

9 Financial projections

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Introduction

9.1. This chapter summarizes the projections made by the Director and Portsmouth and gives some additional MMC projections. The chapter covers:

- the financial aspects of the Director's approach to setting K;
- the data required for financial projections;
- the projections underlying the Director's determination;
- Portsmouth's projections; and
- the MMC's projections.

The Director's approach to setting K: financial aspects

9.2. The Director emphasized to us that the projections which he had made were not intended to be, and should not be regarded as, forecasts of the company's future performance. They were made in order to establish whether, on the basis of reasonable assumptions, the company would be able to finance its functions within the price limits determined. Covering a ten-year period, during which time a further price review might well have taken place, such projections could not be expected to constitute a detailed, year-by-year forecast. The same stipulation applies to the projections made by the MMC.

9.3. The Director's methodology may be summarized as including the following stages (although in practice a less rigid approach was adopted than this summary suggests):

- (a) Estimate the cost of capital (see paragraphs 4.31 to 4.37). For Portsmouth the real cost of capital was assumed to be [*] per cent after tax, made up of a base cost of capital of [*] per cent, plus a premium of [*] per cent for small companies.
- (b) Estimate the appointed business's capital value at the end of 1994/95. The Director's general approach to capital value is described in paragraphs 4.43 to 4.46. The capital value is taken to be the initial value plus subsequent capital expenditure less current cost depreciation. The initial value was taken to be 50 per cent of the indicative value calculated by the Secretary of State for the Environment for the purpose of K-setting. In the case of Portsmouth this was:

*Figures omitted. See note on page iv.

50 per cent of indicative value (31 December 1989) [*]
Inflated to 1992/93 prices¹]

The capital expenditure was that envisaged when price limits were set, adjusted for actual levels of construction prices. In the case of Portsmouth, the additions to capital value over 1990/91 to 1994/95 totalled about £[*] million, giving a total capital value of £[*] million at the end of 1994/95. Capital value is discussed further in paragraph 9.12.

- (c) Assume convergence from the current accounting rate of return on capital value² [*] to the cost of capital over ten years. The rate of return implied by convergence, and capital value in each year, led to a given level of operating profit (in £ million), revenue and K. In practice the Director sought to set 'flat' Ks (ie the same K in every year) and this implied a more rapid decline in rate of return in earlier than in later years.
- (d) Carry out modelling on the basis of different assumptions about movements in the RPI, in capital cost inflation and in real interest rates. The modelling took some account of what the company could do to counter any adverse movements, for example by deferring maintenance expenditure. The Director's modelling looked at a range of financial indicators including interest cover,³ dividend cover⁴ and debt:equity ratio. K factors were increased to allow companies some 'headroom' to deal with these risks, in particular where there was a risk of interest cover falling below [*]. The Director's modelling showed an after-tax return on capital for Portsmouth of [*] per cent in the K2 period and [*] per cent in K3 (the comparable figures for all WoCs were [*] and [*] per cent).
- (e) In the case of some companies, but not Portsmouth, Ks were increased in the first five years ('front loaded') because the sensitivity analysis suggested that there was a risk of interest cover falling below [*] in the early years of the Periodic Review.

9.4. Portsmouth did not follow the Director's approach to determining K in its submission. Instead, the company proposed a K which it believed would allow it to finance its functions and earn an adequate rate of return on the basis of its own cost and revenue projections and which would recognize the fact that the company had been ranked as one of the most efficient water companies in the industry in a series of studies by the Director. Furthermore, Portsmouth pointed out that, on a wide range of different accounting bases, Portsmouth could be demonstrated at present to have profits below average for the industry as a whole. Portsmouth argued that the Director's obligation to ensure effective competition was inconsistent with a determination which allowed a company which was ranked as one of the most efficient in the industry to earn below-average profits [*Details omitted. See note on page iv.*]. Portsmouth, therefore, based its K proposals on the level which it believed would allow the company to maintain its present level of current cost operating profits in real terms, at approximately £[*] million a year.

Financial model

9.5. A financial model is needed to estimate the effect that different levels of K have on profits and financial indicators. For this purpose, the Director updated the Watermark model that had been used at the time of privatization. The latest version (Watermark 8.01) was made available to the companies in February 1994 for use in Periodic Review projections. The Director himself used a more extensive model which incorporated the equations of Watermark 8.01. The Director's use of the financial model is described in Appendix 9.1. Portsmouth indicated that it considered the Watermark model as representing

¹All figures in this chapter are at 1992/93 prices, unless stated otherwise.

²The pre-tax rate of return is defined as CCA operating profits divided by capital value. The post-tax rate of return is defined as CCA operating profits after all business taxes divided by capital value.

³HCA profits before interest and tax divided by interest payments.

⁴HCA profits after interest and tax divided by dividends.

*Details omitted. See note on page iv.

an adequate tool to produce financial projections for the company given the Director's approach to K-setting. By contrast, Portsmouth was not content with the input data the Director had used in generating financial projections.

Data inputs required for financial projections

9.6. As with most projections exercises, a large number of data inputs were required. This section sets out the main inputs, describing the assumptions made by the Director and Portsmouth and by the MMC in their illustrative projections. We deal first with revenue inputs, secondly with costs and then with the financial and economic assumptions.

Revenue

9.7. The revenue obtained from the supply of water by Portsmouth depends on the number of customers and (to the extent that customers are metered) on the amount of water used by each customer. There is a major difference between the Director's and Portsmouth's projections of demand from metered commercial customers (see Appendix 5.1) and this has a considerable impact on revenue. Portsmouth's projections of demand and the number of customers are shown in Appendix 9.2. These projections, which, with the exception of metered business demand, are agreed between the Director and Portsmouth, show a rise averaging 0.8 per cent a year in the number of customers, with very few domestic customers being metered (only 0.6 per cent by 2004/05).

9.8. Revenue is also affected (albeit to a fairly small extent) by the structure of tariffs. The assumptions on tariff structure are illustrated in Figures 9.1 and 9.2 on the assumption that K is set at zero for all years of the Periodic Review. The Director's projections envisage that during the first year there is a rebalancing of tariffs in favour of metered customers. As most businesses are metered, while most households are not, the result is to increase average domestic bills and reduce average business bills.

9.9. Portsmouth also obtains contributions from customers in relation to new connections and new mains. These include infrastructure charges, connection charges, requisitioning charges or in some cases an alternative capital contribution (see paragraphs 4.15 to 4.17). The Director set the infrastructure charge (standard amount) for Portsmouth at £200, which reduces to £185 at the 1992/93 prices used in this chapter. This is the same level as for all other companies. Portsmouth argued initially for a higher infrastructure charge of £400 (although its projections assumed a charge of £185 at 1992/93 prices). Appendix 9.3 considers further the calculation of infrastructure charges, which are for determination by the MMC.

Costs

9.10. The projected levels of gross capital expenditure and operating expenditure¹ in each year of the Periodic Review are among the most important inputs to the financial projections. These are discussed in Chapters 7 and 8. As is apparent from those chapters, the Director projects a lower level of both capital and operating expenditure than does Portsmouth. The differences are summarized in Table 9.1.

¹Operating expenditure in this chapter excludes capital maintenance charges (depreciation and infrastructure renewal charges).

FIGURE 9.1

Average household water bill (with K of 0)



Source: MMC.

FIGURE 9.2

Average business water bill (with K of 0)



Source: MMC.

TABLE 9.1 Capital and operating expenditure projections

£ million, 1992/93 prices

| | <i>Actual</i> | | | | | | <i>Total</i> | <i>Total</i> |
|---|---------------|---------|---------|---------|---------|---------------|-----------------------|---------------------|
| | 1993/94 | 1995/96 | 1996/97 | 1997/98 | 1998/99 | 1999/ 2000 | 1995/96- 1999/2000 | 2000/01- 2004/05 |
| Capital expenditure (infrastructure renewals):* | | | | | | | | |
| The Director | [| | | | | | | |
| Portsmouth | | | | | | | | |
| Capital expenditure (other):* | | | | | | | | |
| The Director | | | | | | | | |
| Portsmouth | | | | | | | | |
| Operating expenditure: | | | | | | | | |
| The Director | | | | | | | | |
| Portsmouth | | | | | | | |] |

*Figures omitted. See
note on page iv.*

Source: MMC based on information supplied by the Director and Portsmouth.

*Capital expenditure is before adjustment for construction price inflation and before deduction of customer contributions.

9.11. Accounting assumptions are required to obtain capital maintenance provisions from the capital expenditure. Inputs are required for Watermark on:

- (a) Depreciation on pre-31 March 1993 assets. This depends on the assumed life of the assets. In the case of current cost depreciation, it depends also on whether the current value of assets has been reassessed. There is no difference between the Director's and Portsmouth's figures.
- (b) Depreciation on post-31 March 1993 assets. Depreciation depends on the assumed average life of the assets and the percentage of assets that are classified as infrastructure assets and hence non-depreciable. The Director based his figures on standardized figures for average asset lives and percentage infrastructure for the expenditure in each of his categories (capital maintenance, supply/demand, quality and enhanced services), whereas Portsmouth's figures were based on an analysis of the projects included in its capital expenditure programme.
- (c) Infrastructure renewals accruals. In the Director's projections this smooths capital expenditure on infrastructure renewals over the period 1990/91 to 2004/05 to calculate the infrastructure renewals charge. (The result of this smoothing is that the infrastructure renewals charge is lower than the underlying expenditure in every year from 1995/96 to 2004/05.) In Portsmouth's projections there are no accruals. The MMC's projections also assume no accruals.

Table 9.2 compares the Director's and Portsmouth's current cost depreciation. In the case of post-31 March 1993 assets, the Director's assumptions about asset lives have been applied to Portsmouth's figures for capital expenditure in order to show the difference in depreciation charge that is due to differences in assumptions about asset lives (as opposed to differences in the projected level of capital expenditure itself). Table 9.2 confirms that there are differences in current cost depreciation assumptions on new assets as well as in the underlying level of projected capital expenditure. The MMC's projections were run on the basis of both the Director's and Portsmouth's assumptions about depreciation on post-31 March 1993 assets.

Capital value

9.12. The Director's approach to establishing the capital value of the business was explained in paragraph 9.3(b). Portsmouth did not agree with the Director's approach to determining capital value. In its initial submission to the MMC, Portsmouth argued that the Director's approach, in particular taking initial value as 50 per cent of indicative value, was arbitrary. Portsmouth believed the value of K should

TABLE 9.2 Depreciation charges (CCA)

£ million, 1992/93 prices

| | <i>Actual</i> 1993/94 | 1995/96 | 1996/97 | 1997/98 | 1998/99 | 1999/ 2000 | <i>Total</i> 1995/96- 1999/2000 | <i>Total</i> 2000/01- 2004/05 |
|--|--------------------------|---------|---------|---------|---------|---------------|---------------------------------------|-------------------------------------|
| Depreciation on pre-31 March 1993 assets: | | | | | | | | |
| The Director Portsmouth | [| | | | | | | |
| Depreciation on post-31 March 1993 assets: | | | | | | | | |
| The Director Portsmouth Portsmouth's capex, The Director's depreciation* | | | | | | | |] |

*Figures omitted. See
note on page iv.*

Source: MMC based on information supplied by the Director and Portsmouth.

*The Director's depreciation category percentages are applied to Portsmouth's capital expenditure.

not depend on such an arbitrary assumption, but if an end-1994/95 capital value was required it should be consistent with Portsmouth's projections on its proposed K. Portsmouth estimated that an implied capital value of £[†] million, about [†] per cent greater than the Director's figure, was consistent with these projections. During the course of the inquiry Portsmouth also argued that if any reliance was to be placed on the relationship between capital value and market value then it would be more logical to base the capital value on the company's total capitalization in the 200 days following the announcement of the 1993 results (17 June 1993) thereby providing investors with a three-year record under the new price control system. Appendix 9.4 compares the Director's estimate of the appointed business's capital value with the total capitalization of the plc. Appendix 9.4, Table 1, shows that total capitalization has been both above and below the Director's estimated capital value. Appendix 9.4, Table 2, shows that Portsmouth's actual net capital expenditure has exceeded the net capital expenditure included in the Director's capital value by some £[†] million during the K1 period. The MMC projections are based on the Director's figure for end-1994/95 capital value.

Financial assumptions

9.13. Financial assumptions are required in order to calculate net debt and interest payments and hence to project forward the financial ratios. Table 9.3 summarizes the main financial assumptions.

9.14. The starting point for the Watermark 8.01 financial model is the end of 1992/93 (1993/94 data were not available at the time that the companies submitted their SBP projections). At this time Portsmouth's net debt was £11.5 million. The Director's projections took account of interest on certain fixed-interest loans taken out up to the end of 1992/93 but assumed that any further loans were at the overdraft rate. Portsmouth's projections assumed that further fixed-interest loans are taken out at a nominal interest rate of about 10 per cent. The MMC's projections take account of all fixed-interest loans up to the end of 1994/95 but assume that any further borrowing is at the overdraft rate.

TABLE 9.3 Financial assumptions

| | Director | Portsmouth |
|---------------------------------|----------|------------|
| Interest rates (real): | | |
| Cash and investments (%) | [| 4.5* |
| Overdrafts (%) | | 6.0* |
| Interest rates (real):† | | |
| Loans other than overdrafts (%) | | 6.5 |
| Debenture/loanstock‡ (%) | ⊠ | 6.9 |
| Preference dividends: | | |
| Level in 1994/95 (£m)§¶ | | [|
| Ordinary dividends: | | ⊠ |
| Level in 1994/95 (£m)§ | | |
| Growth (real) (% per year) |] |] |

Source: MMC based on information supplied by the Director and Portsmouth.

*1993/94 and 1995/96 to 2004/05 only. The real return assumed on cash and investments in 1994/05 is 2 per cent and the real overdraft rate is 5 per cent.

†Approximate average over 1995/96 to 2004/05.

‡£4 million of debenture/loan stock is redeemed in 1994/95 and £8 million in 1996/97.

§1992/93 prices.

¶Preference shares redeemed in 1996/97 and 1997/98.

9.15. Table 9.3 shows assumptions on interest rates. Portsmouth had assumed a real interest rate on bank loans of 6 per cent, slightly lower than the rate on other loans. The MMC's illustrative projections use the Director's assumption that the interest rate on bank loans was 5.25 per cent.

9.16. Neither the Director nor Portsmouth projected new equity funding. The level of dividends is an input to Watermark and so an assumption on dividend levels is required. [

Details omitted. See note on page iv.

] The Director told us that future dividends were a matter for the management of the water companies but that he had based his projections of dividend cover on the 1992/93 dividend for Portsmouth (adjusted to take account of the amounts paid to the ultimate shareholders) and dividend growth in real terms as suggested in the BoN for 1993/94 and 1994/95:

Details omitted. See note on page iv.

] In the financial model the difference in dividend assumptions affects financial indicators, tax payments and cash flow but not operating profits or pre-tax return on capital. Post-tax return on capital is affected by dividend assumptions, since higher dividends lead to higher net debt, higher interest payments and hence lower tax (because interest payments are offset against profits in calculating taxable profits). The MMC's projections do not adopt a single assumption about dividends, but set dividends at the level that leads to Portsmouth's ratio of net debt to equity during the K3 period being similar to the average for all WoCs.¹

Economic assumptions

9.17. Assumptions are required on the rate of retail price inflation and real construction prices. The rate of retail price inflation affects both costs and revenue, but it affects revenue through the adjustment factor in the tariff basket with a lag (see paragraph 4.3). Hence an increase in the rate of inflation tends to reduce the real level of profits. Real construction prices affect the real cost of carrying out capital projects and hence capital expenditure. There is no difference between the Director's and Portsmouth's assumptions on retail price inflation ([⊠] per cent) or on real construction prices ([⊠] per cent real increase assumed over the [⊠]). The Director told us that his projections for real construction prices were based on an assumed cyclical return to the trend against the RPI.

¹In doing so, Portsmouth's end-year cash balance was adjusted for bill prepayments to make its net debt more comparable with the average.

⊠Details omitted. See note on page iv.

The Director's projections

9.18. The Director's projections underlying his determination of K are summarized in Table 9.4. The main features include:

[

*Details omitted. See
note on page iv.*

]

9.19. Comparison with the Director's projections for all WoCs (also shown in Table 9.4) shows that Portsmouth's pre-tax return on capital is higher than the WoC average in both K2 and K3, while post-tax return is higher than the average in K2, but similar in K3.

Portsmouth's projections

9.20. Table 9.5 shows Portsmouth's projections¹ on the basis both of the Director's K and of Portsmouth's proposed K. [

Details omitted. See note on page iv.

]

9.21. Table 9.5 also shows projections at Portsmouth's proposed K [

Details omitted. See note on page iv.

]. This level of operating profit is slightly lower than in the Director's projections. Pre-tax return on capital averages [*] per cent in K2 and [*] per cent in K3, somewhat lower than in the Director's projections due primarily to higher starting capital value (and also to higher capital expenditure and lower operating profit). The other main difference between Portsmouth's projections and those of the Director is in the level of ordinary dividends: the higher level of ordinary dividends projected by Portsmouth contributes to the lower level of interest cover and of ordinary dividend cover and to lower tax payable. Consequently, post-tax return on capital during K3 is higher in Portsmouth's projections (on Portsmouth's proposed K) than in the Director's projections.

¹Based on Portsmouth's proposed capital value of £46.5 million at the end of 1994/95.

*Figures omitted. See note on page iv.

TABLE 9.5 **Portsmouth's projections**

£ million, 1992/93 prices

| | <i>Actual</i> 1993/94 | 1995/96 | 1996/97 | 1997/98 | 1998/99 | 1999/2000 | Average K2 | Average K3 | 2004/05 |
|---|--------------------------|---------|---------|---------|---------|-----------|---------------|---------------|---------|
| <i>Portsmouth's projections, Director's K</i> | | | | | | | | | |
| Revenue | 25.28 | [| | | | | | | |
| Operating expenditure | 14.58 | | | | | | | | |
| Infrastructure renewals charge | 3.19 | | | | | | | | |
| CCA depreciation | 1.67 | | | | | | | | |
| Operating profit (CCA) | 5.91 | | | | | | | | |
| Net debt (adjusted)* | 14.15 | | | | | | | | |
| Capital value (end year) | - | | | | | | | | |
| Return on capital value pre-tax (%) | N/A | | | | | | | | |
| Return on capital post-tax (%) | N/A | | | | | | | | |
| Return post-tax ACT adjusted (%)† | N/A | | | | | | | | |
| Interest cover (HCA) | 4.43 | | | | | | | | |
| Ordinary dividend cover (HCA) | 2.28 | | | | | | | | |
| Net debt/equity (HCA) (%) | 38.8 | | | | | | | | |
| Net debt/equity (adjusted)* (HCA) (%) | 52.6 | | | | | | | | |
| <i>Portsmouth's projections,</i> | | | | | | | | | |
| <i>Portsmouth's K [Details</i> | | | | | | | | | |
| <i>omitted. See note on page iv.]</i> | | | | | | | | | |
| Revenue | 25.28 | | | | | | | | |
| Operating expenditure | 14.58 | | | | | | | | |
| Infrastructure renewals charge | 3.19 | | | | | | | | |
| CCA depreciation | 1.67 | | | | | | | | |
| Operating profit (CCA) | 5.91 | | | | | | | | |
| Net debt (adjusted) | 14.15 | | | | | | | | |
| Capital value (end year) | - | | | | | | | | |
| Return on capital value pre-tax (%) | N/A | | | | | | | | |
| Return on capital post-tax (%) | N/A | | | | | | | | |
| Return post-tax ACT adjusted (%)† | N/A | | | | | | | | |
| Interest cover (HCA) | 4.43 | | | | | | | | |
| Ordinary dividend cover‡ (HCA) | 2.28 | | | | | | | | |
| Net debt/equity (HCA) (%) | 38.8 | | | | | | | | |
| Net debt/equity (adjusted)* (HCA) (%) | 52.6 | | | | | | | |] |

*Details omitted. See
note on page iv.*

Source: MMC based on information supplied by Portsmouth.

*Net debt is adjusted to exclude bill prepayments at the financial year end.

†Operating profit less tax payable plus ACT divided by average capital value.

‡Ordinary dividend cover is defined as profits after tax and interest less preference dividends divided by ordinary dividends.

The MMC's projections

9.22. During the course of the inquiry, we looked at a large number of projections on different assumptions. [*Details omitted. See note on page iv.*]

[

*Details omitted. See
note on page iv.*

]

9.23. The MMC's projections at the Director's K of -1.5 throughout show an average pre-tax rate of return of [*] per cent in K2 and about [*] per cent on average in K3. At an alternative K of -0.5 in K3, average pre-tax rate of return is increased to [*] per cent in K3.

*Details omitted. See note on page iv.

TABLE 9.6 MMC's projections (Portsmouth's depreciation)

£ million, 1992/93 prices

| | <i>Actual</i> | | | | | | | | | | | | <i>Average</i> | <i>Average</i> |
|---|---------------|---------|---------|---------|---------|-----------|---------|---------|---------|---------|---------|--|----------------|----------------|
| | 1993/94 | 1995/96 | 1996/97 | 1997/98 | 1998/99 | 1999/2000 | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | | K2 | K3 |
| <i>Director's K of -1.5, [Details omitted. See note on page iv.]</i> | | | | | | | | | | | | | | |
| Revenue | 25.28 | [| | | | | | | | | | | | |
| Operating expenditure | 14.58 | | | | | | | | | | | | | |
| Infrastructure renewals charge | 3.19 | | | | | | | | | | | | | |
| CCA depreciation | 1.67 | | | | | | | | | | | | | |
| Operating profit (CCA) | 5.91 | | | | | | | | | | | | | |
| Net debt (adjusted)* | 14.15 | | | | | | | | | | | | | |
| Capital value (end year) | 41.25 | | | | | | | | | | | | | |
| Return on capital value pre-tax (%) | 14.5 | | | | | | | | | | | | | |
| Return on capital post-tax (%) | 13.6 | | | | | | | | | | | | | |
| Return post-tax ACT adjusted (%)† | N/A | | | | | | | | | | | | | |
| Interest cover (HCA) | 4.43 | | | | | | | | | | | | | |
| Ordinary dividend cover‡ (HCA) | 2.28 | | | | | | | | | | | | | |
| Net debt/equity (adjusted)* (HCA)(%) | 52.6 | | | | | | | | | | | | | |
| <i>Figures omitted. See note on page iv.</i> | | | | | | | | | | | | | | |
| <i>July K of -1.5 in K2 and -0.5 in K3, [Details omitted. See note on page iv.]</i> | | | | | | | | | | | | | | |
| Revenue | 25.28 | | | | | | | | | | | | | |
| Operating expenditure | 14.58 | | | | | | | | | | | | | |
| Infrastructure renewals charge | 3.19 | | | | | | | | | | | | | |
| CCA depreciation | 1.67 | | | | | | | | | | | | | |
| Operating profit (CCA) | 5.91 | | | | | | | | | | | | | |
| Net debt (adjusted)* | 14.15 | | | | | | | | | | | | | |
| Capital value (end year) | 41.25 | | | | | | | | | | | | | |
| Return on capital value pre-tax (%) | 14.5 | | | | | | | | | | | | | |
| Return on capital post-tax (%) | 13.6 | | | | | | | | | | | | | |
| Return post-tax ACT adjusted† (%) | N/A | | | | | | | | | | | | | |
| Interest cover (HCA) | 4.43 | | | | | | | | | | | | | |
| Ordinary dividend cover‡ (HCA) | 2.28 | | | | | | | | | | | | | |
| Net debt/equity (adjusted)* (HCA) (%) | 52.6 | | | | | | | | | | | | | |

]

Source: MMC.

*Net debt is adjusted to exclude bill prepayments at the financial year end.

†Operating profit (CCA) less tax payable plus ACT divided by average capital value.

‡Ordinary dividend cover is defined as profits after tax and interest (HCA) less preference dividends divided by ordinary dividends.

[

Details omitted. See
note on page iv.

]

TABLE 9.7 MMC's projections (Director's depreciation)

£ million, 1992/93 prices

| | <i>Actual</i> 1993/94 | 1995/96 | 1996/97 | 1997/98 | 1998/99 | 1999/2000 | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | Average K3 | Average K3 |
|--|--------------------------|---------|---------|---------|---------|-----------|---------|---------|---------|---------|---------|---------------|---------------|
| <i>The Director's K of -1.5,</i> | | | | | | | | | | | | | |
| <i>[Details omitted. See note on page iv.]</i> | | | | | | | | | | | | | |
| Revenue | 25.28 | [| | | | | | | | | | | |
| Operating expenditure | 14.58 | | | | | | | | | | | | |
| Infrastructure renewals charge | 3.19 | | | | | | | | | | | | |
| CCA depreciation | 1.67 | | | | | | | | | | | | |
| Operating profit (CCA) | 5.91 | | | | | | | | | | | | |
| Net debt (adjusted)* | 14.15 | | | | | | | | | | | | |
| Capital value (end year) | 41.25 | | | | | | | | | | | | |
| Return on capital value pre-tax (%) | 14.5 | | | | | | | | | | | | |
| Return on capital post-tax (%) | 13.6 | | | | | | | | | | | | |
| Return post-tax ACT adjusted† (%) | N/A | | | | | | | | | | | | |
| Interest cover (HCA) | 4.43 | | | | | | | | | | | | |
| Ordinary dividend cover‡ (HCA) | 1.41 | | | | | | | | | | | | |
| Net debt/equity (adjusted)* (HCA)(%) | 52.6 | | | | | | | | | | | | |
| <i>Figures omitted. See note on page iv.</i> | | | | | | | | | | | | | |
| <i>K of -1.5 for K2 and -0.5 for K3,</i> | | | | | | | | | | | | | |
| <i>[Details omitted. See note on page iv.]</i> | | | | | | | | | | | | | |
| Revenue | 25.28 | | | | | | | | | | | | |
| Operating expenditure | 14.58 | | | | | | | | | | | | |
| Infrastructure renewals charge | 3.19 | | | | | | | | | | | | |
| CCA depreciation | 1.67 | | | | | | | | | | | | |
| Operating profit (CCA) | 5.91 | | | | | | | | | | | | |
| Net debt (adjusted)* | 14.15 | | | | | | | | | | | | |
| Capital value (end year) | 41.25 | | | | | | | | | | | | |
| Return on capital value pre-tax (%) | 14.5 | | | | | | | | | | | | |
| Return on capital post-tax (%) | 13.6 | | | | | | | | | | | | |
| Return post-tax ACT adjusted† (%) | N/A | | | | | | | | | | | | |
| Interest cover (HCA) | 4.43 | | | | | | | | | | | | |
| Ordinary dividend cover‡ (HCA) | 1.41 | | | | | | | | | | | | |
| Net debt/equity (adjusted)* (HCA) (%) | 52.6 | | | | | | | | | | | |] |

Source: MMC.

*Net debt is adjusted to exclude bill prepayments at the financial year end.

†Operating profit (CCA) less tax payable plus ACT divided by average capital value.

‡Ordinary dividend cover is defined as profits after tax and interest (HCA) less preference dividends divided by ordinary dividends.

[

Details omitted. See
note on page iv.

]