of the proposals in our plan were supported, there were a number of areas we challenged. We made representations to Ofwat in September, and we expect to receive our final determination on 19 December 2024. We then have two calendar months to decide whether to accept the final determination or refer an appeal to the Competition & Markets Authority. Regardless of the outcome of the final determination, we have been focused on ensuring that we are ready to deliver our plan. We have established a transformation programme portfolio to deliver the business changes across the Company needed to achieve the increased investment and performance ambition in our five-year plan. We have established a new directorate under our new Chief Asset Officer, Carol Cairns, in order to create a greater focus on long-term planning and asset management and we are further strengthening our management team. As part of our readiness planning, we have also appointed a new independent chair to our Customer Scrutiny Panel, Stef Nienaltowski, who brings extensive experience from roles in public and private sector, including time as CEO of Shaping Portsmouth and Chair of local Citizens Advice Boards.

PR19 Business Plan - Outcome Delivery Incentives ('ODI') update

The Final Determination from the water economic regulator ('Ofwat') for the current AMP7 period confirmed 26 ODI's, including 2 new ODI's relating to the Havant Thicket reservoir project. Ofwat proposed 10 Common ODI's, which apply equally to all companies. We proposed, and Ofwat confirmed, 15 Bespoke ODI's and Ofwat proposed 1 Bespoke ODI for Havant Thicket. Of the 26 ODI's, 18 are financial and 8 are reputational (non-financial). Financial ODI's may be penalty only or reward and penalty. All ODI's are listed below by type:

	Rewards & Penalties	Penalty Only	Reputational
Common ODI's	Interruptions to supply Leakage Per Capita Consumption C-Mex D-Mex	Compliance Risk Index Mains repairs Unplanned outage	Avoidance of restrictions Priority Services Register
Bespoke ODIs	Catchment management Abstraction incentive mechanism Grant schemes Household voids	Water Quality Contacts Biodiversity LowPressure Affordability WINEP (timing) Havant Thicket	Resilience schemes Severe drought index Carbon Vulnerability RoSPA recognition WINEP (delivery)

The following table provides a progress update against each ODI. The data is for half year, ending 30 September 2024. We use a traffic light system to indicate performance and issues as follows:

- Green (18 items): For those ODI's which are fully expected to achieve annual target, based on performance in the year to date
- Amber (4 items): For those ODI's which are at risk of failing to meet the annual target, based on performance in the year to date
- Red (4 items): For those ODI's which are not expected to meet the annual target, based on performance in the year to date

We note that, based on overall performance to date, we are forecasting a small net ODI penalty in respect of the 2024/25 financial year. We continue to perform well in the key areas of Customer Service (CMex and DMex), and Interruptions, and have seen improvements in our Leakage performance. However, we are disappointed to report that we are likely to fail our stretching targets in relation to four ODI's, with an additional four ODI's at risk:

	ODIs	Current Year Update (to 30 September 2024)
	Rewards & Penalties	
1	**Interruptions to Supply**	Excellent performance has been maintained. Interruptions continue to be significantly better than expected as a result of good management of both planned and unplanned events. Our position for the year to date is 3 mins 22 secs, outperforming our target of 5 mins 00 secs.
2	**Leakage**	The Company has seen an improvement in this area, with a forecast of 22.6 Ml/d for the current year, below the annual target level. However, as the ODI assessment is based on a rolling 3 year average, the higher leakage levels experienced in 2022 and 2023 will result in a forecast 3 year average score of 26.7 Ml/d, above the target level of 24.1 Ml/d. Significant efforts and additional resources, including the use of new satellite technologies, are being used in this area, with the results in the current year demonstrating that the required improvements are being delivered.
3	**Per Capita Consumption**	This is measured on a rolling three-year basis and remains a key area of challenge for the business. The rolling three-year measure is 154.1 ml/day, which is above the current target level of 139.9 ml/day. It will not be possible to reach this target level over the remaining period to year end. We believe we are seeing a revised 'normal' level of water consumption emerge, which is higher than pre-covid levels and largely a result of more flexible working patterns across our customers. We continue to work hard to influence customers to reduce their water usage. Our broadcast communication messages are focused on promoting water efficiency and our offer of free domestic water efficiency devices. We use incentivization based on charitable donations to encourage engagement and participation. Our metering programme is on course to deliver our Water Resource Management Plan commitment with planning well underway for introducing a universal Smart metering programme from 2025 onwards. We are introducing a programme of water-saving visits to domestic customers who have known high consumption levels to help them become more water efficient and help save money on their bills.
4	**C-Mex**	The results for C-Mex, (customer views of service provided), for the first two quarters of 2024/25 have been published. We continue to be ranked in the Upper Quartile of all other water companies so expect to achieve the annual target set. This is despite the challenges associated with the roll-out of the new 'Kraken' customer resource management system in the period and the impact this has had across our customer base.
5	**D-Mex**	The D-Mex result, (developer and commercial business views on service provided), for Q1 have been published and we are ranked 4th out of the 17 UK water companies. As such, we are achieving the Upper Quartile target and expect to remain in the top quartile for the remaining quarters of 2024/25.
6	**Catchment Management**	Our target for the AMP period is to engage 50 separate farms in our WINEP catchment schemes, 10 per year. There is some uncertainty of this target being achieved, given slower progress in the current year. Efforts are underway to target additional farms by the end of Q3 for delivery in Q4, but achievement of the full annual target remains at risk.
7	**Abstraction Incentive Mechanism**	We monitor the level of the River Hamble at Frogmill. The flow has not dropped below the trigger level (104 l/sec) in the year to date and is not expected to over the remaining winter period. As such no action has been required by the Company at it's Northbrook pumping station, and this ODI should be achieved.

	ODIs	Current Year Update (to 30 September 2024)
8	**Grant Schemes**	We have now reached the current year target with the required number of organisations, (farms and land management communities), signed up for the 2024/25 period, and with over £50k of grant payments expected to be made.
9	**Household Voids**	We have seen a rise in the level of void properties from 2.15% in the prior year, to 2.43% in the current year, which is behind the 2.0% target. We continue to target ways to reduce the level of voids below the target level, but this remains challenging given the high seasonal movement and overall numbers of students across our customer base.
	Penalty only	
10	**Compliance Risk Index (measured from 1 January 2024)**	We have had no significant compliance failures between January and September 2024, with an estimated CRI score of 0.27 for the 9-month period. This is well below the annual target of 2.0. This shows a significant improvement on the prior year score, which was impacted by a failed turbidity compliance sample taken from our Farlington Treatment Works, with an estimated individual score of 4.3, and was a large factor in the failure of this measure in the year to 31 December 2023.
11	**Mains Repairs**	We have continued satisfactory performance in mains repair, despite some challenging ground conditions, and helped by improvements to pressure control and mains renewal activities. Our current position is 68.9 burst repairs per 1,000km of mains, slightly above the annual target of 68.6. However, our forecast position for end of year is 55 repairs which outperforms the target. Although this is dependent on the severity of the 2024/25 winter weather period so remains an area of risk.
12	**Unplanned Outage**	Based on the performance the year to date, with outages at 0.52%, we anticipate that our end of year performance will continue to outperform the Ofwat target of 2.34%.
13	**Water Quality Contacts (measured from 1 January 2024)**	We experienced a rise in the number of water quality contacts, albeit still one of the lowest numbers in the industry. This has been due to a number of network operations and wider Water Sector issues in the year, leading to increased calls related to the appearance and the taste/odour of water supplied. Results for the year to the date of 0.47 are ahead of the ODI annual target of 0.41 contacts per 1,000 customers, so this ODI is at risk of failure for the year. We continue to work hard to reduce contacts through further network improvements and customer communications.
14	**Biodiversity**	We continue to perform well against this metric which relates to the maintenance across our various sites. We are currently forecasting a 99% score ahead of the 90% target.
15	**Low Pressure**	We have a performance commitment to reduce the number of properties at low-pressure to 18 by March 2025. We are currently at 16 properties so expect to achieve this target at year end, but this remains at risk given the potential for further issues across the network over the winter period.
16	**Affordability**	We measure affordability through the number of customers we have established on social tariffs. We now have nearly 14,000 customers on our social tariffs and have already achieved our end of AMP7 target of 10,000 customers. We continue to expand the scheme to provide additional help to those struggling with the ongoing 'cost of living' challenges.
17	**WINEP Timing**	As noted above, progress on all schemes is positive, including those being undertaken jointly with Southern Water and South East Water. We are therefore forecasting achievement of this target in the current year.
18	**Havant Thicket**	We continue to see good progress on the Havant Thicket Reservoir with the project remaining largely on schedule as detailed below. The specific Ofwat ODI measure does not apply on the Havant Thicket project until 2026.
	Reputational	
19	**Avoidance of Restrictions**	The summer of 2024 was relatively wet across our region. As such, groundwater levels have remained above the long-term average through the year to date. Given this, we did not need to implement our drought plan in 2024 and therefore Temporary Use Bans were avoided.
20	**Priority Services Register**	We continue to add customers to our Priority Services Register organically and through our partnership with SSEN. As a result, we have already achieved our end of AMP7 target of 9.0% and currently stands at 14.1%.
21	**Resilience Schemes**	There are three capital schemes which were explicitly recognised in our Business Plan and the Final Determination for the AMP7 period. These are expected to be delivered before the 31 March 2025 deadline.
22	**Severe Drought Index**	This ODI relates to the number of customers at risk of severe restrictions in a 1 in 200-year drought event. It is Ofwat's metric to quantify how companies are delivering against their WRMPs. Several actions that we planned to undertake are in progress, including improvements at borehole sites and our long-term metering programme. The completion of these actions is crucial to meeting this ODI. We are also continuing with our enhanced water efficiency programme to help reduce demand, but this ODI target will not be met in the current year.
23	**Carbon**	We have a target to reduce carbon emissions by 5% in the year. We are on target to reach this, helped by the increased levels of 'green' energy consumption. This has been achieved through the continued switching to renewable energy sources and increasing the use of PV solar energy generated on our sites.
24	**Vulnerability**	We will undertake the required survey with agencies who support customers at the end of the regulatory year (i.e., in the period from January to March 2025). Based on prior year and current performance, we expect to achieve the 85% target.
25	**RoSPA Recognition (measured from 1 January 2024)**	We have registered for the 2025 RoSPA award following the achievement of the 2024 Order of Distinction. Performance reporting and evidence is based on the calendar year. There are no indications that our current approach and record in the year on Health, Safety and Wellbeing will prevent us from achieving a similar award in early 2025.
26	**WINEP Delivery**	We have 18 schemes in our agreed WINEP programme for the AMP7 period. All of these schemes delivered and the Environment Agency sign-off is expected by 31 December 2024, ahead of the 31 March 2025 deadline.

Financial Results Overview

Chris Milner, Chief Financial Officer
17 December 2024

The results for the period have been prepared in compliance with UK Accounting 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 2024 is set out below.

	6 months to 30 September 2024 £m	6 months to 30 September 2023 £m
Turnover	**24.7**	23.6
Operating costs (excluding depreciation & amortisation)	**(17.4)**	(16.7)
Depreciation and amortisation	**(3.3)**	(3.2)
Profit before exceptional items and profit on disposal of fixed assets	**4.0**	3.7
Profit on disposal of fixed assets and exceptional items	**-**	-
Operating profit	**4.0**	3.7
Interest receivable and similar income	**2.2**	3.2
Interest payable and similar charges	**(4.5)**	(9.9)
Profit / (loss) for the financial period before tax	**1.7**	(3.0)

Revenue

Revenue has increased by 5% to £24.7m in the current year compared to the comparative period in the previous year. This increase is largely due to the allowed inflationary increases across both Household and Non-Household customer base. Bulk water sales are largely in line with prior year levels as we continued to support other water companies (mainly Southern Water) with supplies to customers during periods of peak demand throughout the summer months.

Operating costs

Net operating costs increased by 4% to £17.4m in the same period. This increase was largely due to continuing high energy and chemical costs, and growth in employment-related costs, reflecting higher levels of staff in place for the expected growth in the business in the run-up to the new 5-year regulatory period commencing in 2025. There were no material disposals of fixed assets or exceptional costs in the current or prior periods.

Operating profit

Operating profit at £4.0m represents a £0.3m increase from the prior period reflecting consistent levels of growth in both Turnover and Operating Costs as detailed above.

Interest receivable and similar income

Investment and other finance income has reduced to £2.2m, compared to £3.2m in the previous period. This fall largely reflects lower interest and investment income from the excess cash and short-term deposit balances held. These balances have reduced following the new debt funding received in March 2023, the capital and related shareholder funding received in July 2023, and utilization of these funds over the last year on a number of capital investment projects including the ongoing Havant Thicket Reservoir construction.

Interest payable and similar charges

These have reduced in the period to £4.5m from £9.9m in the previous period and are recorded net of borrowing costs of £3.7m (2023: £3.8m), which are capitalized into the main capital projects under construction in line with the company's accounting policies. The reduction in the gross interest and financing costs is due mainly to the lower indexation charges arising on the long standing Artesian RPI loan and the CPI Bond, reflecting the significantly lower inflation-related metrics applicable in the current period on both of these borrowings.
The net interest costs also include the benefit of a fair value gain of £1.6m (2023: loss of £1.0m), arising in the period on the RPI-CPI 'swap' financial instrument that the company has put in place, effective from April 2023 through to September 2032. This swap is to protect the business against adverse variances in the movement in RPI compared to CPI, in this period through to 2032, when the RPI linked Artesian loan matures. Hedge accounting, which is used for other floating-to-fixed interest rate 'swap' contracts also put in place from April 2023, is not possible for this RPI-CPI swap.

Other Financial Matters

Ownership structure

The Portsmouth Water group is wholly owned by funds managed by Ancala Partners LLP ('Ancala'). Ancala is a UK based infrastructure fund manager whose investors are primarily UK and European corporate and local authority pension plans with long term investment horizons. Ancala is committed to supporting the Company's purpose of 'Excellence in Water. Always.'. Ancala's ownership is through an investment holding company, Ancala Fornia Topco Pte Limited ('AFTPL'), a company incorporated in Singapore but domiciled for tax purposes wholly in the UK. This company is considered to be the ultimate parent undertaking of Portsmouth Water Limited, and Ancala are considered to be its controlling party.
Investment into Portsmouth Water Limited is effected from AFTPL through Ancala Fornia Holdco Limited ('AFHL'), a UK incorporated company. Group financial statements for both AFTPL and AFHL are prepared annually as at the 31 March financial year end, and these group financial statements include the consolidation of Portsmouth Water Limited and it's fellow subsidiary companies. All operations and tax related liabilities for the AFTPL and AFHL group are generated and payable in the UK.
Further information on the Portsmouth Water group structure can be found in the Portsmouth Water 2024 Annual Report & Accounts.

Financing structure

The wider Portsmouth Water group, including its UK parent companies, has raised £495m of financing over the current regulatory period since 2020, primarily to support the planned development and construction of the Havant Thicket reservoir and other capital enhancement projects. This has been achieved through a combination of £250m of new revolving credit facilities (£45m of which is in parent companies), and a £75m CPI linked bond (both of which were secured in March 2023), with an additional £170m of funding having been provided by Ancala.
This additional £170m funding from Ancala has been reflected by the company:

- increasing it's issued share capital by £80m (£20m in March 2023 and £60m in July 2023);
- the full repayment of an historic long term investment loan provided by Portsmouth Water to a parent company of £55.5m, plus interest accrued on this (in July 2023); and
- a new £30m parent company loan being provided to the company in July 2024.

The additional funding balances received from the new CPI Bond issue (£75m), and new Ancala fundingreceived (£170m), has largely been used to fund ongoing capital expenditure (as noted above) and the repayment of an existing £20.6m parent company loan, with excess funds placed on short term bank deposits and similar short term (liquid) investments. The total of all such cash deposit and investment balances at 30 September 2024 was over £81m. As such, no drawdowns on the additional RCF facilities in place have been made, or are expected to be required, through to the FY2025 period end.

Dividends

During the 6-month period to 30 September 2024, the Company has paid the dividend of £3.2m (2023: £2.3m) declared as part of it's prior year end completion. No dividend has been declared relating to the FY2025 financial year, and any dividend payable will be considered at the 31 March 2025 year end as part of the normal assessment of the performance of the Company and it's overall financial position.

Capital investments

The company has continued to make significant investments in various capital programmes. Total capital spend in the 6 month period was £37.4m, compared to £25.4m in the prior period. This excludes the impact of the related borrowing costs incurred of £3.7m (2023: £3.8m), which are capitalized as part of the related fixed asset carrying values on a number of the larger capital programmes. Capital expenditure on the Havant Thicket reservoir construction in the 6-month period included above was £24.2m, bringing the total cumulative spend on the project at 30 September 2024 to £103.7m. In addition to this, a further £17.2m of cumulative borrowing costs have been capitalized.

Capital contributions

The company receives capital contributions, primarily in connection with new mains built for housing developments. These amounted to £0.2m in the 6-month period (2023: £0.3m). In accordance with the requirement of FRS102, these contributions are deferred and amortised to the Income Statement with £0.4m released in the period (2023: £0.4m).

Pensions

The Company is the principal employer of the Brockhampton Pension Scheme, a defined benefit scheme. The scheme closed to future accrual with effect from 31 March 2023, and no future cash contributions from employees or the Company are expected to be required. The latest valuation as at 31 March 2024 based on FRS102 assumptions and market movements was calculated, and estimated a net pension surplus of £23.0m. In line with the required FRS102 accounting requirements, and the closure of the scheme to future accrual, none of this surplus was recognized by the Company as at 31 March 2024 or at 30 September 2024.

Cash and cash flow

Operating cash flow in the 6-month period to 30 September 2024 was a net cash outflow of £2.4m (2023: net cash inflow of £8.7m). This movement largely reflects changes in the underlying working capital balances. In particular, the company has introduced a new Customer Resource Management system (Kraken) in the current year, with the main annual billing process to 'unmeasured' customers taking place later in the summer period compared to prior years. As a result, the collection of payments from customers of these annual bills are at lower levels in the first half of the year but are expected to increase in the second half.
The overall net 'cash and cash equivalent' balances held have decreased slightly to £21.2m at 30 September 2024, from the £26.0m balance held at the 31 March 2024 year end. The net cash movements in the period include significant investment outflows relating to continuing expenditure on capital projects of £37.4m, including Havant Thicket Reservoir construction (as noted above). These have been largely funded from the draw-down of short-term investments which have matured in the period (£30.0m), and the receipt of £30.0m of new shareholder investment fundings paid into the group in July 2024 provided to the company by way of a new inter-group loan. Some £20.6m of these new funds were used to repay existing inter-group loan balances which were due for repayment in the current financial year.
Overall, the company maintains significant cash and short-term deposit balances at 30 September 2024 of over £81.0m. These funds are expected to be able to meet the company's operating, investment and finance cash requirements into 2025/26 when additional funding will also be available from the existing (undrawn) bank facilities. These additional banking facilities are in place through to 2028.

Other Financial Matters (continued)

Covenant compliance

We confirm that:

- There are no potential trigger events, trigger events, potential acceleration events or acceleration events outstanding that have been identified under the ongoing Borrower Finance Documents as at the date of this report.
- The Debt Service Payment Account and Operating Account are funded to the required levels.
- There has been no event which would be expected to give rise to an insurance claim in excess of 5% of the Regulated Asset Value.
- There has not been any other events identified, which has or would be reasonably likely to have a Material Adverse Effect on the assessment of covenant compliance.

KPI Ratios

The ratios set out below and those included later in this document are calculated at the Portsmouth Water (operating company) level.

Gearing

Gearing, as measured by 'Net debt' ratio to 'regulatory capital value ('RCV'), is a key covenant compliance measure required by the Company's Artesian index linked loan. 'Net debt' itself is measured for regulatory (Ofwat) purposes with the inclusion of sub-ordinated intra-group loan balances, and also for banking purposes without the inclusion of subordinated intra-group loans.

'RCV' in the gearing calculations is measured using both the 'old' RCV measure, which excludes the impact on RCV of the revised Havant Thicket Reservoir (HTR) project budget agreed with Ofwat in January 2023, and the 'new' RCV measure, which includes this impact.

As such, at each reporting date there are four different measures of gearing.

Details of the calculations are set out in the schedules below (Appendix 1a & 1b), with the gearing ratios remaining within the current bank covenant limits set (95%) as follows:

	At 30 Sep 2024	*At 30 Sep 2023*	*At 31 Mar 2024*
• *Gearing (Ofwat reporting) – excluding HTR RCV*	63.5%	37.7%	50.0%
• *Gearing (Ofwat reporting) – including HTR RCV*	40.4%	27.7%	38.7%
• *Gearing (bank covenant reporting) – excluding HTR RCV*	52.5%	29.0%	41.9%
• *Gearing (bank covenant reporting) – including HTR RCV*	33.5%	21.3%	32.4%

Interest cover

Interest cover is measured as the ratio of adjusted 'EBITDA,' after the inclusion of cash drawn from the specific 'funding proceeds' account, compared to the Interest paid in the period. The interest cover ratio calculation is set out in the schedules below (Appendix 1c), and this remains at 1.45 times for the 6 months to 30 September 2024 (2023 – 1.45 times), within the current covenant requirement (1.40 times), with £71.2m remaining to be drawn down from the 'funding proceeds' account at 30 September 2024 (£130.0m at 30 September 2023).

Credit rating

As at the period end, the Company had a credit rating with Moody's which remains at 'Baa2 Stable' following a rating review in January 2023, and with agreement of increased funding for the Havant Thicket project control.

Liquidity and going concern

As noted above, the Company is considered to have access to cash resources through both available cash deposits and other funds held at 30 September 2024, as well as access to unutilized borrowing facilities that the Company will require to manage the business for the foreseeable future. As such the directors continue to prepare the Company's financial statements on the going concern basis.

Outlook

As we move through the final year of this regulatory review period, we will continue our operational focus on delivering exceptional customer service and providing high quality water. We will work to implement our plans in relation to meeting the 26 stretching regulatory ODI's. There will be continued focus on the delivery of the Havant Thicket Reservoir construction project and a number of other critical capital programmes. We continue to see a focus on cost reduction and efficiency savings to help offset both the impact of PR19 regulatory settlement and the continuing wider cost pressures across the business.

Our attention is also on the final elements of our plans for the new regulatory period, commencing in April 2025, the completion of the Final Determination on this with Ofwat, and the early start on key activities relating to this period where possible.

Income Statement

For the 6-month period to 30 September 2024

	Unaudited 6 months to 30 September 2024 £000	Unaudited 6 months to 30 September 2023 £000	Audited 12 months to 31 March 2024 £000
Turnover	**24,724**	23,618	47,919
Cost of sales	**(17,217)**	(15,951)	(32,411)
Gross profit	**7,507**	7,667	15,508
Net operating expenses	**(3,512)**	(3,937)	(7,345)
Operating profit before gain on disposal of fixed assets and exceptional items	**3,995**	3,730	8,163
Gain on sale of fixed assets	**11**	-	-
Exceptional item – settlement and related costs on pension scheme	**-**	-	(31)
Operating profit after gain on disposal of fixed assets and exceptional items and before interest	**4,006**	3,730	8,132
Interest receivable and similar income	**2,220**	3,215	6,265
Interest payable and similar charges	**(4,509)**	(9,906)	(18,745)
Profit/(loss) on ordinary activities before taxation	**1,717**	(2,961)	(4,348)
Taxation on profit/(loss) on ordinary activities	**(429)**	740	918
Profit / (loss) for the financial period	**1,288**	(2,221)	(3,430)

Statement of Other Comprehensive Income

For the 6-month period to 30 September 2024

	Unaudited 6 months to 30 September 2024 £000	Unaudited 6 months to 30 September 2023 £000	Audited 12 months to 31 March 2024 £000
Profit/(loss) for the financial period	**1,288**	(2,221)	(3,430)
Remeasurement of net defined benefit pension scheme asset	**-**	-	364
Deferred tax relating to pension scheme asset	**-**	-	(91)
Fair value movements on hedge accounted financial instruments	**67**	1,853	380
Deferred tax relating to hedge accounted financial instruments	**(17)**	(463)	(95)
Total comprehensive loss for the period	**1,338**	(831)	(2,872)

Summarised Statement of Financial Position

As at 30 September 2024

	Unaudited as at 30 September 2024 £000	Unaudited as at 30 September 2023 £000	Audited as at 31 March 2024 £000
Fixed Assets			
Intangible fixed assets	**19,425**	10,560	15,191
Tangible fixed assets	**298,121**	233,264	264,605
	317,546	243,824	279,796
Current assets			
Investments (including short term deposits)	**60,002**	80,002	90,002
Stock	**677**	619	576
Debtors	**39,292**	15,467	21,789
Cash at bank & cash equivalents	**21,218**	64,415	25,959
	121,189	160,503	138,326
Creditors: Amounts falling due within one year	**(69,205)**	(23,181)	(50,100)
Net current assets/(liability)	**51,984**	137,322	88,226
Total assets less current liabilities	**369,530**	381,146	368,022
Creditors: Amounts falling due after more than one year	**(222,878)**	(230,217)	(219,761)
Accruals and deferred income	**(34,054)**	(34,410)	(34,223)
Provisions for liabilities	**(8,775)**	(8,770)	(8,330)
Net assets excluding pension asset	**103,823**	107,749	105,708
Pension asset	**-**	-	-
Net assets including pension asset	**103,823**	107,749	105,708
Capital and reserves			
Called up share capital	**81,078**	81,078	81,078
Share premium account	**9,382**	9,382	9,382
Capital redemption reserve	**3,250**	3,250	3,250
Cash flow hedge reserve	**335**	1,390	285
Profit and loss account reserve	**9,778**	12,649	11,713
Shareholders' funds	**103,823**	107,749	105,708

Summarised Statement of Changes in Equity

For the 6-month period ended 30 September 2024

	Unaudited 6 months to 30 September 2024 £000	Unaudited 6 months to 30 September 2023 £000	Audited 12 months to 31 March 2024 £000
Called up share capital	**81,078**	21,078	21,078
Share premium account	**9,382**	9,382	9,382
Capital redemption reserve	**3,250**	3,250	3,250
Cash flow hedge reserve	**285**	-	-
Retained earnings brought forward	**11,713**	17,212	17,212
Opening balance	**105,708**	**50,922**	**50,922**
Profit/(loss) for the period	**1,288**	(2,221)	(3,430)
Remeasurement of hedging financial instruments	**67**	1,853	380
Remeasurement of net defined benefit pension asset	**-**	-	364
Movement of deferred tax relating to pension scheme and financial instruments	**(17)**	(463)	(186)
Total comprehensive income /(loss) for the period	**1,338**	(831)	(2,872)
Share issue in the period	**-**	60,000	60,000
Dividends paid	**(3,223)**	(2,342)	(2,342)
Closing balance	**103,823**	**107,749**	**105,708**

Summarised Statement of Cash Flows

For the 6-month period ended 30 September 2024

	Unaudited 6 months to 30 September 2024 £000	Unaudited 6 months to 30 September 2023 £000	Audited 12 months to 31 March 2024 £000
Cash generated from / (used in) operations	**(2,364)**	8,714	12,699
Tax paid	-	-	-
Net cash inflow / (outflow) from operating activities	***(2,364)***	*8,714*	*12,699*
Investing activities			
Sale of tangible fixed assets	**11**	-	14
Purchase of tangible fixed assets	**(33,478)**	(24,741)	(52,343)
Purchase of intangible fixed assets	**(3,908)**	(4,676)	(8,681)
Short term investment deposits redeemed / (made)	**30,000**	(80,000)	(90,000)
Finance lease payment made	**(65)**	(314)	(314)
Receipt from repayment of long-term investment loan	**-**	55,484	55,484
Capital contributions received	**204**	264	761
Interest and investment income received	**4,436**	2,649	5,814
Net cash used in investing activities	***(2,798)***	*(51,334)*	*(89,265)*
Cash flows from financing activities			
Receipt of parent company loan	**30,000**	-	-
(Repayment) of parent company loan	**(20,623)**	-	-
Receipts from issue of new ordinary shares	**-**	60,000	60,000
Dividend payments	**(3,223)**	(2,342)	(2,342)
Interest and other finance costs paid	**(5,733)**	(4,696)	(9,206)
Net cash generated from financing activities	***421***	*52,962*	*48,452*
Net increase/(decrease) in cash and cash equivalents	**(4,741)**	10,342	(28,114)
Cash at beginning of period	**25,959**	54,073	54,073
Cash and cash equivalents at end of period	**21,218**	64,415	25,959
Comprising:			
Cash at bank and in hand	**10,093**	47,785	10,273
Cash equivalents *	**11,125**	16,630	15,686
Cash and cash equivalents at end of period	**21,218**	64,415	25,959

(* In addition to the cash equivalents noted above, there were also cash deposit balances held on longer maturity periods of £60.0m at 30 Sep 2024, £80.0m at 30 Sep 2023, and £90.0m at 31 Mar 2024. In line with applicable accounting standards, these are reported as short term investment balances in the Statement of Financial Position at these dates.)

Appendix 1 KPI Calculations

a) Gearing - Net Debt: RCV – as defined by Ofwat (pre-CAM agreement relating to HTR)

	Unaudited as at 30 September 2024 £000	Unaudited as at 30 September 2023 £000	Audited as at 31 March 2024 £000
Debt			
Bank RPI Artesian loan	**144,851**	136,854	142,285
Intra-group subordinated loan	**30,000**	20,623	20,623
Bank facilities drawn down	**-**	-	-
CPI bond	**79,391**	76,335	78,026
Finance lease liabilities	**1,070**	-	1,041
Net SWAP financial instruments	**(254)**	-	1,471
Debenture stock	**283**	283	283
Cash at bank and cash equivalents	**(21,218)**	(64,415)	(25,959)
Short term investment deposits	**(60,000)**	(80,000)	(90,000)
(i) Net debt	**174,123**	89,680	127,770
(ii) Regulatory capital value indexed	**274,316**	237,740	255,676
(iii) Gearing - Debt: RCV ratio (i) ÷ (ii)	**63.5%**	37.7%	50.0%

a) Gearing - Net Debt: RCV – as defined by Ofwat (post-CAM agreement relating to HTR)

	Unaudited as at 30 September 2024 £000	Unaudited as at 30 September 2023 £000	Audited as at 31 March 2024 £000
Debt			
Bank RPI Artesian loan	**144,851**	136,854	142,285
Intra-group subordinated loan	**30,000**	20,623	20,623
Bank facilities drawn down	**-**	-	-
CPI bond	**79,391**	76,335	78,026
Finance lease liabilities	**1,070**	-	1,041
Net SWAP financial instruments	**(254)**	-	1,471
Debenture stock	**283**	283	283
Cash at bank and cash equivalents	**(21,218)**	(64,415)	(25,959)
Short term investment deposits	**(60,000)**	(80,000)	(90,000)
(i) Net debt	**174,123**	89,680	127,770
(ii) Regulatory capital value indexed	**430,805**	323,651	330,507
(iii) Gearing - Debt: RCV ratio (i) ÷ (ii)	**40.4%**	27.7%	38.7%

Appendix 1 KPI Calculations (continued)

b) Gearing - Net Debt: RCV - As defined for banking covenant purposes (pre-CAM agreement relating to HTR)

	Unaudited as at 30 September 2024 £000	Unaudited as at 30 September 2023 £000	Audited as at 31 March 2024 £000
Debt			
Bank RPI Artesian loan	**144,851**	136,854	142,285
Bank facilities drawn down	**-**	-	-
CPI Bond	**79,391**	76,335	78,026
Finance lease liabilities	**1,070**	-	1,041
Net SWAP financial instruments	**(254)**	-	1,471
Debenture stock	**283**	283	283
Cash at bank and in hand	**(21,218)**	(64,415)	(25,959)
Short term investment deposits	**(60,000)**	(80,000)	(90,000)
(i) Net debt	**144,123**	69,057	107,147
(ii) Regulatory capital value indexed	**274,316**	237,740	255,676
(iii) Gearing - Debt: RCV ratio (i) ÷ (ii)	**52.5%**	29.0%	41.9%

b) Gearing - Net Debt: RCV - As defined for banking covenant purposes (post-CAM agreement relating to HTR)

	Unaudited as at 30 September 2024 £000	Unaudited as at 30 September 2023 £000	Audited as at 31 March 2024 £000
Debt			
Bank RPI Artesian loan	**144,851**	136,854	142,285
Bank facilities drawn down	**-**	-	-
CPI Bond	**79,391**	76,335	78,026
Finance lease liabilities	**1,070**	-	1,041
Net SWAP financial instruments	**(254)**	-	1,471
Debenture stock	**283**	283	283
Cash at bank and in hand	**(21,218)**	(64,415)	(25,959)
Short term investment deposits	**(60,000)**	(80,000)	(90,000)
(i) Net debt	**144,123**	69,057	107,147
(ii) Regulatory capital value indexed	**430,805**	323,651	330,507
(iii) Gearing - Debt: RCV ratio (i) ÷ (ii)	**33.5%**	21.3%	32.4%

Appendix 1 KPI Calculations (continued)

c) Interest cover (ICR)

	Unaudited 6 months 30 September 2024 £000	Unaudited 6 months 30 September 2023 £000	Audited 12 months to 31 March 2024 £000
Operating profit before profit before exceptional item	**3,995**	3,730	8,163
Amortisation of deferred capital contributions	**(373)**	(394)	(1,048)
Depreciation and amortisation charges	**3,321**	3,182	6,322
Interest income received	**4,436**	2,649	5,814
Capital expenditure (net of fixed asset disposal and capital contribution proceeds)	**(37,234)**	(25,098)	(60,563)
Net drawings from Proceeds account to fund capex *	**34,150**	22,740	54,700
(i) Sub-total	**8,295**	6,809	13,388
(ii) Interest paid	**5,733**	4,696	9,206
(iii) Cash interest cover ratio (i) ÷ (ii)	**1.45**	1.45	1.45

(* Proceeds account funds available are in excess of funds required to fund capex due to capital received in advance of the Havant Thicket project funding requirements)

Movements on Proceeds Account in the period

	Unaudited 6 months 30 September 2024 £000	Unaudited 6 months 30 September 2023 £000	Audited 12 months to 31 March 2024 £000
Balance at 1 April 2024 / 1 April 2023 / 1 April 2023	**96,020**	35,236	35,236
Third party loan funds received / (repaid)	**-**	-	-
Inter-group loan funds received / (repaid)	**9,377**	55,484	55,484
Share capital funds received	**-**	60,000	60,000
Funds drawn down for capital expenditure in the period	**(34,150)**	(22,740)	(54,700)
Balance at 30 Sept 2024 / 30 Sept 2023 / 31 March 2024	**71,247**	127,980	96,020

Notes

1. The interim results for the six months to 30 September 2024 have been prepared under FRS102 and on the basis of accounting policies consistent with those adopted for the year ended 31 March 2024.

   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 2024 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. 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.

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