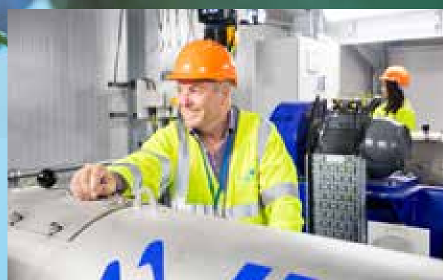
Portsmouth Water Limited
Annual Report & Accounts 2019



Delivering excellence
for our customers,
our people and our
environment

Company Number: 2536455

Yellow Flag Iris at Fishbourne Water Treatment Works

Portsmouth Water At A Glance

A local company with a proud history of serving our customers for over 160 years

162

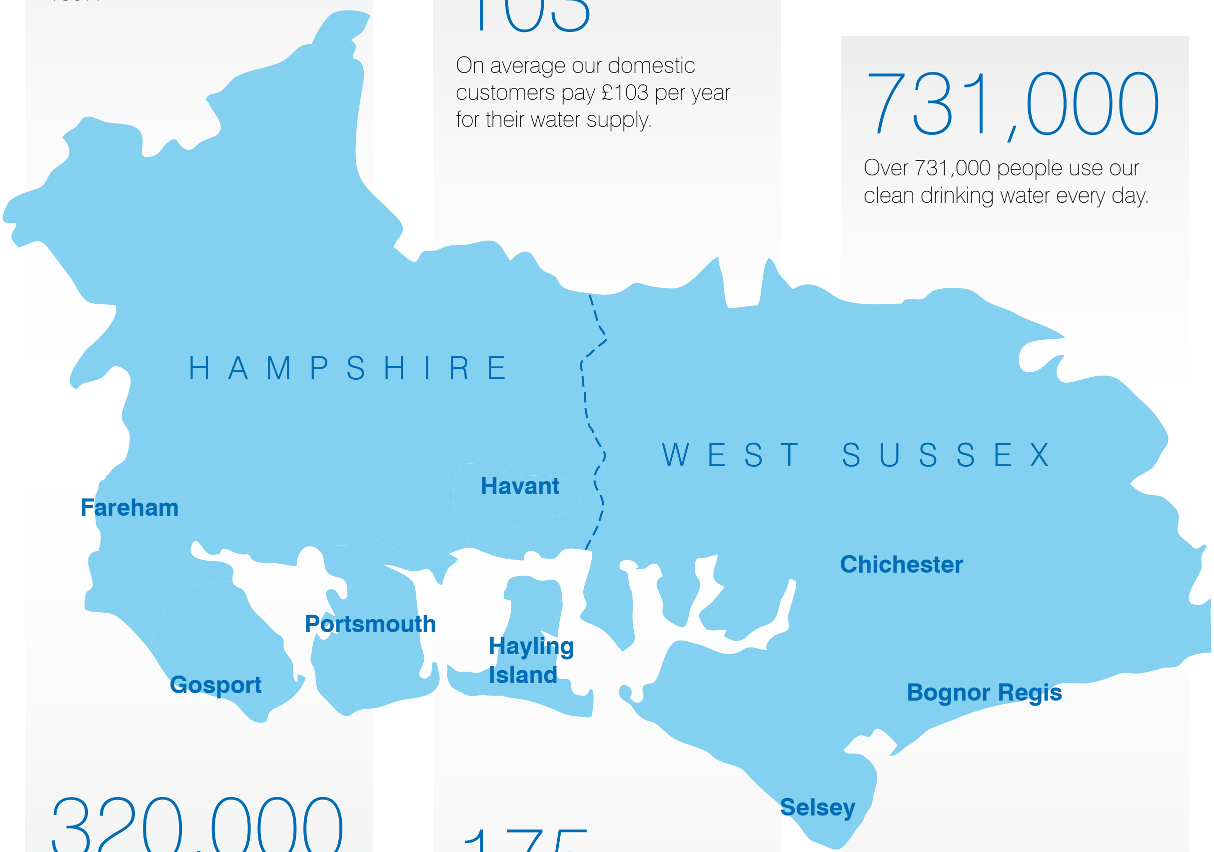
We are proud to have served the local community since 1857.

103

On average our domestic customers pay £103 per year for their water supply.

731,000

Over 731,000 people use our clean drinking water every day.



320,000

We provide clean drinking water to 320,000 homes and businesses in our area.

175

We serve the cities and towns of Portsmouth, Chichester, Fareham, Gosport, Havant and Bognor Regis. On average, each day we supply approximately 175 million litres of water.

3,337

Our area of supply has a network of over 3,337 kilometres of underground pipes.

We provide drinking water only. We do not provide sewerage services; these are normally provided by Southern Water.

Highlights

- Lowest bills in the industry with an average bill of £103, against an industry average of £190
- Lowest level of written complaints in the industry
- RoSPA Presidents Award winner for the fifth successive year
- Significant customer engagement to shape future plans, with views invited from over 10% of our customers
- Submission of our PR19 Business Plan to Ofwat
- Significant progress made with our Havant Thicket Winter Storage Reservoir Plans

2019 RoSPA President's Award

ServiceMark
Accredited from Apr '18 to Apr '21
The Institute of Customer Service

Turnover

£42.2m

2019	42.2m
2018	40.5m
2017	40.3m

Adjusted cash generated from operations[1]

£11.8m[1]

2019	11.8m
2018	12.6m
2017	10.6m

Capital expenditure

£14.8m

2019	14.8m
2018	7.5m
2017	9.4m

Operating profit[2]

£7.9m[2]

2019	7.9m
2018	6.4m
2017	5.6m

(Loss)/profit before tax

£(0.7)m

2019	(0.7)m
2018	(1.1)m
2017	1.5m

[1] *After adjusting for cash movements relating to sale proceeds (note 31)*
[2] *Before loss on disposal of fixed assets and before other exceptional items*

Contents

Registered Office

PO Box 8
West Street
Havant
Hampshire
PO9 1LG

River Meon

Chairman's Statement

Mike Kirk
Chairman
23 May 2019

I have great pleasure in presenting the Annual Report and Accounts for what has been a busy and important year for the business. Much of the business' focus has been on preparing for the next 5 year regulatory review period 2020-25. This has included both the significant work needed to submit the Company's Business Plan and in preparing to deliver the stretching performance challenges that we have committed to. We have also undertaken important planning activity supporting the development of Havant Thicket reservoir project. This has included extensive environmental survey work and the commencement of habitat mitigation work.

During the year we also saw the retirement of two executive Directors – Neville Smith our Managing Director and Rod Porteous our Engineering Director – and a Non-executive director – Heather Benjamin. I should like to take the opportunity, on behalf of the Board, to thank Neville, Rod and Heather for their significant contribution to the business. We also welcomed Bob Taylor who was appointed as CEO in January 2019, after originally being appointed as Engineering Director in November 2018 and Mike Coffin as a Non-executive director.

Operationally we have continued to deliver excellent customer service, the lowest household bill in the country and a solid financial performance. We have invested an additional £2m during the year to improve our leakage position and I am pleased to report that this has shown positive results – delivering a significant reduction in leakage during the year.

Our Customers

We were pleased to continue our excellent customer service record, being ranked second for customer satisfaction in the Independent Service Incentive Mechanism (SIM) survey conducted for Ofwat. The survey contributes 75% of the overall SIM score, with the remainder relating to quantitative measures such as complaints and supply interruption. We are members of the Institute of Customer Service who conducted a satisfaction survey of our customers for the second time this year which, once more, produced a strong score. The number of complaints per 10,000 households is exactly the same as 2017/18 at 10.3, less than half the industry average. We were industry leaders last year and it is likely this will be the same this year.

Through our social tariff, for those customers with low household incomes, we continue to support those who have genuine difficulty paying bills. In the year we signed up an additional 1,600 customers, which was ahead of our target. This is part of our range of services to assist those in society that need help or support.

In the fourth year of the current regulatory period, we achieved all but three of our Outcome Delivery Incentives (ODI's). Water quality contacts for colour, taste and appearance was over our target, but at a level which is the lowest in the Industry. Per capita consumption at 153l/h/d has, unfortunately, continued to increase and was adversely impacted by the long, dry summer in 2018. With a low level of meter penetration at 32% and an inability to compulsory meter customers, we have an increasing challenge to influence customer behaviours in relation to water usage. This will be an area where we will face challenges in the next regulatory review period and we are currently developing an innovative strategy to influence a reduction in water use by customers.

Finally it was disappointing that in the early part of the year we had three accidents causing an individual to be off work for over 7 days. We reinforced health and safety messages and procedures as a consequence and had no further such events in the year.

We continue to work with local developers to understand both their expectations and their experience of working with us. In our annual developer survey 95% indicated they were satisfied with our performance.

Our Infrastructure

Over many years we have invested in the resilience of our infrastructure and have a robust network of pipes and treatment works. We are able to move water across our region through a central spine and we are capable of providing water from more than one source to almost all of our customers. This year we replaced or repaired 20km of pipes at a total cost of £4.4m. A further 12km of new pipes were also delivered.

We have continued to focus on improving leakage levels. We invested an incremental £2m during the year to improve leakage detection and we committed to a challenging 20% reduction in leakage during the next regulatory period.

Planning and preparation work for the delivery of a new winter storage reservoir at Havant Thicket commenced with an investment of £2.4m. This reservoir will support the resilience of the region and enable a bulk supply of water to be provided to our neighbour – Southern Water.

We had a significant increase in spend on "non-infrastructure" assets of £2.5m. We also replaced the membrane filters at 3 of our plants at a cost of £0.8m. We began work to develop plans to install eel screens at our river Itchen works to protect eels under the EU habitats directive.

Our Business

We have committed significant resource to preparation and submission of the PR19 Business Plan. Our broad PR19 strategy leverages the Company's strong water resources position with plans to deliver increasing volumes of bulk water supply to our neighbouring water company, Southern Water. This will be delivered through an ambitious combination of reduced leakage, lower demand and the development (over 10 years) of the new water resource: Havant Thicket Winter Storage Reservoir. We have committed to a range of stretching service levels to customers including a 20% reduction in leakage, increasing support for vulnerable customers and lower interruptions to water supplies. We will deliver this for a lower bills at £97 in today's prices. Customer acceptance levels of our Business Plan, at 84%, was extremely high.

Our People

We were delighted, for the fifth consecutive year, to receive the President's Award from the Royal Society for the Prevention of Accidents (RoSPA). This recognises 13 consecutive years of winning 12 Gold Awards and one Industry Sector Award. Healthy and safety is our number one priority and we are immensely proud of this achievement.

This has been a busy year for our staff, achieving high levels of customer service, successfully improving our leakage position and preparing the PR19 Business Plan submission. On behalf of the Board I would like to thank our staff for the hard work and dedication that has made this possible.

Our Environment

During 2018/19 we continued our focus on the ambitious "catchment management" programme aimed at influencing land users to reduce the risk of nitrate pollution. As part of this work we began a collaborative European Union Interreg project to trial 'payments for ecosystems services'.

There were no restrictions to customer supplies in 2018/19. The very dry summer period resulted in a dip in groundwater levels to below the long-term average. Whilst levels recharged quickly over the winter, following a wet November & December, the exceptionally dry January caused another dip in groundwater levels. However, spring rainfall has once more recharged the aquifers and we end the financial year with groundwater levels slightly above the long-term average. We do not anticipate any restrictions to water supply over the forthcoming summer period.

We have also undertaken a range of activities throughout the year to support and enhance biodiversity including restoration of chalk grassland, removal of invasive non-native species and woodland management.

Financial Results

The results for the year show an operating profit of £7.9m (2018 - £6.5m) before exceptional items. These results benefited from £1.2m lower infrastructure renewals expenses. In addition Turnover grew by £1.7m primarily due to £0.8m higher measured supplies and £0.6m third party work (primarily developer services). Staff costs charged to the income statement fell by a total of £1.8m primarily due to Employee Benefit Trust payments made in 2017 which ceased following the sale of the business. These were offset by increased leakage control expenditure of £1.7m together with Business Plan professional fees (£0.5m) and higher power costs (£0.5m) driven by increased demand over the long dry summer.

Consistent with 2017/18 an exceptional item of £2.4m (2017/18 £3.0m) arose in relation to exceptional employer's NIC and related charges in connection with the distribution of the second tranche of sale proceeds to employees (see note 31).

Net interest payable of £7.4m (2017/18 £7.6m) fell slightly due to a small reduction in RPI.

The significant increase in gross capital expenditure of £14.8m (2017/18 £7.5m) reflects, the activities explained under "Our Infrastructure" above.

Cash flow

Cash generated from operations of £9.8m (2018 - £23.6m) remained consistent with long term out-turn. The 2018 position of £23.6m was positively impacted by £11.0m of atypical cash flow in connection with the sale of the business reflecting an adjusted balance of £12.6m.

The significant £6m increase in spend on purchase of tangible fixed assets was offset by an additional £7m of borrowing under the revolving credit facility.

Gearing

Gearing has been calculated on both an adjusted and unadjusted bases to reflect the atypical cash held at the year end of £9.0m (2018 - £11.0m) in connection with the distribution of proceeds from the sale of the business (note 31).

	2018/19 **£m**	2017/18 £m
Adjusted	**60.3%**	55.9%
Unadjusted	**66.3%**	63.6%

On both bases gearing has increased as a consequence of the growth in Capex (and associated borrowing) in the year.

Ratios

The cash interest cover ratio of 1.54 times (2018 - 2.20 times) remains comfortably above that required for the covenant of >1.4 times. At 6.06% Return on Regulatory Equity (RoRE) is consistent with expected out-turn. The 2018 position of 7.03% benefited from the gain generated on disposal of our non-household retail business.

Strategic Report

Our Mission

"To supply high quality drinking water whilst providing excellent levels of service for our customers at the lowest price in the country"

Portsmouth Water supplies drinking water to a population of 731,000 over an area of 868km^2.

To achieve our Mission we have developed a number of Outcomes, as part of the Regulatory Price Review process (see page 7). These summarise our business goals and aspirations over the coming years. We did this by consulting our customers and our stakeholders.

These Outcomes form the backbone of our strategy and are reflected in our Business Plan for the 5 year period from 2015/16 to 2019/20.

The way that these business Outcomes align to our strategy, detailed objectives, KPIs and business risks is set out in more detail on pages 8 and 9.

Delivering excellence for our customers our people and our environment

Our Outcomes:

Safe secure and reliable drinking water

A high quality service

Less water lost through leakage

Supporting the community

A health and safety culture

An improved environment supporting biodiversity

Underpinning the Outcomes is an overarching business need for;
A business which is financeable, provides a stable return to shareholders and has ongoing financial resilience.

Strategic Report

What We Do

We use a combination of natural resources, technology and a motivated and committed workforce to supply high quality drinking water whilst providing excellent levels of service for our customers at the lowest price in the country.

Our principal business activity is the supply of drinking water to both domestic (household) and commercial (non-household) customers. From April 2017, we no longer bill or handle non-emergency contacts from non-household customers as these retail services were opened to competition and we decided not to be a retailer to this group of consumers. The supply of water is a closely regulated industry. We talk about our regulators more on page 29. Portsmouth Water operates as a water supplier under an Instrument of Appointment granted by the Secretary of State for the Environment under the Water Industry Act 1991.

We collect water from the environment, make it safe to drink and distribute it to our customers. Our process is broken down into four main areas and we have explained this further below.

Portsmouth Water provides water to 302,000 homes and 18,000 businesses in an area of $868km^2$ extending from Fareham in the East of Hampshire to Littlehampton in West Sussex. Our area of supply covers the major conurbations of Portsmouth, Fareham, Gosport, Bognor Regis, Havant and Chichester. A map showing the area of distribution is set out on page 1.

The Company's water is mainly drawn from the chalk of the South Downs and is abstracted from wells, boreholes and springs. We also abstract surface water from the River Itchen. We treat this in our 21 treatment works located throughout our supply area. Further information about our water resources is set out in page 18 under "Our Environment".

Water resources

Wholesale Service

We take water from natural springs, boreholes and rivers. We take care to make sure that we have enough water for you to use, but taking care not to damage our environment. We invest in supporting the local environment.

Water treatment

Wholesale Service

We filter and disinfect it so that the water is safe to drink. We perform numerous quality checks in our laboratory to make sure that our water meets all of the drinking water standards. We invest in new equipment and technology to do this efficiently and effectively.

Treated water distribution and supply

Wholesale Service

We move the water through our underground network of pipes to you. We continue to check the quality until it gets to your tap. We take care to repair leaks and deal with bursts quickly so that you always have water.

Customer services

Retail Service

From April 2017 we only provide retail services to our household customers. Retail activities include sending out bills, taking payments, reading meters (if you have one) and dealing with any other questions or problems that household customers have. We do our best to make sure that we get things right and say sorry, and put them right, if we don't.

The Regulatory Price Review

With the exception of non-household retail services, the water industry in England and Wales is, currently, a monopoly business. Accordingly the prices that we may charge our customers for water (and related services) are set and regulated by Ofwat, the industry's Economic Regulatory Body. The primary way that Ofwat financially regulates water companies is through a five yearly review commonly known as the "Price Review" ("PR"). Through this process companies set out in their "Business Plan" what they expect to spend on the services that we supply to our customers. This includes elements such as the cost of customer service, investment in capital schemes (fixed assets) and meeting all of the other legal and social obligations. As a result of this process Ofwat sets revenue limits for each company and this, in turn, determines the bills that customers pay.

The current regulatory period commenced on 1 April 2015 and runs for five years until 31 March 2020. As part of the Price Review, companies set a number of Outcomes which they promised to achieve over the five year PR period. Many of these Outcomes have financial rewards and penalties attached to them. These are part of a regulatory mechanism called the Outcomes Delivery Incentive Mechanism ("ODIs"). The Company's Outcomes are set out on page 8. A summary of how they relate to our business strategy can be found on pages 8 to 9 and those with related financial rewards and penalties attached are noted in our table covering KPI's on pages 10 to 11.

A significant activity during 2018/19 has been the preparation and submission of the Business Plan for the next regulatory period from 1 April 2020 to 31 March 2025. This is discussed further on page 27.

Strategic Report

Our Strategy

Our business Outcomes form the backbone of our strategy. As a business we align our day to day activities closely to these and monitor them using a set of key performance indicators (KPIs). Many of these KPIs also form the basis of rewards and penalties which are part of the quinquennial price review process with Ofwat (the ODIs). We monitor and manage our significant business risks against our ability to achieve the Outcomes. We have summarised how these elements align below;

Outcomes	How we are delivering
OUR CUSTOMERS	
Safe secure and reliable drinking water **High quality service** **Support the Community**	• A comprehensive water quality testing programme in accordance with Drinking Water Inspectorate requirements • A dedicated catchment management programme team and activities to protect the quality of our water sources • Investment in schemes to improve water quality and reliability such as new UV treatment plants • Review of our water resources to determine whether we have sufficient resources for the next 25 years • Careful monitoring of our mains network, a programme of mains renewals and management of bursts and leakage • A focus on excellent customer service including a culture of excellence • Treating all non-household retailers identically in accordance with our Compliance Code so that no commercial customers are disadvantaged because of the retailer they choose • Telephone calls are handled locally and in person • Supporting vulnerable customers through a number of schemes and services • Working closely with local schools and actively supporting local education activities
OUR PEOPLE	
A Health, Safety and Wellbeing Culture	• Driving a culture of health, safety and wellbeing in everything we do • Ensure the safest possible environment for employees, visitors and the general public • Risk assessments for employees and public safety on every job we undertake • Invest in our people by supporting ongoing professional development, education and training
OUR ENVIRONMENT	
Less water lost through leakage **An improved environment supporting biodiversity**	• Investment in an enhanced programme of leak detection and repair • Complete our agreed Biodiversity Action Plan by 2020 • Promotion of water efficiency through advice to customers, water saving devices, smart metering trials and community events • Development of our Catchment Management team and programme • An active programme to promote meters to our customers and experiments in metering 'not for revenue' • Deliver environmental improvements required under the National Environment Programme
OUR BUSINESS	
A business which is financeable, provides a stable return to Shareholders and has financial resilience	• An effective corporate governance structure • Operation of effective financial processes and internal controls • Close monitoring of budget and out-turn performance against KPIs and key ratios (for covenants and rating agencies) • A sustainable dividend policy

During 2018/19 the Company has submitted the Business Plan for the next 5 year regulatory period from 1 April 2020 to 31 March 2025. Whilst our overarching strategy has not changed as a consequence of this submission the Board and the business will undertake further work during 2019/20 to develop our strategy to deliver the PR19 Business Plan.

Key Performance Indicators (pages 10 to 11)	Risks (pages 30 to 31)
• Water quality standards • Water quality contacts • Burst pipes • Interruptions to supply • Service Incentive Mechanism • Guaranteed Service Standards	• Operational • Water Quality • Business Continuity • IT
• RoSPA accreditation • Health and Safety "reportable accidents" • Health and Safety "total accidents" • Employee absence • Headcount	• Human Resources • Health and Safety
• Leakage • Per capita consumption • Temporary water usage bans • Biodiversity Action Plan	• Environmental
• Operating profit • Cash Interest Cover • Gearing (Net Debt: RCV) • Regulatory Rewards and Penalties (ODIs)	• Financial • Regulatory • Legal and Governance • Competition • IT

Strategic Report

How We Measure Success

KPI	Definition
OUR CUSTOMERS	
Water quality standards (Mean Zonal Compliance) * (Calendar year)	This is the average of the compliance rates for the 39 standards tested. This is reported to the Drinking Water Inspectorate. This is known as Mean Zonal Compliance.
Water quality contacts * (Calendar year)	A measure of customer contact for taste, odour, discolouration and illness calculated as the number of contacts per 1,000 population per annum.
Bursts *	The number of burst mains calculated in accordance with Ofwat guidance. Defined in number of incidents per annum.
Interruptions to supply *	Average time of supply interruption per property (includes both planned and unplanned interruptions).
Service Incentive Mechanism (SIM) *	An independent Ofwat survey covering all companies. A domestic customer experience performance measure with two elements: Qualitative score derived from the customer experience survey and quantitative score based on the number of 'unwanted' calls received, combined with the number of complaints received and the Company's effectiveness at resolving these complaints.
Guaranteed Service Standards	A scheme for our customers which puts in writing the minimum standards we aim to meet. If we fail to meet the standards we pay compensation.
OUR PEOPLE	
RoSPA accreditation *	The Company will apply for its Health and Safety accreditation annually.
Health & Safety Reportable accidents	An absence of more than 7 days as a result of an injury at work and reportable to the HSE. (RIDDOR)
Health & Safety Total accidents	All accidents including reportable accidents but excluding vehicle accidents.
Employee absence	The number of days absent from work per person.
Headcount	The number of staff employed by the Company.
OUR ENVIRONMENT	
Leakage *	The total level of leakage, including customer supply pipe leakage, as measured on an average mega litre per day (Ml/d) basis.
Per Capita Consumption *	The weighted average water consumption per household customer served calculated from the number of measured and unmeasured households.
Temporary Usage Bans *	Introduction of water restrictions in accordance with the Company's approved drought plan.
OUR BUSINESS	
Operating Profit[1]	Financial measure in accordance with UK accounting standards being turnover less operating costs.
Cash interest cover	The ratio represents the number of times that adjusted cash flow covers interest payment. A detailed calculation is included in Appendix I.
Gearing (Net debt: RCV)[2]	The ratio of Net Debt (loans and debentures less cash) to RCV. A detailed calculation is included in Appendix I.
Return on Regulatory Equity (RoRE)[3]	The % return (and adjusted profit based measure on the equity component of RCV). The equity input is derived by applying the inverse of the gearing ratio to RCV. A detailed calculation is included in Appendix I.

Biodiversity Action Plan

Whilst the Company tracks progress against an agreed plan of biodiversity work this has a target for completion by 31 March 2020 and as such is not presented annually. We remain on track with this activity.

As a business we focus on a range of operational and financial key performance indicators ('KPIs') to help us assess and monitor our performance. We believe that the KPIs, summarised below, provide a balanced view of how we are performing against both our business Outcomes and our overall long term business vision. These KPIs align closely to our Outcomes and cover the key areas of our business operations and activities. They also cover the range of interests of our different stakeholders. A number of the KPIs are also linked directly to financial rewards and penalties built into the Ofwat regulatory framework through the Outcome Delivery Incentive Mechanism (ODI's').

2018/19 Target	**Our performance**				**2018/19 target met?**
Financial year	**2018/19**	**2017/18**	**2016/17**	**2015/16**	**pages 12 - 13**
100.0% (Calendar year)	99.96%	99.93%	99.99%	99.94%	✓
< 0.421 contacts per 1,000 population (Calendar year)	0.438	0.549	0.665	0.570	✗
< 250 - 435 bursts per annum	347	347	298	219	✓
< 6 minutes	3 mins 54 secs	4 mins 7 secs	4 mins 9 secs	3 mins 30 secs	✓
Upper quartile > 85 (Total Score is out of 100)	89.3	87.9	87.7	89.6	✓
< 180 payments	45	155	221	109	✓
Calendar year	**2018**	**2017**	**2016**	**2015**	**pages 14 - 15**
RoSPA awarded	Awarded	Awarded	Awarded	Awarded	✓
0 accidents	3	0	1	0	✗
< 12 accidents	8	6	5	9	✓
< 2.5 days	2.4	2.5	2.5	2.43	✓
266 staff	264	261	255	252	✓
Financial year	**2018/19**	**2017/18**	**2016/17**	**2015/16**	**pages 16 - 21**
< 29.9 Ml/d	28.1 Ml/d	32.9 Ml/d	30.4 Ml/d	28.2M l/d	✓
< 145.3 l/h/d	153.2 l/h/d	147.6 l/h/d	145.1 l/h/d	143.3 l/h/d	✗
0 bans	0	0	0	0	✓
Financial year	**2018/19**	**2017/18**	**2016/17**	**2015/16**	**pages 22 - 23**
Better than budget	£7.9m	£6.4m	£5.6m	£7.6m	✓
> 1.40	1.54	2.20	1.44	1.96	✓
< 80%	66.3%	63.6%	68.6%	70.2%	✓
> 6.0%	6.06%	7.03%	7.5%	10.8%	✓

* These measures are also part of the Ofwat Outcome Delivery Incentive Mechanism.
Footnote[1] After loss on disposal of fixed assets and before other exceptional items.
Footnote[2] Adjusted to remove transaction related cash held (note 31 and Appendix 1)
Footnote[3] Calculated using adjusted gearing per footnote 2

Strategic Report

Our Customers

We are proud to be a member of the Institute of Customer Service

ServiceMark

Accredited from Apr '18 to Apr '21

The Institute of Customer Service

Customer Service Levels

A strong service ethos is at the heart of our business. We expect to deliver high levels of customer service that stand up well not only within our industry, but also against wider comparison. We are mindful that we must not abuse our privileged position of being a monopoly supplier.

Within the water industry, customer service and experience are currently measured and compared via the Service Incentive Mechanism (SIM). This measure has both qualitative and quantitative elements that are combined to give an overall score. The quantitative element looks at the number of unwanted contacts and customer written complaints levels, the combined result making up 25% of the overall SIM score. The qualitative element is derived from results of independently conducted customer experience surveys that make up 75% of the score.

Our total score for 2018/19 was 89, an improvement compared to our 2017/18 result of 88. The number of complaints per 10,000 connections remained at 10.3. When a complaint has passed through our two-stage complaints procedure, if the customer is still dissatisfied, he or she can ask the Consumer Council for Water (CCW) to review their complaint and ultimately can take it to be reviewed under the Water Redress Scheme. During the year, no complaints were escalated to either CCW or the Water Redress Scheme.

For 2018/19, the SIM survey score was 4.56 out of a maximum of five, placing us joint 2nd out of 18 water companies.

We achieve a wider service comparison through our membership of the Institute of Customer Service. The Institute has over 450 members in the United Kingdom, representing a broad cross section of sectors. In 2018, we achieved good scores in the Institute's customer and staff surveys such that we were awarded their prestigious ServiceMark. We are particularly pleased to note the strong trust score that customers awarded us, especially given criticisms that the industry as a whole has faced during the year.

Affordability and Vulnerability

We have the most affordable bill in the industry, with our average bill in 2018/19 being £103, against an industry average of £190 and the next lowest to ours being £140. Customer research undertaken in the year has shown 'affordability for all' as a strong customer theme, albeit that our customers also support additional help for those customers struggling the most to pay.

Our Helping Hand Social Tariff helps those on low incomes and caps our bill at £79.04 for the 2018/19 billing year. Numbers supported have grown from 5,200 in March 2018 to over 6,800 in March 2019.

Most people at times, or from time to time, are vulnerable. We are investing in our people and are working hard to build relationships with outside organisations to allow us to better understand and deal empathetically with customers who are vulnerable. We are actively engaging with local authorities, housing associations, Citizen Advice Bureaus, charities and directly with vulnerable customers.

KPI Performance
Set out on pages 10 and 11 are the key performance indicators that we use to help us manage the business. Disappointingly, we have failed to meet 3 of these measures.

Water Quality Contacts
This is the measure of the number of times that customers contact us with queries connected to water taste, odour, discolouration or illness. This is calculated as the number of contacts per 1,000 population served and reported annually (for the calendar year) to the Drinking Water Inspectorate. We set ourselves a challenging target of less than 0.417/1,000 population served. Whilst improving our performance we missed our target, having achieved 0.438/1,000. Despite not hitting our target, we remain significantly below the industry average.

Per Capita Consumption
This measures household water usage which, itself, is heavily influenced by the weather (and in particular summer usage). Summer 2018 was unusually dry for a long period and the Company fully met customer demand without imposing any restrictions such as hose-pipe bans. As a result we saw PCC increase by 6 litres per person per day. Our target is set relative to a "normal" year and our actual performance is heavily influenced by weather.

Reportable Accidents
During the early part of the year we had three RIDDOR "reportable" incidents (an accident that has caused a person to be off work for more than 7 days). Following these events we reinforced key health and safety messages and training. This included bulletins dealing with the incident and relevant learning points. No further incidents arose following this response.

Guaranteed Standards Scheme
We are legally required to pay customers compensation where we do not meet the prescribed standards. This includes not responding to customer letters, not informing them that their supply may be interrupted as we work on the network and compensation if we miss an agreed appointment. In the year we significantly reduced the number of payments we needed to make to customers, reinforcing our objective of providing high levels of service to all customers.

Strategic Report

Our People

Long term Investment

Utilising the Apprentice Levy, 2018 saw us undertake a £1.5 million training program bringing all operational staff up to a minimum national level 3 standard. This will take 5 years to complete and will cover all Network and Production areas of the business. It is a significant investment in our people ensuring we have the best people with the right skills delivering great service for our customers.

Chartered Scientist

This year saw the qualification of our very first chartered Scientist, who was awarded Chartered Status through the Institute of Water.

Investing in our future

We are firmly committed to the development of our staff, ensuring that they all have the opportunity to reach their full potential. As a result we fully support those wanting to undertake further education such as Degrees, HNC's, NVQ's along with associated professional qualifications. A number of employees have achieved degrees and professional qualifications whilst working for the Company.

2018 saw 18 of our people undertake further education fully funded and supported by the Company.

Apprentices

Modern Apprentices follow an agreed training programme of both on and off-the-job training alongside approved further education to an HNC or NVQ standard. The training programme is catered to the specific requirements of the Apprenticeship offered and conducted by both the Company and the facilitating training organisation.

Supervisor Development

All new supervisors appointed externally or internally promoted are required to either undertake formal further education in the management field. We set a minimum of a level 3 qualification for all supervisory posts. Many have decided to take the Level 5 Management Diploma to further enhance their skills in this area. In 2018 8 people successfully completed the Level 5 Management Diploma.

WaterAid Winnovators – Best in Europe and America

The WaterAid global challenge saw teams from across the UK, America and Australia choose either a water, sanitation or hygiene-focused problem to overcome. This challenge focused on innovative thinking, and fresh creative skills with the aim to also develop professional and core business skills. In addition, all teams were tasked with raising a minimum of £3,000 each.

A team from Portsmouth Water took home three awards at the WaterAid Winnovators Awards; best social media, runner up for best community approach and the overall winner for best team for Europe and North America.

Our team consisted of six members from all areas of the business. They worked together to develop a multimedia toolkit for children aged 6-14 years old in India to teach and develop their knowledge on hygiene. The toolkit consists of three different lesson plans, a card game, hand washing technique and an implementation plan.

Health and Safety

Health and safety has been the number one priority within the Company for a number of years and this has helped us record falling accident numbers. In simple terms this has made the Company a safer place to work.

We continually review our working practices, challenging ourselves and our colleagues to ensure we put safety first. We are proud of our safety record but we can and must strive to do better, remaining vigilant at all times. We must avoid the "won't happen to me" mentality.

Over the past 12 months we have seen some positive initiatives including improvements to our equipment, changes to the working environment, staff wellbeing and linking a healthy person to a safer workplace. Many of these initiative have been driven pro-actively by departments and this is a positive step in ensuring H&S is always in the forefront of our thoughts and actions.

During the year there were two successful H&S weeks focussing on "Complacency" and "Mental Health".

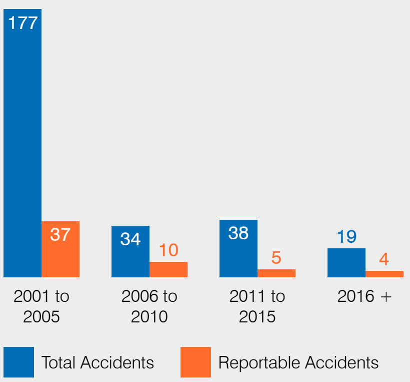
Number of Accidents in 2018

We measure the number of accidents through a calendar year. 2018 saw three reportable accidents for the year. A reportable accident means someone has been injured seriously enough to be off work for over 7 days. There were a total of eight accidents during the year.

The graph below shows how far we have progressed in making the Company a safer place to work.

A positive measure of the impact H&S has had on our people is that, in the 2018 staff survey, 98% said they felt safe at work whilst 87% said they are more safety conscious away from the workplace as a result of the Company's approach to Health & Safety.

Total and Reportable Accidents



Complacency

Using the theme of "complacency" the H&S awareness group delivered a week of activities to highlight this issue.

This included, in partnership with the local fire brigade, a chemical evacuation and fire evacuation using real life scenarios.

Mental Health Week

We also undertook our very first Mental Health and Wellbeing Awareness week.

The week was designed to raise awareness about mental health and well-being and the support and techniques that can be used to help. We had the support of the leading charity "MIND" in delivering this.

RoSPA 2019 Presidents Award

We were awarded the RoSPA President's Award for the fifth successive year. The President's Award, is part of the RoSPA prestigious awards scheme and is given to organisations that have demonstrated excellence in the area of H&S consistently for 10 years or more.

This acknowledges our achievements in the previous 15 years, winning ten gold awards, five presidents' awards and an Industry Sector award. This is a tremendous achievement and a true testimony to the efforts everyone in the Company has made in making Portsmouth Water a safer place to work.

2019
RoSPA
President's Award

Employee Satisfaction Survey 2018

It is very important that in order to deliver our vision of "delivering excellence for our customers, our people and our environment" our people are happy and proud to work for Portsmouth Water. As a business we are committed to ensuring we all operate in a positive working environment so that everyone who works for the Company feels valued and fully understands their contribution to the business.

We carry out an annual employee survey and have done this for a number of years. 2018 saw the results of the survey produce very positive results with highlights such as:

- 96% are proud to work for Portsmouth Water
- 78% feel valued by the Company
- 74% are happy with their development opportunities
- 99% say they work at all times in line with our values of Excellence, Respect and Integrity

96% of staff are proud to work for Portsmouth Water

Strategic Report

Our Environment

An improved environment supporting biodiversity

The Company has made a commitment, as part of our Outcomes, to support conservation and biodiversity. As part of the commitment to our environment we employ an Environment & Biodiversity Specialist to;

- Raise awareness within the business of environmental issues and constraints, especially when we plan new schemes, to ensure any impacts are avoided, minimised or mitigated.
- Provide advice to the engineering teams on all aspects of environmental legislation and biodiversity.
- Work with our operational teams to ensure that we manage the habitats on our own land holdings in a way that protects and where possible enhances their biodiversity potential.
- Ensure that we have up to date ecological survey information for all our sites so we can protect habitats and species likely to be present.
- Identify and manage projects to protect and enhance biodiversity.
- Liaise with external stakeholders on related issues to meet shared objectives such as providing 'stepping stones for nature'.

Two of our treatment work sites (Farlington and Itchen), identified by our surveys as having a high conservation value, have been designated as Sites of Importance for Nature Conservation (SINC) by Hampshire County Council.

We have increased our budget in this area in order to undertake a more proactive programme of biodiversity enhancement projects. In summer 2015 we appointed a specialist consultant to complete an ecological survey of 52 of our sites. A key objective of the surveys was to identify potential biodiversity enhancement projects. In 2016 the recommendations were collated and prioritised for action into a 4 year programme. The biodiversity action plan programme was then agreed with Natural England and the Customer Challenge Group.

The following prioritised conservation tasks have been completed in 2018/19;

- Employed an experienced botanist to carry out a detailed vegetation survey and map priority habitats at 4 sites.
- Employed a specialist consultants to complete invertebrate surveys at 4 high conservation value sites. This found that the Street End SR site was particularly important habitat for a variety of notable species and the site management regime has been reviewed.
- Monitored the enhanced tidal flooding and saltmarsh plant community developing in the excavated channels at Bedhampton grazing marsh.
- Wetland enhancement works were completed in partnership with the Arun and Rother Rivers Trust at Lavant water treatment works (WTW). This included river restoration work, creation of scrapes in the flood plain and a new spring pond.
- Thinning of trees which were shading the ponds at Head Office, allowing more light into the water, which will help encourage marginal vegetation to flourish. In addition, we are supporting a joint project with the Horizon Angling Club and Environment Agency to create new marginal habitats and floating islands which will benefit insects, fish and birds.
- A new hedgerow was planted at Hoads Hill SR and gaps in the hedgerow filled at Shedfield SR using native species. These projects have increased the connectivity of the habitats on site for the benefit of wildlife.
- Continued improvement works to the lagoons at Itchen WTW, including undertaking a major desilting project at the old lagoon to enhance the habitat for water vole and other wetland species.
- A new pond has been created at Fishbourne WTW which has already filled with water.

In addition the following projects were also completed in 2018/19:

- Three volunteer staff conservation working parties undertook a range of projects, including planting trees at Havant Thicket.
- Erection of a kestrel nest box at Itchen WTW.
- Ongoing work to restore chalk grassland at Farlington WTW.
- Scrub clearance at Highwood SR to keep the banks open for the benefit of wildflowers and reptiles.
- Working in partnership with the Goodwood Estate we started a woodland thinning project at Lavant storage reservoir to create a more diverse habitat for wildlife.
- Hazel coppicing and scrub management at Hoe storage reservoir was completed to prevent damage to the important grassland community which includes green winged orchids.
- Facilitated a bee keeper to set up hives at two sites which will benefit pollination in the local landscape.
- Monitoring of the new pond at Westergate WTW has shown that a diverse range of wetland vegetation has already become established.

Hornet robberfly

Management at the site over the last 3 years to control scrub and reduce grazing has ensured that the population of this Nationally Scarce and UK Biodiversity Action Plan priority species is increasing at our Farlington site.

Strategic Report

Our Environment

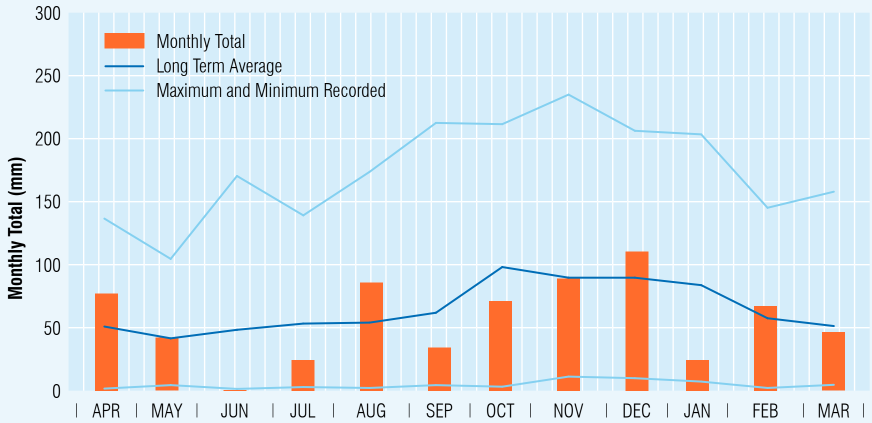
Water Resources in 2018/19

The weather during 2018/19 was typical of a ‘Dry Year’ with low rainfall in June and July. Over the whole year rainfall was 87% of the long term average. However, rainfall in November and December was sufficient to ensure full groundwater recharge in January. The first graph shows recorded rainfall as an orange bar and the Long Term Average (LTA) rainfall as a bold blue line.

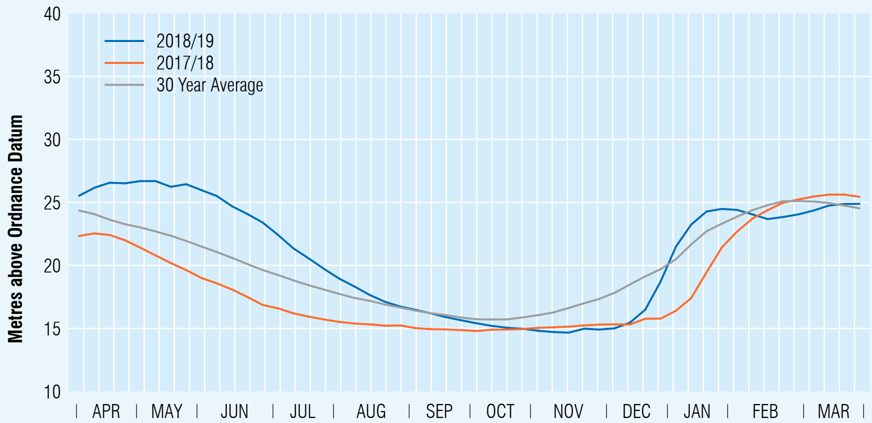
Groundwater levels are a good indicator of the water available to Portsmouth Water from the chalk aquifer. 2018/19 started with groundwater levels above the long term average but they fell to below average in November, as a result of the dry summer. Rainfall in November and December resulted in a strong groundwater recovery. There was well below average rainfall in January but rainfall in February caused a second rise in ground water levels to above the long term average.

Finally the third graph shows "Distribution Input" this is the volume of water that we put into our network each day and is a measure of demand. The trend shows the high demand in the early part of the year which continued through the long, dry summer. The sustained high demands in June and July are especially note worthy.

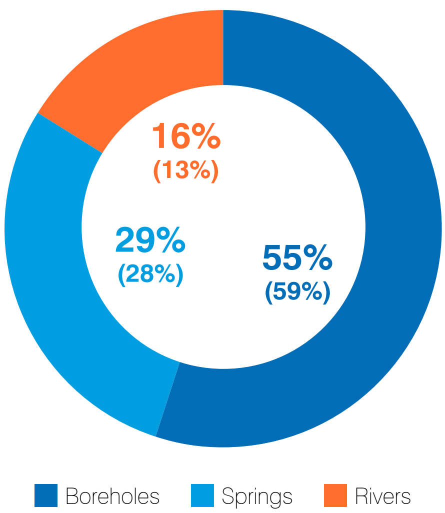
Rainfall at Havant 2018/19



Trends in Groundwater Levels



Abstraction Sources 2018/19 (2017/18)



Distribution Input 2018/19

Planning for the future

Portsmouth Water has completed work on the next Water Resources Management Plan (WRMP). This work included a re-assessment of Deployable Output along with Deepest Advisable Pumped Water Level. Headroom and Outage have been re-assessed and consultants have looked at drought scenarios and the impact of climate change.

Consultants have re-assessed the options included in our last Water Resources Management Plan (2014). This work has involved stakeholder groups and a pre-consultation process.

Population numbers have been derived from Government statistics and the associated property numbers checked against Local Authority Housing Forecasts. The Draft WRMP was published on 5th March 2018 and the Draft Final WRMP was submitted on 31st August 2018.

Portsmouth Water is actively involved in the Water Resources in the South East water resources planning work and has taken account of the regional solutions proposed.

A series of six month strategic meetings are now taking place with EA Managers and quarterly meetings are taking place with local EA staff.

The key differences between the WRMP 2014 and the WRMP 2019 are:

- Havant Thicket Winter Storage Reservoir development re-started.
- Additional bulk supplies to Southern Water.
- Change of Occupier Metering.
- Additional leakage control.
- Additional water efficiency.

We are currently addressing some final EA queries before the Secretary of State approves our Plan.

Water Vole habitat enhancement

As part of our commitment to support biodiversity, we undertook a significant water vole habitat enhancement project at our Fishbourne site.

On the site of a tennanted farm field, it was identified that we could make improvements to the stream banks that would have a beneficial impact on the population of water voles and protect the land from flooding.

Work was undertaken to remove corrugated metal sheeting, re-profile the river bank and a spring pond was created to provide extra habitat and flood capacity.

The resulting improved area has created more suitable water vole habitat as well as a resilient and flood resistant area.

Strategic Report

Our Environment

2018 saw the launch of our new Farmers Capital Grant Scheme

Catchment Management

The two principal pollution risks to our water sources are nitrates and leaks and spills from oil tanks. The past year has seen the Catchment Management Team develop new 'on the ground' initiatives to address these risks.

With regards to nitrate, the Company is working in partnership with other water companies in the South and northern France as part of the European Union Interreg France (Channel) England project 'Channel Payments for Ecosystem services'. Trials are underway in our catchment looking at innovative ways of financially supporting farmers and landowners to alter their practices to deliver cleaner groundwater in our catchments.

Related to this, we are also working in partnership with the Forestry Commission on ways of establishing long term relationships with farmers to improve groundwater quality through woodland creation.

Both of these projects will help inform the catchment management measures we will fund through our next Business Plan (2020-2025).

In addition to this work, early 2018 saw the launch of our new Farmers Capital Grant Scheme – a scheme that directly assists farmers by part-funding capital items that will help reduce the risk of nitrate (and other pollutants) entering groundwater. Measures eligible for funding include farmyard drainage systems and in-field water management items (for example sediment ponds and constructed wetlands for the treatment of pollution).

Our oil tank scheme introduced in 2017 continues to see an increase in take up and has increased from last year's scheme, delivering a very real reduction in the risk of groundwater contamination from oil spills and leaks across our catchments. The scheme offers a 50% subsidy for any works to make domestic heating oil installations a low risk to groundwater; this can include tank and pipework replacement.

Further work has been undertaken to ensure groundwater protection through the Catchment Management Team's continued active involvement with local planning. This year has seen the development of Portsmouth Water's Groundwater Protection Guidance Documents. These inform developers and other stakeholders of Portsmouth Water's preferred approach to development which protects groundwater quantity and quality within our catchments. The documents also explain how we wish developers to plan and deliver their development sites.

An important new reservoir to support the South East region

Portsmouth Water and Southern Water are collaborating on the development of a new winter storage reservoir in Hampshire. It will become a major strategic water resource for the South East, the first to be built in the region for decades.

The multi-million-pound project is included in both water companies' investment plans for 2020-25 and their long-term Water Resource Management Plans, which were submitted to water industry regulators for review in 2018. The reservoir is scheduled to be built, filled and operational by 2029. It will provide additional water into the Portsmouth Water network so that we can release water from elsewhere to supply an additional up to 21 Ml/d to Southern Water, even in a severe drought, with no impact on our own customers' supplies.

Once built, the reservoir and surrounding area will provide a very important green infrastructure that will achieve an overall net environmental gain, and offer recreational and educational facilities for the community.

The first stages of the project are underway, including the tender and appointment of a principal designer, environmental surveys, customer and stakeholder engagement and preparation of a planning application. We have already started work on the comprehensive habitat mitigation and improvement plan that forms an important part of the project.

The reservoir will be owned, operated and maintained by Portsmouth Water, although Southern Water will utilise the water and therefore pay for the project.

A new strategic water resource for the region

Strategic Report

Our Business

The year ended 31 March 2019 was the fourth year of the current Ofwat regulatory review period. Ofwat's determination for 2015-2020 set our allowed income from customers. We committed to keeping customer bills flat in 'real' terms. During the year we have also submitted the regulatory Business Plan for 2020-2025 (PR19). This has included detailed financial modelling and stress testing which has been aligned to our assessment of Going Concern and financial viability.

Ownership structure

In 2017/18 the Group was acquired using funds managed by Ancala Partners LLP ("Ancala"). This was effected through Ancala Fornia Holdco Limited, the Group's ultimate controlling party. Ancala is an independent mid-market infrastructure investment manager.

Ancala is committed to supporting the Company in its long-term strategy to achieve excellence for our customers, employees and the environment. Further information on the group structure is set out on page 39.

As beneficiaries of the Employee Benefit Trust which previously owned the Group the majority of current employees received a share of sale proceeds. These will be distributed by the Company on behalf of the Trust over a 3 year period, with the second payment made to staff in March 2019. This is discussed further in note 31.

Financing structure

Since 2001 the Company has largely been financed through an index linked fixed interest loan with a base value of £66.5m. This was drawn in 2002, with inflation risks on the cost of the loan being effectively hedged against regulated revenues which are also currently linked to the Retail Prices Index (RPI). Interest is charged at a fixed rate of 3.635% on the indexed amount of the loan. The indexed carrying value of the loan at 31 March 2019 was £106.7m (2018 - £103.3m).

Gearing and liquidity

Net debt to regulatory capital value is a key covenant defined by the Company's loan documents. Gearing at 60.3% (2018 - 55.9%) increased as a result of slightly lower operating cash flow and higher capital expenditure.
As explained in note 31, cash balances are positively impacted by £9m (2018 - £11m) of cash held in relation to the distribution of sales proceeds. After adjusting, to remove this atypical cash, gearing is 66.3% (2018 - 63.6%). Gearing remained comfortably within the 86% ceiling imposed by the bond covenants on both adjusted and unadjusted basis.

As a result of higher capital expenditure the Company increased the level of the revolving credit facility to £15m and utilised £10m of this at the end of the year. The £0.5m overdraft facility was unused at the year end. These facilities, both with Lloyds Bank, are used to manage day to day working capital and the expected working capital peaks driven, primarily, by the profile of spend in connection with significant capital programmes. They are renewable in May 2022 and annually respectively.

The Company is planning to raise additional financing during the year in order to meet working capital needs and support the planned capital investment programme for the remaining year and into the next regulatory review period.

Interest Cover

The interest cover ratio, defined by the covenants associated with Company's index linked loan, of 1.54 times (2018 - 2.20 times) remains comfortably above the 1.4 times covenant required.

Return on regulatory equity (RoRE)

RoRE, based on adjusted gearing, at 6.06%. (2018 - 7.03%) reduced slightly. 2018 RoRE reflected the benefit of the gain on disposal of the non-household business.

Review of trading performance
Operating Profit

Operating profit at £7.9m shows an increase on the prior period of £6.5m. This was offset by a number of one off costs and is discussed further below;

Revenue

Turnover of £42.2m (2018 - £40.5m) shows a £1.7m increase from 2018.

This increase is driven by a combination of new properties, increased measured demand and a modest tariff increase.

In total there were 2,153 new properties (1,979 household and 174 non-household). The wholesale tariffs increased by 2.2%. In addition the atypically long dry summer in 2018 drove increased measured income.

Revenue from the Southern Water bulk supply increased during the year and this offsets lower deferred meter reading income.

Finally, income from chargeable work to third parties grew by £0.6m. This primarily relates to work for developers.

Operating costs

Operating costs increased by £0.1m as a result of a number of net movements, the most significant of which are as follows;

Increased leakage detection costs of £1.7m together with £0.5m of Business Plan professional fees and £0.5m electricity costs (driven by increased demand) resulted in higher costs. These were offset by lower staff costs of £1.8m primarily due to cessation of Employment Benefit Trust (EBT) payments of £1.3m together with other lower infrastructure renewals charged to the income statement (£1.2m).

Other exceptional items

One exceptional item in terms of size and nature was charged to the income statement.

As a result of the distribution of sales proceeds to employees, which was deemed to be by virtue of their employment, an exceptional charge of £2.4m arose relating to employers national insurance contributions and apprenticeship levy. To offset this charge share capital and share premium of the same value was injected by our investors. This is explained further in note 31.

Interest payable & other finance income

Total interest payable for the period is £7.444m (2018 - £7.603m), with the slight decrease relating to the movement in RPI rates year on year. Other finance income is driven by net returns on the pension scheme asset of £0.762m (2018 - £0.346m) for the year.

Taxation

The tax charge in the period of £7k includes a prior year adjustment for current tax (credit) of £0.140m which has been offset by deferred tax charges of £0.147m.

The deferred tax charge is driven by a change in corporation tax rate which has been offset by R&D tax credits claimed.

Dividends

The dividends paid during the year totalled £3.1m (2018 - £1.1m). Dividends are paid up to the parent company with part of the payment being used to service interest payments on an inter-company loan with the balance being paid as a dividend to the Group's shareholders. It should be noted that, prior to the sale of the business, part of the distribution was paid to employees and therefore classified as employment costs. Thus in 2018 a further £1.3m distribution to employees under the EBT arrangement was included in staff costs. The Company's dividend policy was carefully reviewed following acquisition of the Group. It was agreed to implement a dividend policy consistent with that proposed for the PR19 Business Plan. This is based upon 5% of opening equity Regulatory Capital Value. The final dividend of £1.9m is proposed to be paid in August.

Capital investments

Gross capital investment in the year was £14.8m (2018 - £7.5m). Further information on the capital programme is set out in the Engineering Report on page 25.

Mains activity

	2018/19 £m	2017/18 £m
Renewals charged in the income statement	**1.6**	2.8
Mains capitalized	**2.8**	2.7
Total mains investments	**4.4**	5.5

During the year the Company renewed 7.9km of mains (2018 - 13.8km) at a cost of £1.6m (2018 - £2.8m) charged to the income statement. A further 12.1km (2018 - 16.8km), of new mains and enhancements to the network were capitalized at a cost of £2.8m (2018 - £2.7m).

Capital contributions

The Company receives capital contributions, primarily in connection with new mains for housing developments, which amounted to £1.4m (2018 - £1.1m). In accordance with the requirements of FRS 102 these contributions are deferred and amortised to the Income Statement.

A reclassification in the year of capital contributions received during 2018 from Southern Water (third party contribution) of £1.04m occured. This is in respect of the Hampshire Bulk Supply Asset.

Pensions

The Company is the principal employer of the Brockhampton Pension Scheme, a defined benefit scheme. The latest actuarial valuation as at 31 March 2018 was carried out in accordance with FRS 102 and shows a net pension asset (after asset ceiling restrictions and deferred tax) of £23.8m (2018 - £24.8m). The overall reduction in the surplus on actuarial valuation has largely been driven by the asset ceiling restriction as set out in note 25.

Financial Viability

The Company's financial position is set out in the financial statement on pages 58 to 78, including cash flows, liquidity position, borrowing facilities and loan maturities. The Strategic Report, on pages 6 to 34, also covers aspects such as the overall financial performance and financial risks. Finally the Viability Statement on pages 32 to 34 sets out the factors considered and the conclusions reached by the Board in assessing both the going concern of the business over the period of 12 months from the balance sheet date and the prospects over a longer period of just under 6 years to the end of the next, PR19, Business Plan.

The Company's current bankers are Lloyds who provide a £0.5m overdraft facility and a £15m revolving credit facility details of which are set out above.

Notwithstanding net current liabilities of £209,000 as at 31 March 2019 and a loss for the year then ended of £722,000 the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Further detailed information in relation to the assessment process undertaken by the Board is set out in the Viability Statement on pages 32 to 34.

Cash and cash flow

Cash generated from operations of £9.8m (2018 - £23.6m) remained consistent with long term out-turn. The 2018 position of £23.6m was positively impacted by £11.0m of atypical cash flow in connection with the sale of the business reflecting an adjusted balance of £12.6m.

The significant £6m increase in spend on purchase of tangible fixed assets was offset by an additional £7m of borrowing under the revolving credit facility.

The PR19 Business Plan

During the year the Company has submitted the PR19 Business Plan to Ofwat (September 2018) and a further response to Ofwat's Initial Assessment of Plans (April 2019). As part of this process the Company has prepared detailed financial models and projections and has undertaken extensive sensitivity analysis in support of financeability considerations. This work has underpinned the Company's position in respect of the Viability Statement.

Strategic Report

Tax Strategy

Corporate Structure

The Group structure in which the Company resides, has recently changed and is set out on page 39. The Group is wholly owned by funds managed by Ancala Partners LLP ("Ancala") through a UK holding company Ancala Fornia Holdco Limited. Ancala is a UK based and domiciled independent infrastructure fund manager.

Portsmouth Water is committed to full compliance with UK tax laws. As a Company we understand that collecting and paying tax is an important part of contributing to the economic environment that we operate in and in addition to paying corporation tax we also contribute as a result of indirect taxes, employee related taxes and environmental taxes. The Company's tax affairs are managed in a way which takes into account the wider corporate reputation. At all times the tax affairs are managed in line with the Company mission statement of Integrity, Excellence and Respect.

Governance in relation to UK taxation

- The ultimate responsibility for the tax strategy of Portsmouth Water Limited sits with the Board.
- The Finance and Regulation Director is the Board member with executive responsibility for tax matters.
- The day-to-day management of the tax affairs is delegated to the Financial Controller who reports to the Finance and Regulation Director.
- Members of the Finance team are trained to a level that ensures tax compliance and a continuous cycle of training occurs to ensure all skills are relevant and up to date.
- For tax filing, specialist advice and support Portsmouth Water engage the services of specialist Finance and Accountancy professionals.

Risk Management

Attitude towards tax planning and level of risk

Portsmouth Water Limited manages risks to ensure compliance with legal requirements in a manner which ensures payment of the correct amount of tax.

Portsmouth Water's attitude towards tax planning is one of prudence; seeking to comply fully with relevant tax legislation and to achieve a high degree of certainty in the company's tax affairs. The wider group of Companies applies the same approach to tax planning as a whole.

At all-times Portsmouth Water seeks to act in a way which is legitimate and upholds its reputation as a good corporate citizen.

For any specific issue or transaction the Board is ultimately responsible for identifying the risks, including tax risks, and for determining what actions should be taken to manage those risks. In doing so the Board has regard to the materiality of the amounts and where specific risks occur the Company will seek specialist professional advice.

In line with the Company's ethos to strive for continuous improvement through innovation we are able to utilise government tax initiatives such as the R&D Tax Credits scheme to reduce our corporation tax charge and therefore continue to maintain one of the lowest cost of service in the water industry.

Working with HMRC

Portsmouth Water seeks to have a transparent, respectful and proactive relationship with HMRC at all times, be that directly or through intermediaries acting on our behalf.

Any inadvertent errors that may occur in any submission made to HMRC are fully disclosed as soon as reasonably practicable after they are identified and independent specialist advisors are commissioned to validate the value of any error. Following this, an internal review will then identify any required process changes or additional internal controls, to ensure full and ongoing compliance.

Future tax changes are considered through Water UK's Tax Forum, of which Portsmouth Water is a member. This group allows us the opportunity to discuss how future tax legislation can be interpreted and applied to the Water Industry.

Corporate Criminal Offences Code of Conduct

Tax evasion, tax fraud and attempts to facilitate such actions are unethical and inconsistent with the ethos of Portsmouth Water.

Portsmouth Water is committed to complying in full with the UK tax laws, and we expect everyone working with the Company to fully comply with their tax obligations. We believe in paying our fair share, and that everyone working with us should too.

Accountability & Governance

The Board has approved a code of conduct policy and supports our commitment to a zero tolerance of tax evasion or its facilitation. The Finance and Regulation Director is responsible for monitoring compliance with the policy and is supported by the Board and the management team in doing so.

Employee responsibilities

Our code of conduct sets the standards of behaviour we expect all employees to adhere to and if employees are ever asked to act in any way that could facilitate tax evasion, this must be reported without delay.

Risk assessment and mitigating factors

Our business risk assessment covers those areas of business operation where there is a risk of tax evasion. In relation to these risks we have considered relevant mitigating factors (including internal controls). Where necessary we have developed further activities and controls to mitigate areas of exposure.

Our commitment

Portsmouth Water is committed to the following principles:

- Our business is carried out fairly, honestly, and openly in every part of our work.
- Our values inform everything we do.
- We will never transact with any supplier where it is known or suspected that any aspect of the transaction is being misused, abused or otherwise corrupted for the purposes of tax evasion.
- We will immediately terminate any agreement or business relationship if we learn of or suspects tax evasion may be taking place.
- We will not do business with others who do not also hold to at least the same standard of preventing tax evasion.
- Any employee found in breach of our policy will be subject to disciplinary action.
- No employee will suffer demotion, penalty, or any other adverse action for reporting or from refusing to carry out an action which may lead to tax evasion.

Helen Orton
Finance & Regulation Director

Strategic Report

Engineering Report

As a capital intensive infrastructure business, maintaining and building our large network of above and below ground assets is a critical part of our operation. This activity also represents a significant proportion of the business cost base and, as such, is a key area of focus for efficiency and innovation in order to provide value for money for our customers.

Mains renewals (below ground assets)

The Company has renewed and replaced 20km of mains during the year, 67% of which has been completed using "no dig" techniques. The continued use of no dig techniques to renew mains reduces the impact of the works on customers & local communities and is a more efficient way of completing the work. It has the added benefit of reducing the amount of material required to reinstate roads after work has been completed, reducing the Company's carbon footprint. This rate is lower than last year due to the completion of a 2.2km trunk main renewal scheme this year, which had to be completed using open cut techniques. Customers continue to give very positive feedback on the works completed with 85% rating the work and associated communication as either "good" or "very good".

Non infrastructure framework contract (above ground assets)

Non infrastructure works covers significant maintenance activity at our operational sites. The Company's innovative "collaborative non infrastructure framework contract" is now delivering results for our customers. This is promoting the development of innovative solutions to works which will both reduce the initial cost of activities and future maintenance costs. This is having a positive impact, for example by streamlining construction and installation times on site by using off site construction, reducing both costs and H&S risks on site.

Reservoirs

The Company has continued to invest in its reservoirs during the year. Works have been undertaken at 6 sites, ensuring that the reservoirs remain in a serviceable condition.

Leakage

The Company has continued to focus this year on improving leakage levels in the Company's 3,300km pipe network. We have invested an additional £2m during the year to improve leakage. It has been a challenging year in terms of leakage, particularly following the freeze/thaw issues at the end of the previous year and the prolonged hot summer weather. The company remains confident that the recent progress on reducing leakage will result in reaching the 5 year target at the end of the AMP.

Water Quality

Following an audit by DWI in October 2017 the company has completely reviewed its disinfection policy and associated disinfection strategies at all of its water treatment works (WTW's). This has led to a number of schemes in the year and the tendering of longer term contracts for delivery for works in 2019/20 and into AMP7. The work, along with the review of all O&M manuals, has brought the Company up to the leading edge standards of disinfection in the water industry.

Membrane replacement

The Company has invested in 3 of its membrane plants this year by replacing the membrane filters installed at these works. These membranes primarily remove cryptosporidium from the water. These are specified as having a useful life of 7 years, through careful management and monitoring it has been possible to extend the life of the membranes at each works by up to 3 years, ensuring that best value has been delivered.

River Wallington Resilience Scheme

The Company has completed a feasibility study into the River Wallington trunk main risk mitigation scheme. A tender has been sent out with a view to works being completed in 2019/20.

Eels screens

The Company has been working hard to develop a scheme to install eel screens on the River Itchen intake, to comply with EA regulations. The local planning authority have agreed the works can be completed under permitted developments and tender documents have been sent out for the works. Construction is due to commence in Feb 2020 in line with allowable working periods in the river.

Soberton WTW

In response to a domestic oil spill in the Soberton WTW catchment area the Company has refurbished and relocated Granular Activated Carbon (GAC) filters from its Northbrook WTW to Soberton WTW. These mitigate the risk of oil contamination.

Developer Services Forum

In December we held a Developer Services Forum at our Head Office, where we gained valuable feedback on our charging arrangements and our service performance. There was good representation from our Developer Customers and a live poll highlighted a need to enhance our communication. We will continue to focus on delivering a strong responsive service to our Developer Customers.

Strategic Report

The Issues That Affect Us

There are many external issues that impact our business. These shape our business decisions, risk profile and strategy. Set out below are the key issues likely to impact the business over the next year.

Regulation

The water industry is highly regulated (see page 29 for further information). The Regulatory environment continues to become more complex and challenging and this increases both the compliance burden and costs of meeting new regulatory requirements. Ofwat is our economic regulator and determines the revenue we recieve from customers. We have completed the fourth year of the 5 year price review period and submitted our 5 year Business Plan for the next regulatory period 2020-2025.

The Environment Agency ('EA') regulates the amount of water that we are allowed to take from the Environment. We work closely with the EA in developing our water resources management plan; currently our plan indicates that we have sufficient water availability to support a resilient supply network.

The Drinking Water Inspectorate regulates the quality of water that we supply to our customers and sets the standards required. Following international research and guidance (from WHO) there has been an ongoing tightening of the drinking water standard for lead. A large proportion of lead pipework within the network is in customers' properties and therefore difficult to influence. This continues to result in increasing challenges for the business and we paln to research new ways of meeting these challenges in AMP7.

Brexit

Working in collaboration with the industry we have managed Brexit risk to the Company and in particular the most significant 'No-deal' risks. The Company considers that risks relating to the availability of chemicals and other materials are likely to have the most significant operational impact.

Accordingly we have been carefully tracking and responding to emerging Brexit No-deal risks and have specific contingency plans in place. This is discussed in more detail on page 27.

Resilience of Supply

The South East of England faces the dual challenges, in both the near and long term, of continued population growth and limited water resources. Most of the South East, with the exception of the area supplied by the Company, is designated as an area of 'serious water stress'. Predictions also suggest that this part of the UK may be dis-proportionately impacted in the future by climate change.

As a result of these pressures, the Company continues a focus on balancing supply and demand for water, in order that generations in the future will continue to benefit from a secure supply of clean water at affordable prices.

At present Portsmouth Water is in a positive position of having sufficient water supplies. In the future, this will be utilised for the benefit of the wider South East area, by investment in Havant Thicket Winter Storage Reservoir. This significant 10 year programme is underpinned by a highly collaborative approach between water companies and regulators. This scheme was a key part of the Company's PR19 Business Plan.

Affordability and Vulnerability

The UK continues to see a rise in levels of household debt for lower income families. Across the industry, trends show both increasing levels of overdue and bad debt and greater numbers of applications for reduced tariffs. In addition, both Government and Ofwat have clearly signalled the need for a more proactive and targeted approach to identify and support those household customers in greatest need of support.

Previously the approach taken by water companies, including Portsmouth Water, was to work with charities such as The Citizens Advice Bureau, StepChange, Christians Against Poverty, National Debtline and The Money Advice Service and to offer reduced tariffs and other forms of support. For the main part these initiatives have relied on the customer to apply for SUPPORT. However, to supplement this, we have launched a new "Helping Hand" tariff to support financially vulnerable customers and appointed a Customer Support Advisor in order to take a more proactive approach to customers in vulnerable situations.

Regulatory Price Review 2020-2025 (PR19)

The Industry is currently in the process of undertaking the Regulatory Price Review for the next 5 year period 2020-2025 (known as "PR19"). This price review is regulated by Ofwat - the Industry's economic regulator. It will set the revenues that water companies may recover from customers, the level of return to investors and will drive improvements in levels of service to customers.

We submitted our Business Plan, including detailed financial models and our proposals for service levels ("performance commitments") in September 2018. Further responses to Ofwat's Initial Assessment of Plans were submitted in April 2019. Draft determinations will be published in July 2019 with the final determinations in December 2019.

The remainder of 2019 will therefore be critical for the business in terms of responding to any further challenges in the PR19 process and developing the detailed implementation plan. This plan will need to meet the significant operational and financial challenges in delivering stretching levels of service for our customers at affordable bill levels.

The key areas of challenge for us at PR19 relate to financeability and the delivery of Havant Thicket reservoir - a collaborative new water resource that will enable increased supplies to our neighbour - Southern Water.

In addition the Company has committed to delivering stretching performance in service levels to customers with the most efficient cost base in the industry.

Brexit

Readiness

We have been making significant preparations for a No-deal Brexit since November 2018. This is considered to be a worst-case scenario. We have assessed our activities against risks, as they have emerged from Central Government, Defra, and the Local Resilience Forums. We have implemented measures to mitigate, or partially mitigate, the identified risks to an acceptable level. To manage this process we have set up an internal group and a formal action plan to deliver any Brexit related activities. In addition, we have been actively engaged in the groups set up through Water UK to manage sector issues occurring concurrently across multiple water companies. We are currently reporting daily on 35 key criteria into the National Incident Management Group which supplies Defra with a daily Situation Report. The Situation Reports are being trended across the industry and assessed using Defra's BRAYG status approach. We have stress tested management arrangements national incidents through exercises that have included both suppliers and regulators. Defra have, so far, been pleased with the industry's level of preparedness.

Customers

We have considered how our customers might be impacted from a No-deal through our risk assessments. Given our location, we have planned management actions should traffic disruption arise at the Portsmouth International Port in order to mitigate any impact on our activities or our ability to respond to emergencies. Part of this planning considers the need for extending the working day and undertaking key maintenance and sampling for water quality checks outside of busy periods. At this stage we do not consider that billing will be affected by a No-deal Brexit scenario.

Supply Chain

There has been extensive consultation with our supply chain. We have held regular meetings with our key chemicals, spares, materials and pipe fittings suppliers to understand in detail their level of preparedness and resilience to Brexit related impacts. The key risks to us relate to traffic disruption and where either finished, component or raw materials are imported from the EU. To that end the water industry has agreed an appropriate level of supply chain resilience. This includes a minimum required stock holding for critical materials and a further holding through the supply chain. We substantially exceed the agreed minimum holding for our fittings and key chemicals and have adopted a conservative approach by bunkering additional supplies as required to ensure risks to our services are minimised. We are monitoring our chemical levels daily and reporting these into the National Chemical Specialist Group who provide their assessment into the National Incident Management Group.

Employees

The Company has a low turnover of staff the majority of whom are locally based. Many of our essential services are kept 'in house' for Production, Networks and Water Quality. The impact on internal labour is therefore considered low. Mains renewal, new mains, new services and meter options work are all undertaken by our incumbent contractor Cappagh. Their staff are typically also local to this region with a low number of staff from the EU.

Non infrastructure capital investment is delivered by Bridges Electrical. Their staff are also based regionally and they do not foresee an impact from a No-deal Brexit.

We have also made preparations in the event that employees find it difficult to attend work due to traffic disruption.

Financing

Given the nature of our business and our current finance structure we do not envisage any material impact on our ability to raise finance of a No-deal Brexit.

Current Status

The recent agreement between the UK and EU to extend the Brexit date to 31st October has resulted in the industry wide Brexit response being reduced. Once a date for Brexit is confirmed, the arrangements will be stepped up once again.

Strategic Report

The Issues That Affect Us

Our Stakeholders

Our Customers and our community

Customers are at the centre of our business. Our mission statement describes what our customers expect of us and we are continually reviewing the service we provide and how we can improve it. We supply water to over 302,000 households and 18,000 businesses. This number increases each year as we work with housing developers to ensure they can deliver significant housing plans for the area.

We are an integral part of the local community; proud of our close ties with the community we serve, having supplied drinking water for 160 years.

- Most of our employees are from the local area.
- We have a partnership with a local Country Park, contributing to an education centre which introduces children to the importance of fresh water, how it is delivered and why we must use it wisely. To date, over 10,000 children have visited the centre.
- We are actively involved in schools and attend and sponsor local science fairs.
- The Company participates in PUSH, The Partnership for Urban South Hampshire, which seeks to encourage local development in a sustainable manner.

Customer Challenge Group

In 2012 we established our Customer Challenge Group ('CCG'), which includes a range of stakeholders and customers. The CCG challenges us to ensure that our Business Plan is built upon the needs and preferences of our customers. This includes independent oversight of the nature and breadth of Customer Engagement activity. In addition the CCG reviews our performance against the Business Plan promises. It is a key part of the Company's governance in respect of our development of and performance against the regulatory Business Plan.

The Group is chaired by an independent member of the public whose responsibility is to represent the customers and stakeholders in holding us to account on our performance.

Our employees

One of our primary objectives is that our employees return to their families at the end of the working day without injury and customers are safe when we are working near their homes or when they are near our sites. The Board of Directors sees Health and Safety as a key priority of the business and seeks to ensure:

- The safest possible environment for our employees, visitors and general public.
- Continual review of all our operational practices from a health and safety perspective.

We must make sure we provide an attractive remuneration package for our staff. We are located within the South East of England with a relatively dynamic labour market and low unemployment. We offer an attractive package including life assurance cover and entry to a pension scheme.

Finally we invest in our people, offering all of our staff development opportunities to reach their full potential. This includes degrees, NVQs, professional qualifications and relevant training courses.

Our investors

Like all businesses we need to generate sufficient profits to provide a fair return to shareholders and meet the interest cost of our borrowings.

As explained more fully in the Corporate Governance section on page 38 the Group is owned by Ancala Fornia Holdco Limited, an investment holding company for a UK based infrastructure investment fund.

Our main source of finance is an index linked loan which has conditions that require a certain specified level of financial performance. Our Licence conditions also stipulate that the Company has to maintain an Investment Grade credit rating. This rating demonstrates to lenders that we can meet our interest payments and allows us to secure borrowing at efficient interest rates.

Our suppliers

Suppliers and the overall supply chain are key to enabling the business to successfully function operationally, financially and environmentally. This supply chain is diverse in nature ranging from the pipe and fittings to deliver the water to our Customers, to the pumps and the electricity that powers them and to the chemicals that are used to treat the water. In addition there is a significant range of goods and services that enable the overall functioning of the wider business.

We have always strived to deal with our suppliers with a professional partnership based approach; helping to ensure that we receive quality products and services such that our suppliers feel valued and are paid a fair price. Wherever possible we include collaborative working principles including common shared goals & behaviours.

Company collaborative working also extends to other water companies and has enabled "benchmarking" of some internal operations and an increasing number of joint contracts with suppliers.

CCG Report

The CCG provides independent challenge and assurance on the quality of the Company's customer engagement and has a monitoring role to review the performance against the Company's Outcomes (Outcome Delivery Incentives or "ODIs"). We are pleased to see the continued strong performance against the industry's customer service measure (SIM). Whilst the Company is meeting the majority of its target ODIs it is disappointing to see that two, per capita consumption and water quality contacts were not met. Action plans are being developed to remedy this situation.

PCC has proved to be challenging for the business showing a gradual upward trend over the last 4 years. The Company has explained that this has been further influenced by the long dry period over the Summer of 2018. With relatively low metering levels the Company's PCC can be disproportionately influenced by weather and can be challenging to control. For water quality contacts we are pleased to see that this continues to show a downward trend and we are the best performing company against this measure.

During 2017/18 the Company's leakage performance deteriorated and the CCG challenged the Company to understand what caused the increase and how new technologies could be used to drive more rapid improvements. The Company invested c £2m implementing plans to improve leakage performance during the year. We are pleased to report that this has resulted in meeting this target for 2018/19. The CCG will continue to closely monitor the Company's progress against ODIs as we near the end of the 5 year regulatory period.

During the year the Company continued extensive customer engagement work in support of the PR19 Business Plan submission. This included detailed work in relation to PR19 ODI rewards & penalties, a range of wider business issues such as vulnerability, resilience, leakage & metering and support for future bill levels. The Company has kept the CCG closely involved in all of its engagement activities and responded positively to the challenges we have made.

Lakh Jemmett CCG Chair

Our Regulators

Defra is the UK government department responsible for safeguarding the natural environment. They set policy for the water industry. These policies, such as the development of competition for non-household customers, management of flood risk and water abstraction reform, are then implemented by individual regulators.

The Water Services Regulation Authority, or Ofwat, is the body responsible for economic regulation of the water and sewerage industry in England and Wales. They are responsible for protecting the interests of customers in a monopoly market. Ofwat is primarily responsible for setting limits on the prices charged for water and sewerage services, taking into account proposed capital investment schemes and expected operational efficiency gains.

The Drinking Water Inspectorate regulates the public water supply companies in England & Wales. It provides independent reassurance that drinking water quality is safe for customers, meeting the legal standards. The DWI's remit is assessing the quality of drinking water England and Wales, taking enforcement action if standards are not being met, and appropriate action when water is unfit for human consumption. It is also responsible for reporting on drinking water quality to the European Union.

The Environment Agency is a non-departmental public body with responsibilities relating to the protection and improvement of the environment in England. The Agency's responsibilities include water quality and water resources. They set the volume of water that we may extract from the environment. They also have responsibilities for flooding, conservation, rivers and harbours.

Natural England is the government's adviser for the natural environment in England. This non-departmental public body is responsible for ensuring that England's natural environment, is protected and improved. Natural England monitor the way we maintain and operate our sites to ensure we enhance the local environment. We have been complemented for the improvement in the management of our sites by Natural England and in particular the Site of Scientific Special Interest on the River Itchen.

The Consumer Council for Water (CCWater) is the independent voice for all water consumers in England and Wales. It was established to provide consumers with strong representation, including that customers are at the heart of decisions made by water companies. It provides free advice to consumers and keep them informed on the issues that affect their water and sewerage services. CCWater monitor the quality of the service we provide to our customers.

Market Operator Services Ltd (MOSL) is a private company that works on behalf of, and is funded solely by its water company members. Companies are required to be members of MOSL to participate in the non-household market. MOSL is responsible for the effective and efficient operation of the non-household water retail market and plays a central role in it's evolution through its continued work with the Code Panel.

Strategic Report

Principal Risks and Uncertainties

Effective risk management is critical to the achievement of our strategic aims and customer Outcomes. As a company, risk management is embedded in our day to day activities and we use a range of formal and informal processes to keep risk at the heart of what we do.

Risk category	Description	Potential impacts	Nature	Likelihood	Impact
OUR CUSTOMERS					
Operational	The significant loss of treatment works or failure of critical parts of the mains network	Failure to supply customers over an extended period.	Operational Reputational Financial		
Water quality	Failure against drinking water quality standards.	Water not fit to drink.	Operational Reputational Financial		
Business continuity	Scenarios for loss of major business elements such as key operational sites, power, telecoms, IT, personnel.	Adverse impact on ability to carry on normal business activities. Potential impact on ability to supply services to customers and ultimately potential impact on business viability.	Operational Reputational Financial		
OUR PEOPLE					
Human resources	Loss or shortage of critical skills, company knowledge or operational capacity. Possible over reliance on key individuals.	Adverse impact on ongoing operational activities. Poor business decision making due to lack of knowledge or experience.	Operational Reputational		
Health & Safety	Failure to maintain appropriate health and safety standards.	Serious injury or death of employee or contractor. Prosecution by HSE.	Reputational Financial		
OUR ENVIRONMENT					
Environmental	Reduction in water abstraction licences due to EA reform and sustainability issues. Climate change and population growth increases demand. Damage to the environment.	Inability to provide a sustainable supply of water to the population. Impact on habitats and biodiversity.	Operational Reputational Financial		
OUR BUSINESS					
Financial	Liquidity, solvency, capital risk and credit risk.	Insufficient funds or facilities to finance capital programme, service debt or for day to day operating cash flow requirements. Breach of financial covenants and/or breach of licence conditions for financial viability. Inability to pay dividends. Inability to recover revenue due to increasing bad debt driven by socio-economic conditions.	Financial		
	Exposure to increasing costs or other financial loss reduce the financial viability of the Company.	Significant costs, such as power or interest expense, limited control and result in trading losses. Unexpected events, such as significant claims against the Company result in significant costs.	Financial		
Regulatory	Regulators' actions have an adverse impact on the business. DWI and EA related regulatory impacts are considered under Water Quality and Environmental risks.	Failure to meet customer service standards or Outcomes agreed with Ofwat may result in penalties. Unexpected changes in the Ofwat regulatory approach. Increasing Regulatory Requirements.	Reputational Financial		
Legal & governance	Failure to meet our legal obligations particularly licence conditions and data protection. Lack of appropriate Governance.	Prosecution or fines as a result of company failure. Significant adverse publicity and loss of reputation.	Reputational Financial		
Political	Renationalisation	Unable to secure required funds for infrastructure projects.	Operational Financial		
	Brexit	- Unable to provide service. - Loss of key materials or chemicals.	Operational Reputational		
IT	Significant successful cyber-attack on the Company	Loss of critical computer systems result in failure to operate the business as usual. Cyber attacks in general are steadily increasing.	Operational Reputational Financial		

KEY TO OCCURRENCE

Likelihood of occurrence
● Low ● Medium ● High

Impact of occurrence
● Negligible ● Moderate ● Serious ● Catastrophic

The table on pages 8 to 9 sets out how the principal risks and uncertainties identified relate to the Company's business objectives and reporting KPIs. We have summarised in the following table an overview of our risk management priorities. This summarises the type of risk, explains the likely impact and summarises the mitigations (plans, controls and actions) in place. It also provides an indication of the likelihood and potential impact of each risk occurring, together with the Board's assessment of the trend (increasing, decreasing or stable). In each category the level of required mitigation and control is determined by the Company's risk tolerance. On an annual basis the Board reviews its tolerance for risk and sets appropriate levels.

Further information on the Board's approach to risk is set out in the Corporate Governance section which commences on page 38.

Trend	Mitigation/Control
↔	- The supply network has been developed to connect different supply areas, such that in most situations water can be transferred to compensate for a failure at a treatment works or in the network. Double the industry standard of treated water storage (48 hours) plus wide coverage of network with pressure management also support a highly resilient system. - A fully documented Emergency Plan which is initiated in the event of a major incident. - Employment of modelling, telemetry and monitoring to maintain the resilience of the network.
↔	- A Drinking Water Safety Plan which identifies the potential risks throughout the supply process. - A rigorous sampling regime in accordance with statutory legislation together with 24 hour monitoring and response - Membrane filtration at four of the treatment works considered most at risk from cryptosporidium. Ultra violet treatment plants built at three other high risk sites.
↔	- Defined and documented Emergency Plan in place which utilises Drinking Water Safety Plan (DWSP) risk assessments. - Business continuity planning processes. See also IT risk mitigations. - Appropriate insurance cover.
↔	- Investment in a programme of employee development and cross training and collaborative working with other water companies. - Regular succession planning reviews at the Board level and Non-Executive Directors with appropriate, relevant skills mix. - Control procedures and policies in place to ensure that all relevant legislation is complied with. - Appropriate use of contractors and consultants to support the business needs.
↔	- Culture of health and safety awareness and "zero tolerance" policy lead from the Board down including a Health and Safety Committee. - Risk assessment, training and inspections embedded in the business. All incidents reviewed for lessons learned.
↓	- Detailed modelling and studies in order to assess and understand the future balance of supply and demand. - Monitoring and modelling in order to identify the impact of abstraction at certain sites; identification and implementation of mitigating solutions. - Biodiversity surveying and specific schemes to support and enhance biodiversity. - Completed all investigations and no current obligations under National Environment Programme to support sustainability.
↑	- An appropriate capital structure with a mixture of cash, debt and equity together with appropriate credit facilities. - Effective processes of budgeting for costs and cash flows. This includes close monitoring of headroom against financial covenants and stress testing. - Mitigation of significant costs or claims (see below): - Utilisation of all appropriate means of debt collection, including the use of a dedicated debt recovery section and collection agencies. - A Social Tariff (Helping Hand) implemented in July 2016 to support our financially vulnerable customers. - Successful raising of additional debt financing. - An appropriately experienced management team supporting development of the Havant Thicket winter storage reservoir project.
↔	- An effective system of internal controls together with a process of budgeting and forecasting to manage the underlying cost base. - Energy represents around 7.5% of operating costs. An energy broker was used in order to manage exposure to power costs and price fluctuations. - Both interest payments and revenue are currently linked to inflation and therefore provide a natural hedge. - Comprehensive insurance cover for a range of risks, including damage to property, public and employee liability, fraud and terrorism.
↑	- The 5 year price review is conducted in an open and transparent manner and the Company actively participates in the process. - Performance against regulatory targets is reviewed on a monthly basis by the Board or the Executive Directors. - Close engagement with Ofwat through consultation processes, workshops and industry groupings.
↔	- Corporate Governance code and authorisation framework which is reviewed annually. Monitoring of legal and governance areas. - Appropriate levels of insurance cover such as Public Liability insurance. - Close monitoring of performance against licence conditions through KPIs. A clear data protection policy and project implemented for adherence with GDPR.
↑	- In association with Water UK, the sector is introducing a Social Contract to reinforce commitments to making a wider contribution to society and restoring legitimacy. Portsmouth Water is planning its own, more local, Social Contract to dovetail with national efforts. - Continued industry defence of impact of nationalisation and reminders of the sector's achievements post privatisation.
↔	- Full assessment completed on all potential impacts of a No-deal Brexit. - Continued dialogue and reporting to Defra. - Detailed analysis on ongoing assessment of key suppliers. - Increased stock levels to ensure continuity of supply.
↔	- Third party end to end threat monitoring and alert services are used to promptly identify and respond to cyber threats. - Standard operating procedures such as regular back-ups held off site. Duplicate IT infrastructure held in a secure off site location. - A clear disaster recovery programme in place to enable us to continue working should the systems fail. - Regularly Audited by Defence Science and Technology Laboratories and other statutory bodies.

Strategic Report

Viability Statement

1. Assessment of prospects

The Board has assessed the prospects of the Company over a period of 6 years.

Background information

The Company's business model and strategy are central to an understanding of its prospects, further explanation can be found on page 7. As a regulated, capital intensive, utility provider the nature of the Company's activities are long-term and, although subject to some regulatory changes, the business model is generally stable. The Company's current overall strategy, budget and cash flow projections are intrinsically linked to the Ofwat 5 year regulatory review cycle. Consequently, the 5 year regulatory Business Plan (which runs from 1 April 2015 to 31 March 2020) and the related Ofwat Final Determination are the primary drivers for the Company's future prospects. The Final Determination sets out the allowed revenue, operating expenditure, capital expenditure and agreed business Outcomes for this 5 year period. More information in respect of the regulatory regime is set out in pages 26 to 29.

The Company is currently in the 2020-2025 regulatory Business Plan cycle with the plan being submitted in September 2018 together with further information submitted on 1 April 2019. Whilst this Draft Business Plan has not been approved, it does capture the Company's current business strategy into the next regulatory period together with detailed financial projections. The Company considers that this represents the best current indication of future operating activity and financial results at this time. This Draft Business Plan includes the development of a new water resource, Havant Thicket Winter Storage Reservoir ("HTWSR"), which will result in significant capital activity throughout the next 6 years and beyond to 2029.

The Board continues to take a conservative approach to the Company's strategy. The business' focus is largely on delivering the agreed regulatory Outcomes within the costs set out in the Ofwat Final Determination and as developed in the Business Plan. Decisions relating to major capital schemes, water quality, resilience of supply and changes to the business strategy are made with a low tolerance for risk. In particular, the Board has considered the changes in the risk profile of the Company in the Business Plan resulting from the development of HTWSR, the lower anticipated WACC, and a more challenging regime of rewards and penalties.

The assessment process of the Company prospects

Budget process

The Company's prospects are routinely assessed, primarily, through its budget process and performance against regulatory Outcomes.

These are both closely linked to the 5 year financial position set out in the Ofwat Final Determination for the period 2015/16 to 2019/20 which drives the key budget assumptions.

The budget prepared included;

- Detailed budget analysis by department for the forthcoming (2018/19) financial period.
- Five year analysis to 2019/20 comprising 4 year actuals and 1 year detailed budget. These are compared against the Final Determination.
- Cash flow projections to 2019/20.
- Projection of key financial ratios including those required for banking covenants and to maintain an investment grade credit rating.

It also has regard to committed funding & liquidity positions and future funding requirements.

This assessment process involves an annual review of the budget (including financial projections through to the end of the current regulatory period) and related objectives, led by the CEO and Finance Director, through the Management Board. All Company departmental heads are involved in this review. A key part of this review is a comparison of the projected total operating and capital expenditure ("Totex") against that set out in the Ofwat Final Determination for the 5 year period. The Board participates fully in the annual process by means of the budget review and approval process, setting annual business objectives and strategy. The annual budget process was completed and approved by the Board during February 2019.

The key business assumptions in the budget related to;

- Increase in RPI (which drives tariffs and costs)
- Levels of capital and renewals spend and related efficiency and cost savings
- Headcount and salary increases
- Interest rates and loan indexation rates
- Levels of targeted cost savings
- Levels of activity and cost related to leakage
- Levels of activity relating to the HTWSR programme

5 year Business Plan process

In addition, the Company's prospects are also considered in relation to the financial modelling and overall Draft Business Plan submission to Ofwat supporting the determination for the Period 2020-2025.

The Development of the Draft Business Plan for submission is a detailed and complex process including the following activities;

- Customer research
- Capital assessment and planning
- Optimization of schemes & activities
- Detailed financial modelling
- Design of rewards & penalties
- Assessment of resilience
- Financeability testing
- Assurance
- Governance & Board approval

These activities culminated in the development of a detailed business plan in line with Ofwat's guidance & methodology.

The critical assumptions underpinning the business plan include;

- A WACC of 2.48% (RPI)/3.48% (CPI) including a company specific premium of 30 bps
- The inclusion of the HTWSR programme (and related income and costs)
- Totex benchmarking and efficiencies
- Capex and mains renewals levels and profile
- Projected RPI & CPI
- Levels of rewards & penalties
- Any historic true up required
- Distribution levels
- Inclusion of £5.4m of "transition expenditure"
- Bill level & profile
- Availability of financing and access to additional equity and debt

In addition the Company has produced financial modelling of the business performance for a further 10 year period beyond the Business Plan. This is based, primarily, on a roll forwards of the Business Plan, modified by key assumptions such as expected Weighted Average Cost of Capital (WACC), efficiency levels and longer term assumptions such as RPI and CPI levels. It also reflects the impact of HTWSR construction and operating costs.

The further assumptions in the additional 10 year projections relate to;

- A WACC of 3.1% and 3.3% real for successive 5 year periods plus a company specific premium of 30 bps
- Projected RPI and CPI (which will be used to drive tariffs in future periods)
- Levels of efficiency projected

- Levels of capital and renewals spend together with assessment of the need for any significant new capital schemes.

Risk assessment

Alongside these activities, the Company also updates the analysis of significant risks that could prevent the budget and Outcomes from being delivered. The Board performs regular reviews of the principal risks and uncertainties and a formal annual review and a robust assessment was completed and approved in April 2019. As part of the Business Plan preparation the Company has performed an assessment of "resilience in the round" building form an understanding of operational risks through financial resilience and with regard to overall company resilience including Governance and management effectiveness. Board review and approval in relation to this assessment took place in April 2019. The overall summary of the principal risks and uncertainties (set out on pages 30 to 31) reflects this consideration of "resilience in the round".

Details of the Board risk assessment process are set out on page 43. The purpose of the principal risks table is, primarily, to summarise those matters that could prevent the Company from delivering on its strategy. A number of other aspects of the principal risks – because of their nature or potential impact – could also threaten the Company's ability to continue in business in its current form if they were to occur. This was considered as part of the assessment of the Company's viability, as explained further below.

In setting out specific scenarios for the Viability Statement we have reviewed the risk register together with resilience modelling prepared as part of the PR19 Business Plan together with Board analysis prepared to support "resilience in the round". Using this information we have developed a range of relevant severe, plausible and reasonable business scenarios which have been linked to the relevant business risks. These were reviewed and approved by the Board and are summarized in section 2 below.

The period of assessment

The Board conducted the assessment for a period of 6 years to 31 March 2025. The Board considers that this period of 6 years to be most appropriate given the current stage of the regulatory review cycle. This period covers the 1 year remaining of the current regulatory period and the period to the end of the next Price Review. This is consistent with the fact that, at this point, Ofwat's methodology for the next regulatory review cycle has been finalised and the Company's Draft Business Plan (for the 5 years to March 2025) has been submitted.

The Board feels that this is an appropriate length of time to permit a reasonable assessment of likely business performance and to make reasonable estimates of key assumptions. As set out above, the Ofwat Final Determination, the Business Plan and the related Outcomes are significant drivers of the business strategy & performance. This is a key driver to the end of the next regulatory period of 2025. Whilst the Board considers 6 years to be an appropriate horizon to consider the continuing viability of the Company, they do also consider the viability over a longer term beyond this period as indicated above.

2. Assessment of viability

The Assessment of Viability therefore uses a period of 1 year of budgeted information to the end of the current regulatory period and the 5 years of financial performance modelled in the Draft Business Plan to 31 March 2025.

Although the budget and Draft Business Plan financial model reflect the Directors' best estimate of the future prospects of the business, they have also stress tested the potential impact on the Company of a number of scenarios. This has been performed by quantifying their financial impact and overlaying this on the financial forecasts. The potential impact has been considered in relation to operating profit, cash flow, liquidity and the key financial ratios needed for banking covenants and the retention of an investment grade credit rating (such as gearing, net debt:RCV and interest cover).

These scenarios (which are summarised on page 34), which have been driven from the Boards assessment of "resilience in the round" as part of the Business plan (and are reflected in the principal risks and uncertainties set out in pages 30 to 31) represent 'severe, plausible and reasonable' circumstances that the Company could experience.

In addition the Directors also tested a number of broad sensitivities including increase in interest rates, increase in costs and adverse movements in Retail Price Index/Consumer Price Index.

In each case the availability and effectiveness of mitigating actions that could reasonably be taken to reduce the impact was taken into account. The primary mitigating actions relate to the use of available credit facilities, levels of insurance cover, the ability to defer capital and renewals spend and the discretion not to pay dividends.

It has also been assumed that adverse impacts, set out on page 34, which may have an adverse but short lived (1 year) effect on financial ratios, could be managed by careful discussion with key stakeholders such as bond holders and the rating agencies.

The results of this stress testing showed that, due to the stability of the business, the Company would be able to withstand the impact of these scenarios occurring over the period of the financial forecasts by making adjustments to its operating plans within the normal course of business. This included both the restriction and elimination of dividend payments.

3. Viability statement

Based on their assessment of prospects and viability above, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the six year period ending 31 March 2025.

4. Going concern

The directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the Basis of preparation paragraph in note 1 to the financial statements.

5. Directors' Responsibility Statement

We confirm that to the best of our knowledge:

- the accounts, prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

- the report and accounts, taken as a whole, provides the information necessary to assess the Company's performance, business model and strategy and is fair, balanced and understandable; and

- the Strategic Report includes a fair review of the development and performance of the business, together with a description of the principal risks and uncertainties.

For and on behalf of the Board

Bob Taylor
Chief Executive Officer

23 May 2019

Strategic Report

Viability Statement

Summary of Viability Scenarios Tested

Scenario	Link to Risk	Outcome	Mitigation
The loss of a significant Water Treatment Works	Operational, Financial, Business continuity	Cash flow deficit and deterioration of interest cover ratios below covenants & rating agency thresholds for one year.	Mitigated by short term restriction of infrastructure renewals activity and draw down on RCF.
A combination of 2 risk events (driven by operational risk scenario modelling)	Operational, Financial, Business continuity	Cash flow deficit and deterioration of interest cover ratios below covenants & rating agency thresholds for one year.	Mitigated by short term restriction of infrastructure renewals activity and draw down on RCF.
A £12m pension deficit arising	Financial	Cash flow deficit and deterioration of interest cover ratios below covenants & rating agency thresholds for one year.	Mitigated by managing costs and additional debt finance.
A maximum one year ODI penalty	Regulatory, Financial	Cash flow deficit and deterioration of interest cover ratios below covenants & rating agency thresholds for one year.	Mitigated by short term restriction of infrastructure renewals activity and draw down on RCF.
A regulatory fine 3% turnover	Operational, Regulatory	Cash flow deficit and deterioration of interest cover ratios below covenants & rating agency thresholds for one year.	Mitigated by short term restriction of infrastructure renewals activity and draw down on RCF.
Loss of a critical IT system for one month in combination with two different scenarios;	Business continuity	Cash flow deficit and minor deterioration of interest cover ratios.	No mitigation needed on a stand-alone basis.
i) loss of a significant treatment works (see assumption above);	Operational, Financial, Business continuity	Cash flow deficit and deterioration of interest cover ratios below covenants & rating agency thresholds for one year.	Mitigated by short term restriction of infrastructure renewals activity and draw down on RCF.
ii) a £12m pension deficit arising.	Financial	Cash flow deficit and minor deterioration of interest cover ratios over the period of recovery.	Mitigated by short term restriction of infrastructure renewals activity and draw down on RCF.
An upper limit capital expenditure test of £20m	Financial, Operational	Cash flow deficit and deterioration of interest cover ratios below covenants & rating agency thresholds for one year.	Mitigated by increasing RFF and raising additional debt.
Development of Havant Thicket Winter Storage Reservoir - Cost overrun	Financial, Operational	Cash flow deficit and deterioration of interest cover ratios below covenants & rating agency thresholds for one year.	Mitigated by short term restriction of infrastructure renewals activity and draw down on RCF.
Sensitivity testing of key assumptions - inflation -1% - WAAC to 2%	Financial	Cash flow deficit and deterioration of interest cover ratios below covenants & rating agency thresholds for one year.	Both mitigated by raising additional debt in the near term. In the longer term dividends may need to be restricted or equity injected to manage gearing (after 7+ years).
Development of Havant Thicket Winter Storage Reservoir - Delay	Financial, Operational	Cash flow deficit and deterioration of interest cover ratios below covenants & rating agency thresholds for one year.	Mitigated by short term restriction of infrastructure renewals activity and draw down on RCF.

Report On Payment Practices and Performance

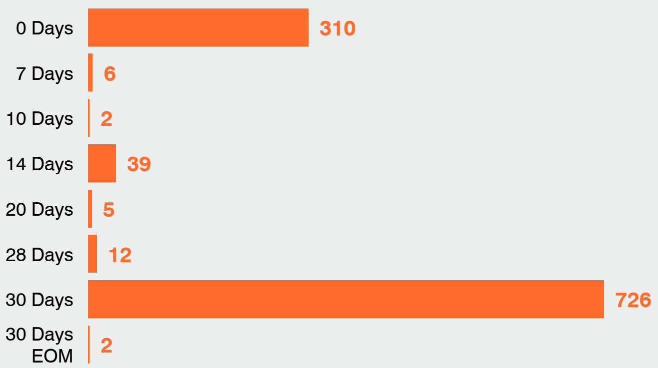
Ensuring a collaborative and good working relationship with all of our suppliers is key to the operational success of Portsmouth Water Limited.

We are aware of how important being paid on time and within a reasonable period is to all of the suppliers that we work in partnership with, and as such operate with fair payment terms. This is demonstrated by our payment practices which we have reported for the year to 31st March 2018.

Through close relationships with our suppliers we are fortunate to have minimal instances where payment of invoices has been in dispute. Our current process means that both the Financial Controller and the Purchasing Manager are aware, on a day to day basis, of any payment disputes and these are actioned and resolved quickly. Statements are reconciled monthly and all of our spend is covered by a Purchase Order system which is also managed on a daily basis.

- Our standard terms are payment in 30 days from date of invoice.
- The maximum contractual payment terms are 30 days from the end of a month.
- Change of payment terms occur rarely. However, this would be on an individual supplier basis and changed through a collaborative process.

Supplier Payment Terms



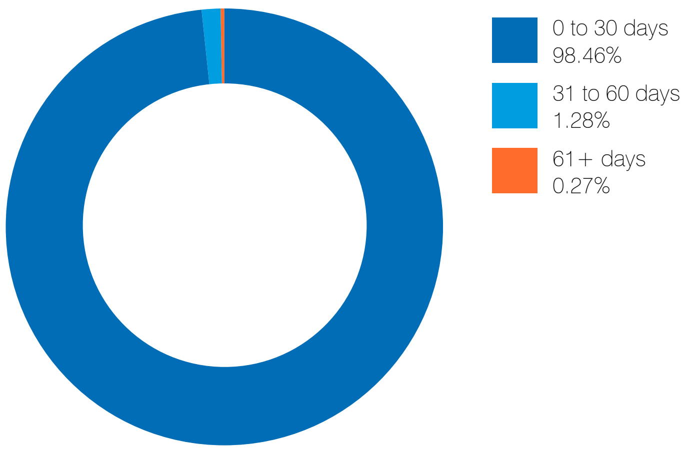
Suppliers on zero day payment terms are generally payable by direct debit

- Suppliers are encouraged to send their invoices to us electronically
- Supply chain finance is not available
- Portsmouth Water is not a member of a payment code
- Initiated a comprehensive review of all procurement and commercial arrangements in preparation for PR19

Invoices with a receipt date between 1 October 2018 and 31 March 2019

Total number of those invoices paid	14,956
Total number of those invoices unpaid	1,563
	16,519
Total number of those invoices unpaid but due	179

Breakdown of percentage paid



Average number of days taken to make payments within the dates above from receipt of invoice	15.94 days

Those due for payment within period up to 31 March 2019

Not paid	1.08%
Not paid within terms	13.66%
Not paid within 30 days of receipt	1.40%

Corporate Responsibilty Statement

Affordability

In recent years the UK has seen increasing levels of household debt. Accordingly the Company pays close attention to how we support domestic customers who may be struggling to pay their water bill. Whilst at £103 our average bill is the lowest in the country, we have a number of options available to support these customers.

We introduced our 'Helping Hand' Social Tariff in 2016. This tariff caps customers' bills at our minimum charge, currently £79.04, for those customers whose household income, excluding certain benefits, is less than the Government's low income threshold of £16,105.

Our Arrears Assist Scheme started in May 2014. Through this scheme we encourage customers back into making regular payments by matching the payments we receive £ for £. We currently have over 250 customers on this scheme with over 430 having completed it. We have found the Arrears Assist Scheme has been successful in encouraging customers to engage with us about payment of their water accounts. It also enables us to better understand our customers' financial situation and the hardships they are facing.

Customers can also apply to be placed on the WaterSure Tariff. This tariff is for metered customers who are in receipt of certain benefits and have a medical condition that requires an individual to use more water or have 3 children under the age of 19 resident in the property. These customers have their measured bills capped at our average bill value.

We also operate a scheme called WaterDirect. Customers who receive certain benefits from the Department of Work and Pensions, and are in arrears on their bills, can request that water bill payments are deducted straight from their benefits.

Finally we have an in-house Customer Support Officer whose role is to engage with hard to reach customers, and the organisations that support them.

Compensation & Customer Charter

We operate a compensation scheme as part of our Customer Charter. This includes the service standards as set out in law, under the Guaranteed Standards of Service (GSS) scheme. If we fail to meet any of the standards outlined in the GSS guidelines, customers are entitled to a compensation payment. The GSS standards cover the following areas;

- Making and keeping of appointments with customers
- Responding to account queries
- Responding to complaints
- Dealing with interruptions to the water supply (planned and unplanned)
- Levels of water pressure

Our Company Customer Charter is enhanced beyond the GSS standards. In addition to the GSS standards we will pay compensation if a water meter is not read at least once within a 12 month period. We also increase the compensation payment amounts beyond what is required in the GSS standards.

Energy Use and Carbon Emissions

In common with all water companies energy is a significant operating cost of the business accounting for 7.5% of operating expenses. The majority of our energy consumption and the associated greenhouse emissions relate to water pumping and treatment activities. Our gross greenhouse emissions for the year was 8,417 tCO_2e (2017/18 - 9,716 tCO_2e (restated)).

The table below shows our energy consumption, greenhouse gas emissions and the volume of water we deliver to our customers.

The significant reduction in gross greenhouse gas emissions is due to the conversion factor we apply in the calculation, which reflects the UK grid electricity generation mix, as determined by Department for Business, Energy & Industrial Strategy (BEIS).

We continue to work proactively to develop sustainable solutions that minimise the impact on the environment and reduce our carbon footprint.

In our Business Plan, over the 5 year period from 2015/16 to 2019/20 we committed "to increase the percentage of energy obtained from renewable resources and, wherever practicable, to reduce electrical consumption delivering a more sustainable water supply service".

We address carbon emissions in a number of different ways;

- Operate solar arrays at 6 of our operational sites.
- Purchase almost 100% of our energy for our treatment and pumping sites from 'Green' energy sources (biomass).
- In June 2015 we completed our Energy Savings Opportunities Scheme (ESOS) assessment in compliance with new legislation, phase 2 assessment is due for completion in December 2019.

We will continue to investigate the feasibility of sustainable wind and solar energy projects and other renewable technologies where cost effective. We continue to work towards further reductions in our power consumption including;

- Enhancing telemetry controls monitoring power consumption.
- Procurement of an energy optimisation system called "SPORT" which is currently in progress.

We have also participated in National Grid's Demand Side Balancing Reserve (DSBR) where we switch off our pumps during times of peak demand, to assist the Grid in balancing supply and demand in the UK.

Water Efficiency

We began our Water Efficiency Programme in 2010 and continue to promote the benefits of saving water to our customers, our community and our local schools.

Our efforts focus on providing free water saving devices and having information and interactive features on our website. In addition we work closely with schools and our education centre to create a water wise attitude amongst our future generations. We also continue to look for new and innovative ways to encourage our customers to switch to a water meter.

	Units	*2018/19*	*2017/18*	*2016/17*
Electricity used	MWh	23,875	22,793	22,551
Gross greenhouse gas emissions	tCO_2e	8,417	9,716	11,079
Water delivered - Distribution input	Ml	63,725	63,667	62,065
Gross Greenhouse gas emissions per million litres of water delivered	**$KgCO_2$/ML**	**132**	**153**	**179**

Working in the Community
2019 saw us launching our new education program and website

The Education Programme "Water is Life" has been designed working with TeachTalkLearn, an education specialist company, and in partnership with the Staunton Farm Education Team.

The program will be delivered as part of regular school visits to Staunton Farm. Every schoolchild on an education visit to Staunton farm will be given information on how to be a good citizen and how this relates to looking after the valuable resource of water.

Alongside the education programme, which will be delivered by the Staunton Education team, is a website full of resources and activities for all KS1 & KS2 children to enjoy both in the classroom and at home. This includes "blue peter" style videos of how to carry out simple experiments involving water – all using items easily found in a household.

The activities are designed to be easily understood by KS1 and KS2 children with supporting information for adults and parents so they can engage in the learning together. This is the underlying principle of the "Water is Life" education program: "learning together".

Supporting Disability in the Workplace
The Company has adopted a policy which complies with the Disability Discrimination Act 1995. Every consideration is given to applications for employment from disabled persons, where the job requirements may be adequately covered by a person with a disability. Employees who become disabled during employment are given continued employment where possible and opportunities for training and career development are provided for all disabled employees.

Catchment Management
Portsmouth Water abstracts groundwater found within the chalk rock of the South Downs to supply public drinking water in our area. Around 85% of the water we supply comes directly from groundwater, sourced from boreholes or springs. The water we supply to our consumers has to meet strict drinking water standards which provide specific limits on a number of contaminants, including nitrates and pesticides.

The two principal pollution risks to our water sources are nitrates and leaks and spills from oil tanks. The past year has seen the Catchment Management Team develop new 'on the ground' initiatives to address these risks.

With regards to nitrate, the Company is working in partnership with other water companies in the South and northern France as part of the European Union Interreg France (Channel) England project 'Channel Payments for Ecosystem services'. Trials are underway in our catchment looking at innovative ways of financially supporting farmers and landowners to alter their practices to deliver cleaner groundwater in our catchments.

Related to this, we are also working in partnership with the Forestry Commission on ways of establishing long term relationships with farmers regarding the improvement of groundwater quality through woodland creation.

Both of these projects will help inform the catchment management measures we will fund through our next Business Plan (2020-2025).

Our oil tank scheme, introduced in 2017, continues to see an increase in take up and has increased from last year, delivering a very real reduction in the risk of groundwater contamination from oil spills and leaks across our catchments. The scheme offers a 50% subsidy for any works to make domestic heating oil installations a low risk to groundwater; this can include tank and pipework replacement.

Further work has been undertaken to ensure groundwater protection through the Catchment Management Team's continued active involvement with local planning. This year has seen the development of Portsmouth Water's Groundwater Protection Guidance documents to inform developers and other stakeholders on Portsmouth Water's preferred approach to development relating to groundwater quantity and quality.

WaterAid
The Company continues to support and promote the charity WaterAid to customers and staff. Over the last 30 years donations from our customers, together with fundraising efforts of our employees have raised nearly £500,000 for WaterAid. This funding is used by WaterAid to develop low cost water supply and sanitation infrastructure in developing countries.

Nature Conservation & Biodiversity
The Company is committed to ensuring compliance with all environmental legislation and obligations, carefully assessing the impact of its activities, especially construction projects, on the environment. This ensures that the impact of such schemes is minimised.

We have a statutory duty to consider conservation and biodiversity as part of our business activity. We operate in an environmentally sensitive area and we are committed to ensuring compliance with all environmental legislation and obligations, carefully assessing the impact of our activities on the environment, to ensure that the impact is minimised.

As part of our wider commitment to improving the environment, we aim to conserve and enhance biodiversity on the 44 operational sites we own. Sites are located in a variety of habitats including chalk down-land, river catchments and coastal margins. Habitat management plans have been agreed for all operational sites.

We own one Site of Special Scientific Interest (SSSI) at the Itchen water treatment works, which we manage in conjunction with Itchen Valley Country Park. Through a Natural England High Level Stewardship agreement we allow cattle grazing of the meadow to maintain the wet grassland habitat.

Further information in relation to our commitment to biodiversity and the environment is set out on pages 16 to 21 "Our Environment".

Data Protection
The Company takes seriously its obligations under the recent GDPR legislation which came into force in May 2018 and can confirm that it is compliant with all aspects of Data Protection law.

Customers were all notified of the Company's updated Data Privacy policy during the year and all employees have undertaken new Data Protection training.

All Subject Access Requests received were dealt with in a timely manner and no matters were escalated to the data protection governing body, the ICO.

Governance

Mike Kirk
Chairman
23 May 2019

Contents

Chairman's Introduction

We continue to remain committed to the highest standards of corporate governance and take the lead from those set out in the UK Corporate Governance Code and guidance issued by Ofwat. Ofwat are updating their principles which deal with Board leadership, transparency and governance and companies will be expected to report against those new standards from 2020 although I am pleased to confirm that we consider that we already comply with the new principles.

Board Composition

During the year there were several changes to the composition of the Board and I can confirm that by having Independent Non-Executives as the largest proportion of Directors the Company now complies with both the Ofwat and Corporate Governance Code Principles on this matter.

Committee Composition

With the resignation of Mrs Benjamin and appointment of Mr Coffin during the year, the committees have seen their membership change over the year. Mr Coffin, with his background as a financial auditor, now chairs the Audit Committee and I have stepped down as a Member of that committee to comply with new Corporate Governance guidance. I would like to thank Mrs Benjamin for her support as a Board Member and also for chairing the Audit Committee for the past four years.

Links

A copy of the FRC 2014 UK Corporate Governance Code can be found at:
www.frc.org.uk/our-work/publications/corporate-governance/UK-corporate-governance-code-2018.pdf

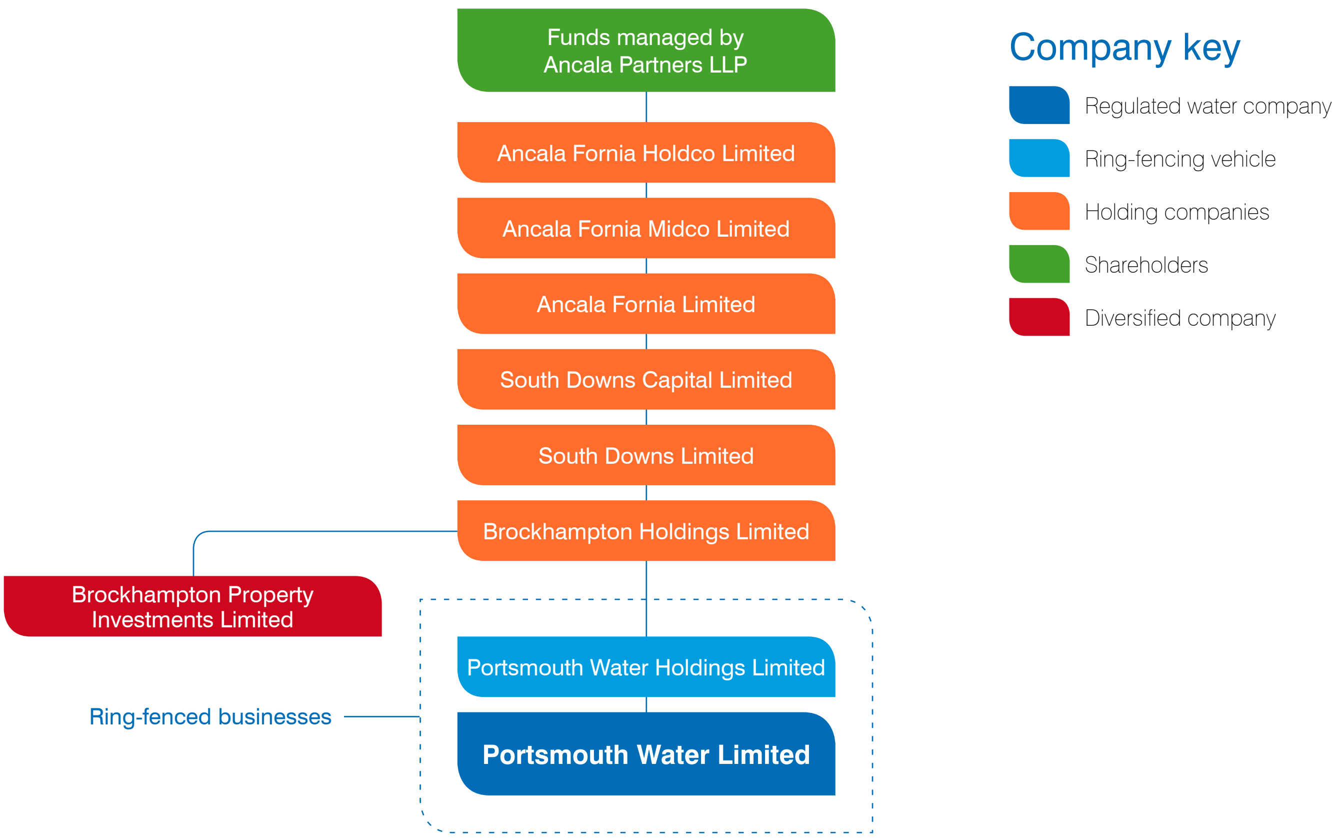
A copy of the Portsmouth Water Governance Code can be found at:
www.portsmouthwater.co.uk/wp-content/uploads/2015/02/D67ZBEE-1EAZ-42F6-BE30-3D086D7COZCZ.pdf

Portchester

Governance

Ownership Structure

The following chart shows the ownership of the Company and the Group Structure. All companies are wholly owned by the parent company shown and all companies are domiciled in the UK for tax purposes.



Explanation

Portsmouth Water Limited is the primary trading company in the group and is included within the regulatory ring-fence as established by the Instrument of Appointment. The immediate parent of Portsmouth Water is Portsmouth Water Holdings, a company established in 2002 to protect the interest of Bond holders by exercising control over distributions.

Ancala Partners LLP ("Ancala") is a UK based infrastructure fund manager. Its investors are primarily UK corporate and local authority pension plans. The acquisition of South Downs Capital Limited in March 2018 was implemented by a new company, Ancala Fornia Limited, which is incorporated in the UK. The ultimate parent undertaking is Ancala Fornia Holdco Limited ("AFHL") which is also incorporated in the UK. The investors in AFHL comprise a number of investment vehicles, all focused primarily on UK long-term infrastructure investment and managed by Ancala Partners LLP. Ancala manages approximately £850 million of funds with investment from UK and European pension plans and institutional investors with a long term investment horizon.

We consider AFHL to be the ultimate holding company and ultimate controlling entity. Consolidated group financial statement for the 54 weeks ended 31 March 2019 will be prepared at the level of Ancala Fornia Holdco Limited and this will be the largest Group for which consolidated financial statements are prepared. Consolidated group financial statements were previously prepared at the level of South Downs Capital Limited (year ended 31 March 2018).

Financing

Portsmouth Water Limited is financed primarily by way of an RPI indexed linked loan secured upon the assets of the Company. This thirty year £66.5m index-linked loan was issued in June 2002 and is repayable on 30 September 2032. The loan interest is calculated by adjusting the value of the loan by RPI and then charging interest on this amount at 3.635%. The current value of the loan is £106.7m (2018 - £103.3m).

Governance

Board of Directors

Executive Directors

Colin Robert Taylor (57)
Chief Executive Officer

Appointed: November 2018

B.Sc., M.Sc., MBA, C.Eng., F.I.C.E.

With over 35 years' experience in the water industry Bob has held a range of senior roles including Operations Director (Drinking Water Services) at South West Water and Managing Director/Director of Operations at Bournemouth Water. Prior to this he was the Business Development Director with Singaporean group Sembcorp responsible for development of the municipal water and wastewater business (with specific focus on Middle East, South America and India).

N

Helen Mary Grace Orton (49)
Finance and Regulation Director

Appointed: October 2015

B.Sc., F.C.A.

A Chartered Accountant and previously a Director with PricewaterhouseCoopers LLP. Helen has a broad range of commercial experience working with a wide range of listed and large companies. She has particular experience working with businesses in the Water Industry and other regulated industries including the development of Regulatory Financial Statements. Helen also serves as a Non-Executive Director for UKWIR.

Shareholder Nominated Non-Executive Director

David William Owens (67)
Investor Representative

Appointed: March 2018

C.Eng., B.Sc., F.I.E.T.

David has an extensive utility background and between 2006 and 2009 he served as CEO of Thames Water. Prior to his role at Thames he was an Asset Director at Macquarie European Investment Fund. He has also been Managing Director of Eastern Electricity and prior to that Managing Director of ABB Power T & D. David holds a First Class Honours Degree in Electrical Engineering. He is a chartered electrical engineer and fellow of the IET (Institution of Engineering and Electronics).

N

KEY TO COMMITTEES Ⓐ Audit Ⓝ Nomination Ⓡ Remuneration ● Committee Chair

Independent Non-Executive Directors

N R

Michael Peter Kirk (59)
Appointed: November 2012

Independent Non-Executive Chairman

FT Non Executive Director Diploma, MBA, M.Sc., D.I.C., B.Sc.

Mike is a Chemical and Nuclear Engineer, with extensive experience of long-life infrastructure design and project economics. He then moved into investment banking and had extensive experience advising water, power and gas utilities through several periodic reviews. Mike is Chair of VIVID - Hampshire's largest housing association with 30,000 homes and Executive Chairman of QFI, a listed speciality oil & gas technology business.

R A N

Martin Paul Johnson (46)
Appointed: July 2014

Independent Non-Executive Director

M.Sc, C.Eng., F.I.MechE., B.Eng. PRINCE2

Martin Johnson is a Mechanical Engineer, a Fellow of the Institute of Mechanical Engineers and a Lean Six Sigma Master Black Belt, with experience in regulation, large capital programmes and customer strategy from BAA and BMI Healthcare. Martin brings board experience from his current role as Chief Executive of Adelie Foods Group and previously as Chief Commercial Officer at BMI Healthcare. Martin started his career as an Engineer in the automotive sector with Ford and BMW.

A N R

Michael Robert Coffin (60)
Appointed: January 2019

Independent Non-Executive Director

BA (Econ), F.C.A.

Mike is a Chartered Accountant with a broad range of audit and commercial experience gained during his long career as a director with PricewaterhouseCoopers LLP. He is a governor at Portsmouth Grammar School where he chairs the Audit and Risk Committee.

Governance

Board of Directors

Meeting	Board	Audit	Nomination	Remuneration
Number of meetings in the year	**17**	**3**	**4**	**5**
Chairman				
Mike Kirk	17/17	3/3	4/4	5/5
Independent Non-Executive Directors				
Heather Benjamin	16/17	3/3	4/4	5/5
Martin Johnson	17/17	3/3	3/4	5/5
Mike Coffin	5/5	1/1	-	-
Executive Directors				
Neville Smith	12/12	-	3/3	-
Rod Porteous	9/10	-	-	-
Helen Orton	16/17	-	-	-
Bob Taylor	7/7	-	-	-
Investment Director				
David Owens	14/17	-	2/2	-

How the Board Operates

The Board has a schedule of matters reserved for its decision and delegate more detailed consideration of certain matters to Board Committee.

Information is circulated to the Board in a timely fashion to ensure that all Directors are fully briefed on all issues arising at Board Meetings. They are free to seek any further information considered necessary. Under the guidance of the Chairman, all matters before the Board are discussed openly and presentations and advice are received frequently from senior managers.

All Directors have access to the services of the Company Secretary and may take independent professional advice at the Company's expense in the furtherance of their duties.

Board Effectiveness

The Board consists of three Non-Executive, two Executive Directors and an Investor Director. We believe the composition of our Board is appropriate for balancing the needs of customers, the environment and our shareholding, and also complies with the Governance proposals laid out by Ofwat.

It is considered that the Board and its Committees have the appropriate balance of skills, experience, independence and knowledge to enable them to discharge their duties and responsibilities effectively.

Performance Evaluation

During the year, a formal performance evaluation of the Board, its committees and its Directors was undertaken. Each Director was required to complete a questionnaire, the responses to which were reviewed by the Board as a whole. The Non-Executive Directors also met without the Executives to consider the performance of the Board and its committees, and without the Chairman to appraise his performance. The Executive Directors are subject to a formal appraisal of performance which is reviewed by the Chairman. The Chairman also meets with each Non-Executive Director to review individual performance. The evaluation concluded that the Board and its committees operated effectively, and that each Director demonstrated commitment to the role and performed effectively.

Chairman and Managing Director

The roles of Chairman and CEO are separate with a clear division of responsibilities between them.

The Chairman is responsible for leading the Board and ensuring its effectiveness. He facilitates the contribution of the Non-Executive Directors and the relationship between them and the Executive Directors.

Shareholder Engagement

The Group comprising Portsmouth Water is 100% owned by Ancala Partners LLP. As part of the agreement when the Group was purchased, Ancala are allowed one Member on the Portsmouth Water Board and David Owens is their representative.

Risk Management and Internal Control

The Board is responsible for the Company's system of internal control and risk management and considers this to be fundamental to the achievement of the Company's strategic objectives. These systems and procedures are designed to identify, manage and, where practicable, reduce and mitigate the effects of the risk of failure to achieve business objectives. They are not designed to eliminate such risk recognising that any system can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board is of the view that there is an ongoing process for identifying, evaluating and managing the Company's significant risks, that it has been in place for the year ended 31 March 2019 and up to the date of approval of the Annual Report and Accounts and that it is regularly reviewed by the Directors. The Board have also set the Risk Appetite for the business and it is reviewed annually.

The key procedures, which have been established with a view to providing effective internal control, are as follows:

Organisation
The Company's activities are operated through a Board of Directors with clearly defined reporting lines and delegation of authority. The Directors meet regularly to consider a schedule of matters required to be brought to them for decision making. A standing sub-committee of the Board meets weekly for the purpose of ensuring that full and effective control is maintained over appropriate financial, regulatory and operational issues.

Budgetary Control
Each year the Directors approve an annual plan produced from a comprehensive budgeting system. Actual results are reported against the approved plan on a monthly basis to provide a timely and regular monitoring of performance.

Investment Appraisal
The Company has a clearly defined framework for assessing capital expenditure needs and options, while post project appraisal looks at relevant improvement in the internal control procedures. Board approval is required for any project exceeding a quantified expenditure level and those authorisation levels were reviewed and amended in March 2019.

Business, Operational and Compliance Risks
The Company assesses the risks facing its business on an ongoing basis and has identified them under eleven main headings – operational, water quality, financial, environmental, regulatory, information technology, health and safety of employees, human resources, legal (including whistle-blowing and fraud), business continuity and political. They are subject to regular reporting to the Directors. The Board reviews the controls established to mitigate these risks and its insurance requirement on an annual basis. The Directors also receive reports from independent regulatory bodies, which comment on the performance of the core water business. Any issues raised in these reports are identified and dealt with in an appropriate manner.

At the Board meeting on 25 April 2019, the Directors carried out their annual assessment, including consideration of events since the year end. They also reviewed the Company's Risk Management Policy and processes. They agreed that this annual assessment, coupled with the Board's ongoing analysis of risks provided an effective Risk Management Strategy.

Board Committees

A range of key matters delegated to the Board's Committees are set out on pages 42 to 51 of this Corporate Governance Report.

The Terms of Reference of each of the Board's Committees are available upon request from the Company Secretary at the Company's Registered Office.

Governance

Audit Committee

Mike Coffin
Chair of Audit Committee
23 May 2019

Audit Committee Members

Mike Coffin (Chair)
Martin Johnson

Audit Committee Chair

In March 2019 Heather Benjamin resigned as a Director in Portsmouth Water to take up new Directorships. She has been replaced as Chairman of the Audit Committee by Mike Coffin who is ideal for the role given his background and previous experience as a Financial Auditor.

Role of Committee

The purpose of the Committee is to ensure the preservation of good financial practices throughout the Company, to ensure that controls are in place to ensure the integrity of those practices and to monitor them, to review the interim and annual financial statements and to provide, by way of timely meetings, a line of communication between the Board and the external auditors. During these meetings with the external auditors the Audit Committee have asked to be made aware of significant issues, discovered by the Auditors on the financial statements. No issues have been identified which would have had a material impact on the financial statements.

The Committee has formal Terms of Reference, which deal with its authorities and duties. It has primary responsibility for making a recommendation on the appointment, reappointment and removal of external auditors. It also reviews annually arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

Activities during the Year

In addition to fulfilling its ongoing duties, the Committee has an extensive agenda of items addressing issues relating to the day-to-day activities of the business with which it deals in conjunction with senior management, the Reporter and Auditor and the Company finance team. There were three scheduled meetings of the Committee during the year. Items on the agenda included:

- Reviewing the Year End and Interim Results, going concern statement and accompanying press releases
- Agreeing the Financial Estimates and Assumptions made in the Year End Results
- Reviewing the Audit and Assurance work carried out by the Company's Reporter, and preparing to replace the Reporter at the end of his contract
- Review of the UK Corporate Governance Code and Ofwat Governance Code
- Assessing the calculations of the 2019 Customer Tariffs

External Audit and Non-Audit Services

The Committee reviews the independence and objectivity of the external auditors. This includes reviewing the nature and extent of non-audit services supplied by the external auditors to the Company, seeking to balance objectivity and value for money. The non-audit services provided during the year were for other Assurance services relating to regulatory financial submissions, tax advisory and compliance work. These services would be those expected to be provided by the Company's external auditor, with the requisite independence safeguards in place.

The review of the Auditors includes consideration of the audit process, the effectiveness and performance of the audit team, and the output, quality and cost effectiveness of the audit. The review of the Auditor's independence and objectivity was carried out as part of the Audit Tender and is monitored throughout the year. The current Auditors have been in tenure for two years.

The Committee does not consider that an internal audit function is required for the Company due to the size and nature of the business. This recommendation is reviewed annually.

Committee Performance and Effectiveness

An annual review of the Committee's performance was undertaken as part of the external Board Evaluation process. No material shortcomings in the operation of the Committee were highlighted.

Annual Report and Accounts

The Audit Committee considers the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Governance

Nomination Committee

Mike Kirk
Chairman
23 May 2019

Nomination Committee Members

Mike Kirk (Chair)
Mike Coffin
Martin Johnson
Bob Taylor
David Owens

Role of Committee

The Committee's primary function is to advise the Board in relation to the appointment of Executive and Non-Executive Directors. This includes the following:

- Taking responsibility for identifying and nominating for the approval of the Board candidates to fill Board vacancies as and when they arise
- Before any appointment is made, evaluating the balance of skills, knowledge, experience and diversity on the Board and, in the light of this evaluation, preparing a description of the role and capabilities required for a particular appointment
- Taking account of length of service of Board Members to ensure business continuity is maintained
- Ensuring the Company policies an Equal Opportunities, including diversity and inclusion are adhered to across the business

The Committee comprises of all three Independent Non-Executive Directors, the CEO and the Investor Director.

Activities during the Year

The Committee met four times during the year. The first meeting was to fill the vacancy for Engineering Director due to the planned retirement of Rod Porteous in December. As a result of that process the business was delighted to welcome Bob Taylor to the Company.

Shortly afterwards attention turned to the appointment of a new Non-Executive Director to ensure strict compliance with the Ofwat Governance Code on Board Composition. Taking into account the need to ensure an appropriate mix of skills, knowledge and diversity on the Board the Committee were pleased to recommend the appointment of Mike Coffin.

The retirement notification of Neville Smith led to the third task of the committee. Korn Ferry were invited to assist with the selection process of the new CEO which resulted in the appointment of Bob Taylor in January.

Board composition

Executive
33%

Non-Executive
50%

Investor Appointed Non-Executive
17%

Male
83%

Female
17%

Age 40-49
33%

Age 50-59
33%

Age 60-70
33%

Governance

Remuneration Committee

Martin Johnson
Chair of Remuneration Committee
23 May 2019

Remuneration Committee Members

Martin Johnson (Chair)
Mike Kirk
Mike Coffin

Role of Committee

The primary objective of the Committee is to set a policy to ensure that competitive reward packages are offered that will attract, retain and motivate talented senior executives to run the business effectively and to promote the success of the Company.

Within these arrangements, a proportion of reward is based on performance against demanding targets. These targets are set by the Committee based on key strategic priorities benefiting customers, investors and other stakeholders and consistent with a Board approved level of risk.

Activities during the Year

During the year the Committee dealt with the following matters:

- Annual executive salary review and achievement of performance targets
- Determining performance targets in respect of 2018/19 annual incentive bonus plan
- Assisting with the appointment and remuneration of the new CEO taking into account the changing structure of the Executive Directorship and the additional responsibilities of both the new CEO and the Finance Director

Remuneration Report

Remuneration Policy

The objective is to attract, retain and motivate high calibre Senior Executives through pay arrangements which are competitive and fair and reasonable for the responsibilities involved. In addition to individual performance, reference is made to pay levels in companies of similar size and within the same industry.

The remuneration packages of the Executive Directors, as reported in the accounts, includes a performance related element. The performance related element is based upon the achievement of agreed financial, customer service and personal targets for the whole of the previous year.

Service Contracts

All Executive Directors appointed to the Board are employed on service contracts of no fixed term with a notice period of one year, both by the Company and the Director. Both Executive Directors are entitled to pension provision and certain contractual benefits, details of which are summarised below. Each Executive Director also participates in bonus or incentive arrangements at the sole discretion of the Remuneration Committee which are also described later in this Report. All Executive Directors are subject to retirement by re-election at the AGM.

Mr. C. R. Taylor serves as a Director for the Institute of Water, an organisation that supports the development of professionals in the water industry.

Mrs. H. M. G. Orton serves as a Non-Executive Director for UKWIR, an organisation set up by the 20 water and sewerage undertakers in England, Wales, Scotland, Northern Ireland and the Republic of Ireland to identify and provide research requirements to meet the industry's business needs.

The Chairman and other Non-Executive Directors have service contracts but these can be terminated without compensation. All Non-Executive Directors are subject to re-election at the AGM.

Remuneration Policy Table

Element, purpose and link to strategy	Operation, performance measures, deferral	Maximum opportunity	Performance metric
Base Salary (Fixed Pay) To pay a fair salary, commensurate with the individual's role, responsibilities and experience, and having regard to the market rates for similar roles in the water/utility sector and other comparable companies.	Reviewed annually, taking account of market salary levels, Company performance, individual performance, changes in responsibility and levels of increase for the broader employee population. The remuneration committee considers the impact of any base salary increase on the total remuneration package.	There is no prescribed maximum salary or maximum rate of increase. The remuneration committee is guided by the general increase for the broader employee population but on occasions may need to recognise, for example, development in role, change in responsibility, specific retention issues, market practice or changes in regulatory requirements. Details of the outcome of the most recent salary review are provided in the annual report on remuneration.	None
Benefits (Fixed Pay) To provide cost-effective taxable benefits and to support the wellbeing of employees.	The Company currently provides a range of taxable benefits such as medical insurance; life insurance and paid holiday. Specific benefits provision may be subject to minor change from time to time, within this policy.	Taxable benefits are not subject to a specific cap, but represent only a small element of total remuneration. The costs associated with benefits provision are closely monitored and controlled.	None
Pension (Fixed Pay) To provide market competitive pension arrangements, to assist with recruitment and retention.	Employer contributions are made to appropriate pension schemes.	10% of salary into a defined contributions scheme. Under the defined benefits scheme a maximum future accrual of 1/80th of career averaged earnings for each year of service.	None
Annual bonus (Variable Pay) To reward performance by linking to achievement of key performance objectives aligned to the strategy of the Company.	Bonus awards to Executive Directors are made each year and are approved by the remuneration committee. Executive bonus awards take account of the Company's key financial and service performance indicators for the relevant financial year. Details of the performance indicators for the most recent financial year and performance against them are provided in the annual report on remuneration.	The maximum bonus potential for each Director is 20% of base salary.	The incentive scheme is split between three distinct areas as follows: 5% customer service measures 5% personal objective 10% key performance objectives
Long-term incentive bonus (Variable Pay) To incentivise Executive Directors to deliver sustained long-term performance	Long term bonus awards to Executive Director calculated on an annual basis but paid out at the end of the five year performance period, subject to the achievement of performance conditions.	10% of salary per year paid at the end of year five.	Awards at the end of the five year performance period, based on achievement of eight specified performance conditions.
Employment contracts, and loss of office To facilitate recruitment and retention, and support pay for performance, by providing fair but not excessive contract features.	Notice periods from the Company are limited to 12 months.	N/A	N/A
New Executive Director appointments To facilitate recruitment of necessary talent.	Remuneration for new appointments will be set in accordance with the policy detailed in this table.	N/A	N/A

Governance

Remuneration Committee

Statement of Consideration of Employment Conditions Elsewhere in the Company

The remuneration approach for the Executive Directors is broadly consistent with that for employees across the Company as a whole. However, the exception is that general employees do not receive an annual performance related bonus.

Annual Report on Remuneration

Directors Remuneration as a Single Figure (Audited Information)

Remuneration is analysed by Director below:

	Salary/Fees £000	Benefits £000	Bonus Scheme £000	Pension £000	**Total 2019 £000**	Total 2018 £000
Executive:						
H. M. G. Orton	113	12	17	12	**154**	158
R. C. Porteous	67	31	9	-	**107**	208
N. Smith	152	15	-	8	**175**	215
C. R. Taylor	60	3	-	5	**68**	-
Non-Executive:						
H. V. Benjamin	26	-	-	-	**26**	25
M. Coffin	6	-	-	-	**6**	-
M. Johnson	26	-	-	-	**26**	25
M. P. Kirk	40	-	-	-	**40**	39
	490	61	26	25	**602**	670

The Investor Director Mr. D. W. Owens is not remunerated by Portsmouth Water Ltd as his primary employer is Ancala Partners LLP.
Mr. R. C. Porteous retired from Portsmouth Water Ltd on 2nd November 2018 and Mr. N. Smith retired as a Director on 31 December 2018.
Mr. C. R. Taylor joined Portsmouth Water Ltd on 1st November 2018 initially in the role as Engineering Director and then Chief Executive Officer from the 4th January 2019.
Mr. M. R. Coffin joined Portsmouth Water Ltd on 2nd January 2019.

Directors' emoluments waived during the year

There were no Directors' emoluments waived during the year.

Taxable benefits

Benefits comprise company cars and medical insurance.

The table below provides a breakdown of taxable benefits provided to directors in the period.

	2019 £000	2018 £000
Car benefit	**31**	31
Medical insurance	**8**	7
Vehicle gifted	**22**	-
Total	**61**	38

Variable pay/performance measured pay for Executive Directors

Short term annual bonus scheme

The remuneration package of the Executive Directors, as reported in the accounts, includes a performance related element. The performance related element is based upon the achievement of agreed financial, customer service and personal targets and is paid in the form of a payment at the end of the year.

The Executive Directors can earn up to 20% of basic salary for the annual performance related element. The assessment of this element is based upon:

- 25% based on Customer Service performance including meeting the Outcomes agreed at the Final Determination 2014 and being a top performer in the Service Incentive Mechanism. Also includes water quality achievement, interruption to supply, leakage, complaints and abandoned calls.
- 25% Personal Objectives individually set by the Remuneration Committee.
- 50% Financial and Business Objectives such as cost efficiency, reduction in gearing, being top performing SIM company, KPI delivery and zero reportable accidents.

Performance related bonus achieved 201/19:	% of salary (out of possible 20%)	Bonus £
H. M. G. Orton	15.5%	17,476
C. R. Taylor	14.5%	9,117

Mr. C. R. Taylor will receive a bonus based on his salary to date since joining the Company in November 2018.

Relative weighting of performance measures as described above for short term variable pay:

	Customer Service Measure 1 %	Personal Objectives Measure 2 %	Financial/ Business Objectives Measure 3 %	Total %
H. M. G. Orton	25	25	50	100
C. R. Taylor	25	25	50	100

The above weightings convert into maximum percentages of salary payable as follows:

	Customer Service Measure 1 %	Personal Objectives Measure 2 %	Financial/ Business Objectives Measure 3 %	Total %
H. M. G. Orton	5	5	10	20
C. R. Taylor	5	5	10	20

Summary of directors' performance targets and maximum variable pay achievable:

	Target %	Customer Service Measure 1 Value £	Target %	Personal Objectives Measure 2 Value £	Target %	Financial/ Business Objectives Measure 3 Value £	**Maximum Variable Pay Achievable 2019 £**	Maximum Variable Pay Achievable 2018 £
H. M. G. Orton	6.5	7,329	9.5	10,711	4	4,510	**22,550**	24,200
C. R. Taylor	7.0	4,401	9.0	5,659	4	2,515	**12,575**	-

Summary of directors' performance against measures set for the period:

	Achieved %	Customer Service Measure 1 Value £	Achieved %	Personal Objectives Measure 2 Value £	Achieved %	Financial/ Business Objectives Measure 3 Value £	**Variable Pay Achieved 2019 £**	Variable Pay Achieved* 2018 £
H. M. G. Orton	5.5	6,201	6.0	6,765	4	4,510	**17,476**	13,008
C. R. Taylor	6	3,773	4.5	2,829	4	2,515	**9,117**	-

*final position awarded in respect of 2017/18 and paid in 2018/19

Governance

Remuneration Committee

Long term bonus scheme

The Directors can earn up to 10% per annum of basic salary for achieving long term objectives over the 5 years of the regulatory period. This long term bonus scheme commenced on 1 April 2015. This payment is made at the end of a five year performance period, subject to the achievement of performance conditions.

The long term objectives, paid in 2020 if achieved include the delivery of a comprehensive Open Water plan, achieving culture change targets, being the top performing company in SIM, refinancing, reducing leakage and per capita consumption, improving credit ratings and migration from the current IT mainframe system.

The maximum percentages of salary payable under the long term bonus scheme are as follows:

	Long -Term Objectives per annum %	5 Year Total %
C. R. Taylor	10	14.2
H. M. G. Orton	10	50

Summary of directors' performance targets and maximum variable pay achievable:

	Target %	Long-Term Objectives Value £	**Maximum Variable Pay Achievable 2019**	Maximum Variable Pay Achievable 2018
C. R. Taylor	10	6,288	**6,288**	-
H. M. G. Orton	10	45,100	**45,100**	31,350

Summary of directors' performance against measures set for the period:

	Achieved %	Long-Term Objectives Value £	**Maximum Variable Pay Achieved 2019**	Maximum Variable Pay Achieved 2018
C. R. Taylor	5	3,144	**3,144**	-
H. M. G. Orton	7	31,570	**31,570**	23,375

Mr. C. R. Taylor's long-term objectives are based on his earnings since his employment commenced on the 1st November 2018.

All variable pay has been awarded in accordance with the remuneration policy and criteria outlined at the commencement of the period. No discretion has been exercised over any variable pay awarded.

Pension Entitlements (Audited Information)

The Company participates in the Brockhampton Pension Scheme to provide pension benefits for its employees, including two of the former Executive Directors - Mr. N. Smith and Mr. R. C. Porteous.

Mrs. H. M. G. Orton and Mr. C. R. Taylor are both members of the defined contribution scheme. Contributions amounting to £17,027 (2018 - £11,750) were made on their behalf by the Company in the year. The Non-Executive Directors are not members of either of the pension schemes.

Benefits in kind relating to company cars are considered to be part of pensionable pay for all employees under both Schemes.

The Executive Directors who have accrued pension benefits under the Brockhampton Pension Scheme, which is a defined benefit scheme, during the year are detailed below:

	Value of increase in scheme benefit 2018/19 £000	**Directors contributions 2018/19 £000**	**Total included in single figure remuneration table 2018/19 £000**	Value of increase in scheme benefit 2017/18 £000	Directors Contributions 2017/18 £000	Total included in single figure remuneration table 2017/18 £000	**Accrued Pension 31/03/19 £000pa**	Accrued Pension 31/03/18 £000pa
R. C. Porteous[1]	**-**	**3**	**-**	56	5	51	**61**	59
N. Smith[2]	**16**	**8**	**8**	59	8	51	**100**	97

The value of the increase in accrued pension in excess of inflation, less each Directors' own contributions is included in the Directors' single figure remuneration table above.

The accumulated accrued pension is the leaving service benefit to which the Director would be entitled to if he were to leave service at the end of the year. It includes any benefits earned as an employee prior to becoming a Director, as well as those earned for qualifying services after becoming a Director.

[1]The pensionable salary used to calculate Mr. R. C. Porteous' accrued pension excludes £10,001 (2017/18 - £20,788) of non-pensionable salary.
[2]The pensionable salary used to calculate Mr. N. Smith's accrued pension excludes nil (2017/18 - nil) of non-pensionable salary.

No additional benefits will become available to directors who retire early. For further details regarding each of the pension schemes, please refer to note 25 in the financial statements.

Payments to Past Directors
No payments requiring disclosure were made to past directors during the period.

Remuneration of the Managing Director
The table below summarises the remuneration of the Managing Director for each of the last six financial years. Prior to 1 January 2019 the Managing Director did not receive a performance related element of remuneration. These figures do not include amounts accruing under defined benefit pension arrangements as the figures for historic years are not readily available.

Year ending 31 March:	2014	2015	2016	2017	2018	**2019**
Total remuneration excluding pension (£000)	157	160	162	161	164	**167**

During the year, Mr. N. Smith retired as Managing Director and Mr. C. R. Taylor (formally the Engineering Director) was appointed to the role. Accordingly, the remuneration for the period ended March 2019 reflects 9/12th of Mr. N. Smith's remuneration and 3/12ths of Mr. C. R. Taylor's.

Percentage Change in Remuneration of the Managing Director
The following table shows the percentage change in the base salary, benefits and annual bonus of the Managing Director between the current and previous financial year compared to the average for all employees of the Company.

% change in:	Managing Director	Average for all employees
Base salary[1]	1.0%	2.5%
Benefits[2]	0%	0%
Annual bonus	N/A	N/A

[1]This increase represents the annual pay award.
[2]There were no changes made to the underlying value of benefit payments provided during the year.

Statement of Implementation of Remuneration Policy in the Following Financial Year
The Remuneration Committee intends to continue to apply broadly the same key performance metrics as in the previous year and to assess performance taking account of strategic and annual expectations for the Company.

Approval
This report was approved by the Board on 23 May 2019 and will be subject to shareholder approval at the Annual General Meeting to be held on 25 July 2019.

M. P. Johnson
Chair of the Remuneration Committee

Governance

Directors' Report

The Directors have pleasure in presenting their Report and Accounts for the year ended 31 March 2019.

Principal Activity and Business Review

The principal activity of the Company and a detailed review of its operations, strategy and business model is provided in the Chairman's Statement on page 4 and the Strategic Report on pages 6 to 34.

The Company's Area of Supply is shown on page 1 of this report.

Financial Risk Management Objectives and Policies

A detailed review of the Company's financial risk management objectives and the policies employed are set out in the Strategic Report on pages 30-31 and 43.

Financial Results and Dividends

The Company's loss (2018 - loss) before taxation amounts to £0.7m (2018 - £1.1m loss). After deducting the tax charge of £0.007m (2018 - £0.04m), a loss of £0.7m has been transferred to reserves (2018 - £1.12m loss).

The Directors are recommending the payment of a second interim dividend of £1.975m in August.

Fixed Assets

Capital expenditure on tangible fixed assets was £14.8m (2018 - £7.5m). Information relating to these and other changes in fixed assets is shown in note 13 to the accounts.

The Directors are of the opinion that the current market value of the land and buildings included in tangible fixed assets is in excess of the value shown in the balance sheet. As they are held for operational purposes, no professional valuation has been obtained and the excess has not, therefore, been quantified.

Share Capital

During the year the Company issued 10 new ordinary shares of 10 pence each at a premium of £2,422,168.76 for cash.

Board of Directors

The Directors who held office at 23 May 2019 are shown on pages 40 and 41.

Mr. C. R. Taylor was appointed to the Board as an Executive Director on 1 November 2018.

Mr. M. R. Coffin was appointed to the Board as a Non-Executive Director on 2 January 2019.

Mr. R. C. Porteous retired as an Executive Director on 1 November 2018, Mr. N. Smith retired as an Executive Director on 31 December 2018 and Mrs. H. V. Benjamin retired on 31 March 2019.

Mr. M. P. Kirk, Mr. M. P. Johnson, Mr. D. W. Owens and Mrs. H. M. G. Orton, who retire by rotation, offer themselves for re-election. Mr. C. R. Taylor and Mr. M. R. Coffin offer themselves for election.

No Directors have any interest in the Group shares.

The Company maintains appropriate Directors' indemnity insurance.

Substantial Shareholder

At 31 March 2019, Portsmouth Water Holdings Limited owned the entire voting capital of the Company.

Regulatory Accounts

A set of accounts for regulatory purposes is required by the Water Services Regulation Authority. These accounts relate solely to the regulated water supply business and copies may be obtained on request from the Registered Office or via our website at www.portsmouthwater.co.uk.

Employees

Direct communication with employees is maintained through the Company in-house newsletter. In addition, the Joint Information and Consultative Committee met regularly and ensured effective communication with employee representatives.

The Directors consider health and safety to be an important issue within the Company, with the active participation of employee safety representatives taking place through the Health and Safety Committee. During the year, a number of initiatives were undertaken, which ensured that health and safety continues to maintain its high profile throughout the organisation.

The Company has, for the last thirteen years, been awarded thirteen Gold Awards in the RoSPA Occupational Health and Safety Awards and was also awarded an Industry Sector Award in 2009. In recognition of this the Company has been awarded the President's Award for the past five years.

The Company's policy regarding the employment of disabled persons is included on page 37.

Environment

The Company is aware of its obligations to both customers and the environment. In recent years, it has adopted an active approach to environmental issues and further information is set out in the Strategic Report on pages 16 to 21. The total amount of gross Greenhouse Gas Emissions that resulted from the Company's operations in the financial year is estimated to be 8,417 tCO_2e (2018 - 9,716 tCO_2e).

Licence Requirement

In accordance with its Instrument of Appointment under the Water Industry Act 1991, the Directors are of the opinion that the Company is in compliance with paragraph 3.1 of Condition 'K' of that Instrument.

Auditors

KPMG LLP were appointed as Auditors of the Group in 2017.

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's current auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the current auditors are aware of that information.

Statement of Directors' Responsibilities in Respect of the Annual Report, the Strategic Report, the Directors' Report and the Financial Statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent ;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

C Hardyman

By order of the Board

C. Hardyman ACIS
Secretary
PO Box 8
West Street
Havant
Hampshire
23 May 2019

Governance

Company Information

Registered Office

PO Box 8
West Street
Havant
Hampshire
PO9 1LG

Telephone: 023 9249 9888
Fax: 023 9245 3632
www.portsmouthwater.co.uk

Company Number: 2536455

Company Secretary: Christopher Hardyman ACIS

Ancala Fornia Holdco Ltd
Ultimate Holding Company

Registered Office

PO Box 8
West Street
Havant
Hampshire
PO9 1LG

Auditors
KPMG LLP
Gateway House
Tollgate
Chandlers Ford
SO53 3TG

Bankers
Lloyds Bank plc
25 Gresham Street
London
EC2V 7HN

Insurance Brokers
Willis Watson Towers
The Anchorage
34 Bridge Street
Reading
Berkshire
RG1 2LU

Independent Auditor's Report to the Members of Portsmouth Water Limited

Opinion

We have audited the financial statements of Portsmouth Water Limited ("the company") for the year ended 31 March 2019 which comprise the Income Statement, Statement of Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and the Statement of Cash Flows and related notes, including the accounting policies in note1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the Defined Benefit Pension Scheme and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 53, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

James Ledward
Senior Statutory Auditor

for and on behalf of
KPMG LLP, Statutory Auditor
Chartered Accountants
Gateway House
Tollgate
Chandlers Ford
SO53 3TG

Income Statement
For the year ended 31 March 2019

	notes	2019 £000	2018 £000
Turnover	3	**42,161**	40,489
Cost of sales		**(23,111)**	(22,643)
Gross profit		**19,050**	17,846
Net operating expenses	4,5	**(11,124)**	(11,384)
Operating profit before loss on disposal of fixed assets and exceptional items		**7,926**	6,462
Loss on disposal of fixed assets	6	**(494)**	(16)
Exceptional items:			
Exceptional staff costs relating to sale of business	5,31	**(2,422)**	(2,988)
Gain on disposal of non-household business		**-**	1,843
Operating profit after loss on disposal of fixed assets and exceptional items and before interest		**5,010**	5,301
Investment income	7	**957**	841
Other finance income	25	**762**	346
Interest payable and similar charges	8	**(7,444)**	(7,603)
Loss on ordinary activities before taxation	6	**(715)**	(1,115)
Taxation of (loss)/profit on ordinary activities	9	**(7)**	(41)
Loss for the financial year		**(722)**	(1,156)

The accompanying notes form an integral part of these accounts.
The income statement has been prepared on the basis that all operations are continuing operations.

Statement of Other Comprehensive Income
For the year ended 31 March 2019

	notes	2019 £000	2018 £000
Loss for the financial year		**(722)**	(1,156)
Remeasurement of net defined benefit asset	25	**(1,170)**	16,602
Movement on deferred tax relating to pension asset	21	**199**	(2,822)
Total comprehensive (loss)/income for the year		**(1,693)**	12,624

Statement of Financial Position

For the year ended 31 March 2019

	notes	**2019 £000**	**2019 £000**	2018 £000	2018 £000
Fixed assets					
Intangible fixed assets	11	**1,116**		1,674	
Investment properties	12	**325**		440	
Tangible fixed assets	13	**136,136**		126,936	
Investments	14	**55,484**		55,484	
			193,061		184,534
Current assets					
Investments	15	**2**		2	
Stock		**419**		608	
Debtors	16	**8,933**		8,164	
Cash at bank and in hand	17	**27,210**		26,744	
		36,564		35,518	
Creditors: Amounts falling due within one year	18	**(36,773)**		(31,080)	
Net current (liabilities)/assets			**(209)**		4,438
Total assets less current liabilities			**192,852**		188,972
Creditors: Amounts falling due after more than one year	19		**(106,709)**		(103,294)
Accruals and deferred income: Capital contributions	20		**(27,138)**		(25,493)
Provisions for liabilities	21		**(6,919)**		(6,764)
Net assets excluding pension asset			**52,086**		53,421
Pension asset	25		**23,782**		24,794
Net assets including pension asset			**75,868**		78,215
Capital and reserves					
Called up share capital	23		**1,078**		1,078
Share premium account	23		**6,949**		4,527
Capital redemption reserve			**3,250**		3,250
Profit and loss account			**64,591**		69,360
Shareholder' funds			**75,868**		78,215

The accompanying notes form an integral part of these accounts.

The accounts were authorised for issue and approved by the Board on 23 May 2019 and signed on its behalf by

H. M. G. Orton
Director

Company Number: 2536455

Statement of Changes in Equity

For the year ended 31 March 2019

	Called up share capital £000	Share Premium account £000	Capital redemption reserve £000	Retained earnings £000	Total £000
Balance as at 1 April 2017	1,078	1,539	3,250	57,826	63,693
Loss for the year	-	-	-	(1,156)	(1,156)
Remeasurement of net defined benefit asset	-	-	-	16,602	16,602
Movement on deferred tax relating to pension scheme	-	-	-	(2,822)	(2,822)
Effect of change to corporation tax rate on pension asset	-	-	-	-	-
Total comprehensive income for the year	-	-	-	12,624	12,624
New share capital/share premium issued	-	2,988	-	-	2,988
Dividends	-	-	-	(1,090)	(1,090)
Balance at 31 March 2018	1,078	4,527	3,250	69,360	78,215
Loss for the year	-	-	-	(722)	(722)
Remeasurement of net defined benefit asset	-	-	-	(1,170)	(1,170)
Movement on deferred tax relating to pension scheme	-	-	-	199	199
Effect of change to corporation tax rate on pension asset	-	-	-	-	-
Total comprehensive profit for the year	-	-	-	(1,693)	(1,693)
New share capital/share premium issued	-	2,422	-	-	2,422
Dividends	-	-	-	(3,076)	(3,076)
Balance at 31 March 2019	1,078	6,949	3,250	64,591	75,868

The retained earnings balance represents accumulated profits and losses, including unrealised profits on the remeasurement of investment properties, net of dividends paid and other adjustments. As at 31 March 2019 £64.418m (2018 - £69.072m) was distributable in accordance with company law and £0.173m (2018 - £0.288m) was not distributable.

The share premium reserve contains the premium arising on the issue of equity shares, net of issue costs.

The accompanying notes form an integral part of these accounts.

Statement of Cash Flows

For the year ended 31 March 2019

	notes	2019 £000	2019 £000	2018 £000	2018 £000
Cash generated from operations	24		**9,797**		23,601
UK corporation tax refund/(paid)		-		494	
			-		494
Net cash inflow from operating activities			**9,797**		24,095
Cash flows from investing activities					
Purchase of tangible assets		**(13,896)**		(7,884)	
Purchase of intangible fixed assets		**(112)**		(83)	
Capital contributions received		**1,404**		1,120	
Sale of tangible fixed assets		**-**		36	
Interest received		**957**		840	
Net cash used in investing activities			**(11,647)**		(5,971)
Cash flows from financing activities					
Receipts from borrowings		**10,000**		3,000	
Repayment of borrowings		**(3,000)**		(4,000)	
Equity dividends paid		**(3,076)**		(1,090)	
Equity payment received		**2,422**		2,988	
Interest paid		**(4,030)**		(3,922)	
Net cash generated/(used in) financing activities			**2,316**		(3,024)
Net increase in cash and cash equivalents			**466**		15,100
Cash and cash equivalents at beginning of year			**26,744**		11,644
Cash and cash equivalents at end of year	17		**27,210**		26,744

Notes to the Financial Statements

For the year ended 31 March 2019

1. Accounting policies

Portsmouth Water Limited is a private company incorporated in England and Wales under the Companies Act 2006. The Company's registered office is PO Box 8, West Street, Havant, PO9 1LG and the registered number is 2536455.

The financial statements of Portsmouth Water Limited have been prepared in compliance with UK Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102") and the Companies Act 2006.

The principal accounting policies applied in the preparation of these financial statements are set out below. The financial statements are presented in pounds sterling.

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its financial statements. Exemptions have been taken from disclosing information relating to financial instruments and key management personnel remuneration. The Company's financial statements have been consolidated into the accounts of Ancala Fornia Holdco Limited, copies of which are available from the registered office.

In view of the licence conditions under which the Company operates as a water supplier, it is required to publish information about its annual results as if it were a company covered by the listing Rules of the Financial Conduct Authority, except where it is considered inappropriate to do so. Earnings per share disclosures are not presented as the Company is a wholly owned subsidiary. Segmental reporting has not been presented as, in the opinion of the Directors, the Company undertakes a single activity.

The principal accounting policies are as follows:

1.1 Basis of preparation

These financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain assets which have been measured at fair value.

The preparation of financial statements requires the use of critical accounting estimates. They also require management to estimate judgement in the application of group accounting policies. Those areas that involve a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

1.2 Going concern

Notwithstandingnet current liabilities of £209,000 as at 31 March 2019 and a loss for the year then ended of £722,000 the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

1.3 Turnover

Turnover, which excludes value added tax, represents the income receivable for goods and services provided to external customers in the ordinary course of business. It comprises the value of water supplied and other related charges. Revenue is recognised at the fair value of the consideration received or receivable.

Turnover from the regulated water business includes amounts billed for the year, together with an estimation of amounts unbilled at the year-end, for measured water customers.

Unmeasured income bills are based on the rateable value of properties. Unmeasured customers are billed annually in advance on 1 June and amounts invoiced in advance are not recognised in turnover until earned. Measured income arises from customers who have meters fitted at their premises and amounts billed, therefore, are based on actual water consumption. The estimation of the amounts unbilled at the year end uses a defined methodology based upon a measure of unbilled water consumed, which is calculated from historical customer data.

Turnover includes the amortisation of capital contributions received in connection with the enhancement of mains infrastructure. This is set out further below.

1.4 Investment properties

The Directors consider certain holdings of freehold land and buildings to be investment properties. In accordance with FRS 102, they are included in the statement of financial position at their open market value. The surplus or deficit on revaluation is recognised in the profit or loss for the year, along with the related deferred tax charge or credit. Depreciation is not provided in respect of these holdings. It is the Company's policy to obtain an external third party valuation of 1/5th of the property portfolio on a rolling basis with the remainder being valued based on a management review and using relevant indices.

1.5 Tangible fixed assets
The Company holds both above ground assets and a below ground infrastructure network of mains.

Mains infrastructure (below ground assets)
Infrastructure assets comprise a network of mains, communications pipes and boundary boxes. The Company undertakes expenditure on this network in order to maintain it in an ongoing serviceable condition. Where this expenditure meets certain criteria (set out below) it is capitalised. All other expenditure is expensed as incurred.

Expenditure on infrastructure assets relating to increases in capacity or other economic enhancement is capitalised. Other economic enhancements relate primarily to the installation of new boundary boxes, betterment of the network such as upsizing and schemes where a significant proportion of the network in that area has been replaced.

Such items are treated as additions and included in property, plant and equipment at cost. The cost of infrastructure assets is their purchase cost, together with incidental expenses of acquisition and directly attributable labour costs which are incremental to the Company.

The assets are depreciated over their useful lives of between 40 and 100 years on a straight line basis. There are no expected residual values.

Other fixed assets (above ground assets)
Other assets comprise buildings and reservoirs, pumping plant, vehicles, mobile plant and office equipment. The cost of other assets is the purchase cost, together with incidental expenses of acquisition and directly attributable labour costs which are incremental to the Company.

Depreciation is provided on all fixed assets, with the exception of freehold land. It is calculated to write off the cost of assets over their estimated useful economic lives using the straight line method. There are no expected residual values. Those lives are estimated as follows:

Building and reservoirs 100 years
Pumping and other plant (including solar panels) 15-25 years
Office equipment 5-10 years
Vehicles and mobile Plant 5-7 years
Computer and network hardware 5 years
Meters 7-12 years

Assets in the course of construction
Assets in the course of construction are included in tangible fixed assets at cost but are not depreciated until they come into use.

1.6 Intangible fixed assets other than goodwill
Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised so as to write off the cost or valuation of assets over their useful lives on the following basis:

Software (acquired before 31 March 2016) 5 years
Software (acquired after 31 March 2016) 3 years
Consultancy and internal staff costs (acquired before 31 March 2016) 5 years
Consultancy and internal staff costs (acquired after 31 March 2016) 3 years

Intangible assets in the course of construction
Intangible assets in the course of construction are included in intangible fixed assets at cost but are not amortised until they come into use. The purchase date may therefore place them in one category but the commencement of their economic life places them in another. Where this occurs the post March 2016 policy shall apply.

1.7 Capital contributions
In certain circumstances third parties make non-returnable contributions towards the cost of specific infrastructure assets. In accordance with the Companies Act 2006 and FRS 102 requirements to include fixed assets at cost, such contributions are treated as deferred income and released to the income statement over the useful economic life of the corresponding assets.

Infrastructure charges
Infrastructure charges are made in respect of new connections in accordance with Condition 'C' of the Instrument of Appointment. These charges are treated as mains contributions as explained above.

1.8 Financial Instruments
Financial assets and financial liabilities are recognised when the Company becomes party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Notes to the Financial Statements

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for financial assets classified as fair value through profit and loss, which are initially measured at fair value (normally transaction price excluding transaction cost).

If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments which meet the applicable conditions are recognised as basic financial instruments and subsequently measured at amortised cost using the effective interest rate method. Instruments that are payable or receivable within one year of initial recognition and meet the applicable conditions are measured at the undiscounted amount of consideration expected to be paid or received, net of impairment.

Financial assets are derecognised when and only when the contractual rights to the cash flows from the financial assets expire or are settled, or the company transfers substantially all of the risks and rewards of ownership of the financial asset. Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Investments

Investments consist of non-current and current investments. Non-current investments are in respect of loans to group companies. They are measured at amortised cost using the effective interest rate method. Current asset investments are held at cost less impairment since fair value cannot be measured reliably.

1.9 Impairment

Assets other than those measured at fair value, are assessed for indicators of impairment at each statement of financial position date. If there is objective evidence of impairment, an impairment loss is recognised in the income statement.

Non-financial assets

Assets are impaired when evidence indicates that the assets recoverable amount is less than its carrying amount. Recoverable amount is the lower of fair value less cost to sell and its value in use.

Financial assets

For financial assets carried at amortised cost, the amount of impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial assets original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset’s carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

1.10 Stocks

Stocks of raw materials are valued on a weighted average cost basis at the lower of cost or net realisable value. In accordance with established practice in the water industry, no value is placed upon the water in reservoirs, mains or in the course of treatment.

1.11 Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or the right to pay less tax in the future, have occurred by the statement of financial position date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the statement of financial position date. Deferred tax is recognised when assets are revalued and the gain or loss expected to arise on sale has been recognised in the financial statements.

1.12 Leases

All leases are regarded as operating leases. Operating lease payments are charged to the income statement on a straight line basis over the lease term. Lease income is recognised on a straight line basis over the lease term.

1.13 Pension costs and other post-retirement benefits

Portsmouth Water Limited, a subsidiary undertaking, is the principal employer and its parent company, Brockhampton Holdings Limited, is the participating employer in the Brockhampton Pension Scheme. This scheme is a defined benefit scheme. The assets of the scheme are held in a separate trustee administered fund. As principal employer Portsmouth Water includes the pension asset in its financial statements.

The current service costs are charged to the income statement and included as staff employment costs. The interest cost and interest income are shown as a net amount within other finance income. Re-measurements of the net defined benefit asset are recognised immediately in other comprehensive income.

Pension scheme liabilities are measured on an actuarial basis using a projected unit method and are discounted to their present value using the AA corporate bond rate. Pension scheme assets are valued at fair value at the statement of financial position date. The pension scheme surplus is recognised in full on the statement of financial position.

The deferred tax relating to a defined benefit asset is offset against the defined benefit asset and not included with other deferred tax liabilities. Detailed information regarding the surplus and actuarial position of the scheme is given in note 25 to the accounts.

The Company also operates a defined contribution pension scheme. The charge to the income statement amounts to the contributions payable to the scheme in respect of the accounting period.

1.14 Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefits will be required to settle the obligation. The effect of the time value of money is not material and therefore the provisions are not discounted.

2. Critical accounting judgements and key sources of estimation uncertainty

Estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The accounting estimates made will, by definition, seldom equal the actual results that out-turn over time.

Those estimates and assumptions that have a risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year are set out below;

Estimation of unbilled measured income (measured income accrual)

As set out in note 1.3 above, the estimation of the amounts unbilled at the year-end uses a defined methodology based upon valuing an estimate of unbilled water consumed. This is calculated using known factors such as the date of the customers' last bill and the customer tariff rate together with an estimate of the water consumed. The estimated water consumed is calculated from various factors including; the number of days elapsed since the last meter read, historical consumption levels for each premises (which is calculated from historical customer billing data) or estimated average consumption per property type (where a historic actual is not available). The assumptions reflect historic experience and current data. Management review both the data sets used, the outcome of the calculation and quarterly trends in determining the year end position.

Sensitivity MIA

If the volumetric element of the Measured Income Accrual were to vary by 10% this would impact the accrual by £169k.

Capitalisation and Useful Economic Lives of Mains Infrastructure

Judgement is used in determining the extent to which work on existing mains infrastructure represents "economic enhancement". To this extent such activity is capitalised. This is assessed by reference to the extent that such assets are physically enhanced. Appropriately qualified and experienced company engineers are consulted as part of this process.

By the nature of below ground assets it is more difficult to directly establish remaining estimated useful economic lives ("UEL"). In setting the UELs the directors have consideration of a number of factors including the age and construction material of the pipes, historic experience in relation to both replacement and burst rates and industry averages. In particular the range applied of 40 to 100 years is consistent with wider industry practice which typically uses a range of between 50 and 200 years.

Life of Mains

If the useful economic life of mains were to be extended by a further 10 years, this would generate a £288k saving on depreciation within the year.

If the useful economic life of mains were to be reduced by 10 years, the impact on the 2018/19 depreciation would have been an additional charge of £554k.

Defined Benefit Pension Scheme

The Company has obligations to pay pension benefits to certain employees and former employees. The cost of these benefits and the present value of the related obligation depend upon a number of factors including; life expectancy, salary increase, asset valuations and the discount rate based on corporate bonds.

Management estimate these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historic experience and current trends and are set in consultation with appropriately qualified and experienced professional advisors. In addition, management review the sensitivity analysis provided by the actuaries and use external data to benchmark the range of assumptions used. Management also consider the relevant factors in determining the recoverability of any surplus arising.

Sensitivities in respect of the assumptions used during the year are discolsed in note 25.

Bad Debt Provision

The Company makes an estimate of the recoverable value of trade receivables. When assessing impairment of trade receivables, management considers factors including the aging profile of the receivables, stage of credit control and historical experience. The bad debt provision remains largely consistent year on year however a rise in 2018 was due to a specific provision for non-household debt (2019 - £4.6m, 2018 - £4.6m, 2017 - £3.9m, 2016 - £3.5m, 2015 - £3.4m). The provisioning methodology was refined in 15/16 and continues to be consistently applied.

Notes to the Financial Statements

The Bad Debt Provision currently assumes a 20% recovery rate for debts between one and four years old. If this was increased to 25% or reduced to 15% this would decrease/increase the provision by £128k.

Tangible fixed assets in the course of construction

As a result of the programme to begin development of the Havant Thicket Winter Storage Reservoir the Company has currently incurred £2.4m of expenditure which has been capitalised as a tangible fixed asset (work in progress). These costs will ultimately be recovered through a third party contractual arrangement. Currently this commercial arrangement has not yet been signed and therefore there is judgement as to whether the economic value of the asset can be recovered through future revenue flows. We have concluded that these amounts will remain recoverable due to the following factors;

- Commercial discussions, with regard to agreeing a full commercial heads of terms, are progressing.
- The regulatory business plan submitted by the counter party indicates the intention to enter the arrangement.
- The plan was included in the Ofwat IAP feedback for both companies.

3. Turnover

	2019 £000	2018 £000
Unmeasured household supplies	**21,200**	21,111
Measured household supplies	**9,678**	8,861
Non-household supplies	**8,757**	8,671
Bulk supply	**321**	92
Amortisation of developer contributions	**645**	638
Chargeable work	**1,386**	775
Deferred meter reading revenue	**174**	341
	42,161	40,489

Turnover is wholly attributable to water supply and related activities in the United Kingdom. Included within turnover is amortised meter reading revenue related to the disposal of the non-household retail business.

4. Net operating expenses

	2019 £000	2018 £000
Administrative expenses	**11,557**	11,783
Other operating income	**(433)**	(399)
	11,124	11,384

5. Directors and employees

	2019 £000	2018 £000
Employment costs:		
Wages and salaries	**7,657**	9,259
Social security costs	**833**	997
Defined benefit pension costs (note 25)	**1,993**	2,095
Defined contribution pension costs (note 25)	**240**	206
	10,723	12,557
Costs transferred to capital schemes	**(602)**	(671)
Ordinary net employment costs charged to the income statement	**10,121**	11,886
Exceptional National Insurance costs	**2,337**	2,884
Total employment costs	**12,458**	14,770

The total incremental amount of social security costs payable in relation to the transaction, whereby the shares in South Downs Capital Limited (of which Portsmouth Water Limited is the primary trading company) were sold to Ancala Partners LLP, totalled £2,337,000 (2018 - £2,884,000), a further £85,000 (2018 - £104,000) related to additional apprenticeships levy arising. This is explained further in note 31.

Average numbers employed during year:	2019 Number	2018 Number
Operations	**153**	153
Administration	**106**	108
	259	261

	Highest Paid Director 2019 £000	Highest Paid Director 2018 £000	Total 2019 £000	Total 2018 £000
Total remuneration	**167**	164	**593**	556
Pension scheme benefit	**8**	51	**8**	114
	175	215	**601**	670

2 Directors (2018 - 1) are accruing benefits under a defined contribution pension scheme. The number of Directors for whom retirement benefits are accruing under defined benefit pension schemes amounted to nil (2018 - 2).

No payments were made in respect of compensation for loss of office.

Further details relating to Directors' remuneration are set out in the Report on Remuneration on pages 46 to 51. The information set out in that Report which is subject to audit forms part of these financial statements.

Notes to the Financial Statements

6. Loss on ordinary activities before taxation

		2019 £000	2018 £000
Profit on ordinary activities is stated after charging:			
Depreciation	- infrastructure assets	**1,114**	1,119
	- non infrastructure assets	**4,085**	4,644
Amortisation of intangible assets		**667**	646
Loss on disposal of fixed assets		**494**	16
Rates		**2,337**	2,267
Water abstraction charges		**1,319**	1,322
Hire of plant and machinery		**3**	6
Operating lease charges		**-**	33
Auditors' remuneration:			
Fees payable to the Company's current auditor for the audit of the Company's annual accounts		**30**	30
Fees payable to the Company's current auditor for other services:			
Audit related assurance services - Annual Performance Review		**25**	10
Taxation compliance services		**16**	14
R&D tax fees		**13**	-
Other non-audit services (including advice for refinancing)		**32**	5
Fees in respect of Portsmouth Water Holdings Limited - Audit and Tax		**8**	5
Fees in respect of the Brockhampton Pension Scheme: Audit*		**8**	6
Fees relating to previous audit		**8**	18

*Not paid by the Company

7. Investment income

	2019 £000	2018 £000
On loan from group company	**953**	832
Interest on short term deposit	**4**	9
	957	841

8. Interest payable and similar charges

	2019 £000	2018 £000
£66.5m loan:		
Interest	**3,867**	3,733
Indexation	**3,357**	3,624
Amortisation of fees	**57**	57
Administration fees	**131**	92
Other bank loans and overdraft	**10**	84
Debenture stock	**10**	10
Other interest payable	**12**	3
	7,444	7,603

For information, the indexation is based on RPI. (July 2018 - 281.7 and July 2017 - 272.9).

9. Taxation

	2019 £000	2018 £000
Current tax		
United Kingdom corporation tax at 19% (2018 - 19%)	**-**	69
Adjustment in respect of prior periods	**(140)**	-
	(140)	69
Deferred tax		
Origination and reversal of timing differences	**302**	(89)
Adjustment in respect of prior periods	**(155)**	61
	147	(28)
Tax on profit on ordinary activities	**7**	41
Factors affecting the tax charge for the year		
Loss on ordinary activities before tax	**(715)**	(1,115)
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	**(136)**	(212)
Effect of:		
Expenses not deductible for tax purposes	**107**	6
Depreciation on assets not qualifying for capital allowances	**366**	176
Effect of change in tax rate	**(35)**	-
Other tax adjustments	**-**	10
Prior year adjustment - current tax	**(140)**	-
Prior year adjustment - deferred tax	**(155)**	61
Total tax charge for year	**7**	41

No deferred tax balances are expected to reverse during the year to March 2019 (2018 - £nil).

The Finance Act 2016, which provided for reductions in the main rate of UK corporation tax from 20% to 19% effective from 1 April 2017 and to 17% effective from 1 April 2020, was substantively enacted on 19 September 2016.

10. Dividends

	2019 £000	2018 £000
Equity: Ordinary/“A” Ordinary		
Interim paid	**3,076**	544
Final paid	**-**	546
	3,076	1,090

The directors are proposing the payment of a final dividend of £1.975m for the year ended 31 March 2019. This dividend has not been accounted for within the current year financial statements, as it has yet to be approved.

Notes to the Financial Statements

11. Intangible fixed assets

	Software, consultancy and internal staff costs £000
Cost	
At 1 April 2018	2,923
Additions	112
Disposals	(5)
At 31 March 2019	3,030
Amortisation	
At 1 April 2018	1,249
Charge for year	667
Disposals	(2)
At 31 March 2019	1,914
Net book value	
At 31 March 2019	1,116
At 31 March 2018	1,674

Intangibles in the course of completion as at the 31 March 2019

Included in the above are assets in the course of construction as follows:

At 1 April 2018	-
Additions in to WIP	112
At 31 March 2019	112

This work in progress cost relates to the development new software relating to the Drinking Water Safety Plan.

12. Investment properties

	Investment properties £000
Valuation	
At 31 March 2018	440
Revaluation	(115)
At 31 March 2019	325

The historic cost of the investment properties at 31 March 2019 was £0.195m (2018 - £0.195m)

During the year the investment property held was revalued resulting in a reduction of £0.115m.

There are no restrictions on the realisability of investment property. There are no contractual obligations to purchase, construct or develop investment property or to make any repairs or enhancements.

13. Tangible fixed assets

	Freehold land, buildings, & reservoirs £000	Mains £000	Pumping £000	Vehicles, mobile plant & office £000	Total £000
Cost					
At 1 April 2018	55,300	60,639	52,001	20,358	188,298
Additions	3,264	3,718	4,220	3,571	14,773
Impairment	(253)	-	-	-	(253)
Disposals	-	(184)	-	(462)	(646)
At 31 March 2019	58,311	64,173	56,221	23,467	202,172
Depreciation					
At 1 April 2018	13,532	4,861	28,254	14,715	61,362
Charge for year	529	1,114	1,901	1,655	5,199
Disposals during year	-	(80)	-	(445)	(525)
At 31 March 2019	14,061	5,895	30,155	15,925	66,036
Net book value					
At 31 March 2019	44,250	58,278	26,066	7,542	136,136
At 31 March 2018	41,768	55,778	23,747	5,643	126,936

Assets in the course of construction

Included in the above are assets in the course of construction as follows:

	Freehold land, buildings, & reservoirs £000	Mains £000	Pumping Plant £000	Vehicles, mobile plant & office equipment £000	Total £000
Cost					
At 1 April 2018	803	2,257	(184)	55	2,931
Additions in to WIP during the year	3,339	4,225	4,205	2,646	14,415
Transferred into completed fixed assets	(260)	(3,541)	(4,843)	(2,670)	(11,314)
At 31 March 2019	3,882	2,941	(822)	31	6,032
Depreciation					
At 1 April 2018	-	-	-	-	-
Transferred to amortisation within intangible fixed assets	-	-	-	-	-
At 31 March 2019	-	-	-	-	-
Net book value					
At 31 March 2019	3,882	2,941	(822)	31	6,032
At 31 March 2018	803	2,257	(184)	55	2,931

14. Fixed asset investments

	Loans to Group undertakings £000
As at 31 March 2018 and 31 March 2019	55,484

Non-current asset investments represent a loan to the parent entity South Downs Limited. These loans are repayable other than by instalments and are held at amortised cost. Interest is charged 6 monthly at a rate of LIBOR +1%. The Company has confirmed that it does not intend to request payment of this loan within 12 months from the date of approval of these financial statements.

15. Current asset investments

	Unlisted Investments £000
As at 1 April 2018 and 31 March 2019	2

Notes to the Financial Statements

16. Debtors

	2019 £000	2018 £000
Trade debtors	**3,070**	3,510
Amount owed by Group companies	**1,418**	774
Prepayments	**559**	468
Accrued income	**3,155**	2,875
Other debtors	**731**	537
	8,933	8,164

All of the above amounts fall due within one year. Included within other debtors is corporation tax recoverable of £0.271m (2018 - £0.200m).

As at 31 March 2019, trade debtors had a carrying value of £7.706m (2018 - £8.090m) before provision for bad debt. Trade debtors in arrears are provided for on a sliding scale depending on age of debt. The amount of the provision was £4.636m as at 31 March 2019 (2018 - £4.580m).

The ageing of these debtors was as follows:	2019 £000	2018 £000
Up to 12 Months	**3,690**	4,304
Over 12 Months	**4,016**	3,786
	7,706	8,090

The debtors provided for are mainly in respect of water charges for household customers where experience in the water industry has shown over time that it is likely that there will be difficulties in recovering the water charges for the periods concerned.

	2019 £000	2018 £000
At 1 April 2018	**4,580**	3,883
Provision for bad debt required in the year	**544**	1,111
Debt written off in the year as uncollectable	**(488)**	(414)
At 31 March 2019	**4,636**	4,580

The other classes within debtors do not contain balances that may be irrecoverable. The maximum exposure to credit risk at the reporting date is the fair value of each class of debtor mentioned above. The Company does not hold any collateral as security for routine trading debt, however, according to the Open Water Terms of Business collateral is now held in the form of cash and guarantees to cover any non-household risk.

17. Cash at bank and in hand

Of the total amount shown of £27.210m (2018 - £26.744m), £1.968m (2018 - £1.909m) is held specifically for the payment of the next half yearly loan interest charges.

£9.020m (2018 - £11.037m) of the increase in cash is due to proceeds of sale and share options being transferred from Ancala. This is to settle future incremental employment related social security liabilities bought about by the transaction (note 31).

	2019 £000	2018 £000
Cash at bank and in hand	**27,210**	26,744

18. Creditors: amounts falling due within one year

	2019 £000	2018 £000
3% Perpetual debenture stock	**60**	60
3½% Perpetual debenture stock	**185**	185
4% Perpetual debenture stock	**39**	39
Payments received on account	**1,845**	2,820
Trade creditors	**5,474**	3,347
Amounts owed to group companies	**1,531**	1,619
Social security and other taxation	**9,281**	11,446
Other creditors	**425**	702
Balance outstanding on revolving credit facility	**10,000**	3,000
Accruals	**818**	837
Water rates paid by customers in advance	**7,115**	7,025
	36,773	31,080

19. Creditors: amounts falling due after more than one year

	2019 £000	2018 £000
In five years or more:		
Bank loan	**107,476**	104,118
Less: deferred arrangement costs	**(767)**	(824)
	106,709	103,294

The thirty year £66.5m index-linked loan was issued on 26 June 2002, is repayable on 30 September 2032, and is secured upon the assets of the Company. The capital value of the loan is adjusted by the change in the Retail Prices Index from year to year. The fees associated with the loan issue of £1.722m are amortised over the life of the loan. The balance shown above is net of deferred arrangement costs of £0.767m (2018 - £0.824m).

The loan interest is calculated by adjusting the value of the loan by the Retail Prices Index and then charging interest on this amount at 3.635% per annum.

20. Deferred income - capital contributions

	2019 £000	2018 £000
Capital contributions	**27,783**	26,131
Release to turnover	**(645)**	(638)
	27,138	25,493

Capital contributions in the year included an amount of £1.04m from Southern Water, classified as third party, contributions.

21. Provisions for liabilities

	2019 £000	2018 £000
Deferred taxation:		
At 1 April 2018	**6,764**	6,703
Charged during the year in income statement	**155**	61
At 31 March 2019	**6,919**	6,764

The amount provided for deferred taxation represents timing differences caused by the excess of tax allowances over depreciation.

	2019 £000	2018 £000
Total deferred taxation including deferred tax on pension asset:		
Accelerated capital allowances	**8,088**	7,697
Other timing differences	**(1,169)**	(933)
	6,919	6,764
Pension asset (note 25)	**4,871**	5,078
Total provision for deferred tax	**11,790**	11,842

	2019 £000	2018 £000
At 1 April 2018	**11,842**	9,047
Deferred tax (credited)/charged in income statement (note 9)	**147**	(28)
Deferred tax charged/(credited) to the statement of comprehensive income	**(199)**	2,822
At 31 March 2019	**11,790**	11,842

Notes to the Financial Statements

22. Financial instruments

The Company has financial instruments in the form of inter-company balances and third party loans. The carrying values of Company's financial assets and liabilities are summarised by category below:

	2019 £000	2018 £000
Financial assets		
Fixed asset investment (note 14)	**55,484**	55,484
Current asset investment (note 15)	**2**	2
Cash at bank and in hand (note 17)	**27,210**	26,744
	82,696	82,230

	2019 £000	2018 £000
Financial liabilities		
Bank loans and overdrafts	**106,709**	103,294
Revolving credit facility	**10,000**	3,000
Debenture stock	**284**	284
	116,993	106,578

Sterling	**Fixed Rate 2019 £000**	Fixed Rate 2018 £000	**Floating Rate 2019 £000**	Floating Rate 2018 £000	**Total 2019 £000**	Total 2018 £000
Liabilities						
Bank loans and overdraft	**106,709**	103,294	**10,000**	3,000	**116,709**	106,294
Debenture stock	**284**	284	**-**	-	**284**	284
	106,993	103,578	**10,000**	3,000	**116,993**	106,578

Fixed Rate	**Weighted average interest rate % 2019**	Weighted average interest rate % 2018	**Weighted average period for which rate is fixed Years 2019**	Weighted average period for which rate is fixed Years 2018
Sterling	**3.6**	3.6	**13**	14

Interest on the floating rate financial liability is based on London Interbank rates.

The maturity profile of the Company's financial liabilities at 31 March 2019 is detailed below:

	2019 £000	2018 £000
In one year or less	**10,284**	3,284
In more than five years	**106,709**	103,294
	116,993	106,578

The Company had undrawn borrowing facilities at 31 March 2019, in respect of which all conditions precedent had been met, as follows:

	2019 £000	2018 £000
Expiring within one year	**500**	2,000
Expiring between three and four years	**5,000**	7,000
	5,500	9,000

The carrying amounts of the financial assets and liabilities shown above approximate their fair value.

During the year the Company reduced the overdraft from £2m to £0.5m based on projected working capital requirements. The revolving credit facility was increased from £10m to £15m reflecting the profile of projected capital spend.

23. Called up share capital

	2019 £000	2018 £000
Authorised:		
Equity:		
6,000,000 Ordinary Shares of 10p each	**600**	600
10,500,000 'A' Ordinary Shares of 10p each	**1,050**	1,050
	1,650	1,650
Non-equity:		
3,250,000 Redeemable Preference Shares of £1 each	**3,250**	3,250
Total	**4,900**	4,900
Allotted, called up and fully paid:		
Equity:		
4,265,187 Ordinary Shares of 10p each (2018 - 4,265,177)	**427**	427
6,509,162 'A' Ordinary Shares of 10p each	**651**	651
	1,078	1,078

The ordinary and 'A' ordinary shareholders are entitled to receive dividends pari passu according to the amount paid up or credited as paid up on their share. The Ordinary Shares are the only class of share to carry voting rights.

In a distribution on the winding up of the Company, the Ordinary and 'A' shareholders are entitled to share the balance of any surplus assets pari passu according to the amount paid up or credited as paid up on their shares.

On 28 March 2019 ten new Ordinary Shares at 10p each were issued at a premium of £242,216.88 per share which was fully paid up in cash for £2,422,169.76. This resulted in an increase in share capital of £1 and created a share premium of £2,422,168.76.

24. Cash generated from operations

	2019 £000	2018 £000
Loss on ordinary activities before taxation	**(715)**	(1,115)
Adjustments for:		
Finance costs recognised in income statement	**7,444**	7,603
Notional pension costs	**811**	866
Investment income recognised in income statement	**(957)**	(841)
Other finance income	**(762)**	(346)
Loss on disposal of asset	**494**	16
Depreciation and amortisation of tangible and intangible fixed assets	**5,866**	6,409
Amortisation of capital contributions	**(646)**	(638)
Amortisation of deferred meter reading revenue	**(174)**	(341)
Profit on disposal of non-household business	**-**	(1,843)
Movements in working capital:		
Decrease/(increase) in stocks	**189**	(134)
(Increase)/decrease in debtors	**(698)**	2,161
(Decrease)/increase in creditors	**(1,055)**	11,804
Cash generated from operations	**9,797**	23,601

Notes to the Financial Statements

25. Pensions

Portsmouth Water Limited, a subsidiary undertaking, is the principal employer and its parent company, Brockhampton Holdings Limited, is the participating employer in the Brockhampton Pension Scheme. This scheme provides defined benefits based primarily on pensionable earnings. The assets of the scheme are held in a separate trustee administered fund.

The formal actuarial valuation as at 31 March 2018 was updated to 31 March 2019 accounting date by an independent qualified actuary in accordance with FRS 102. As required by FRS 102, the value of the defined benefit liabilities has been measured using the projected unit method.

The estimated contributions expected to be paid to the Scheme by Portsmouth Water Limited for the year commencing 1 April 2019 is £1.1m (2019 actual - £1.2m). Of this amount, £0.9m is contributed directly by that Company and £0.2m is contributed by employees by salary sacrifice under the SMART arrangement.

The key FRS 102 assumptions used for the scheme were as follows:

	2019 % per annum	2018 % per annum	2017 % per annum
RPI inflation	**3.3**	3.2	3.3
CPI inflation	**2.4**	2.3	2.4
Discount Rate	**2.3**	2.5	2.4
Pension increases	**2.4**	2.3	2.4
Salary growth	**4.4**	4.3	4.4

Life expectancy of a male aged 65 at the accounting date is 21.9 years and for a female is 24.2 years.

Allowances for future improvements in the life expectancy mean that life expectancy of a male aged 65 at the accounting date plus 20 years is 23.5 years and for a female is 25.9 years.

As an indication of the sensitivity of the results to changes in the key assumptions:

- A decrease in the discount rate of 0.1% per annum would increase the defined benefit obligation by around £2.4m.
- A 5% fall in performance asset values would reduce the assets by around £5.7m.
- A one year increase in life expectancies would increase the defined benefit obligation by around £4.8m.

The fair value of assets in the scheme, a breakdown of the assets into the main asset classes, the present value of the FRS 102 defined benefit obligation and the surplus of assets over the FRS 102 defined benefit obligation (which equals the gross pension asset) are set out below:

	%	**2019 Fair Value £000**	%	2018 Fair Value £000	%	2017 Fair Value £000
Equities	**34**	**56,452**	32	52,727	35	56,931
Absolute Return Fund	**24**	**40,922**	25	41,111	24	38,439
Bonds	**-**	**-**	-	-	-	-
LDI	**22**	**37,610**	23	38,205	22	36,552
Property	**10**	**17,312**	11	17,525	9	14,653
Cash	**10**	**15,851**	9	15,480	10	16,733
	100	**168,147**	100	165,048	100	163,308

	2019 £000	2018 £000
Total fair value of scheme assets	**168,147**	165,048
FRS 102 value of scheme defined benefit obligation	**(133,273)**	(135,176)
Impact of asset ceiling	**(6,221)**	-
Pension asset	**28,653**	29,872
Related deferred tax liability	**(4,871)**	(5,078)
Net pension asset	**23,782**	24,794

Under FRS 102, the scheme is represented on the statement of financial position at 31 March 2019 by an asset of £28.653m (2018 - £29.872m), which amounts to £23.782m net of deferred tax (2018 - £24.794m).

Portsmouth Water Limited paid contributions at a rate of 20.6% of earnings. Members pay contributions at a rate of 5% of earnings via salary sacrifice.

Portsmouth Water Limited also operates a defined contribution pension scheme. The contributions payable by Portsmouth Water Limited for the year in respect of the defined contribution scheme amounted to £240,016 (2018 - £205,772).

Movement in the net balance sheet position

The FRS 102 value of scheme assets moved over the period as follows:	**2019 £000**	2018 £000
Opening asset	**29,872**	13,790
Expense charged to profit and loss	**(1,231)**	(1,749)
(Loss)/gain recognised outside of profit and loss	**(1,170)**	16,602
Employer contributions	**1,182**	1,229
Closing asset	**28,653**	29,872

Movement in present value of defined benefit obligation

The FRS 102 value of scheme defined benefit obligation moved over the period as follows:	**2019 £000**	2018 £000
Opening scheme liabilities	**135,176**	149,518
Employer's part of current service cost	**1,993**	2,095
Interest on scheme liabilities	**3,312**	3,546
Benefits paid	**(5,452)**	(3,537)
Actuarial gain	**(1,756)**	(16,446)
Closing scheme defined benefit obligation	**133,273**	135,176

Movement in fair value of scheme assets

The FRS 102 value of scheme assets moved over the period as follows:	**2019 £000**	2018 £000
Opening fair value of scheme assets	**165,048**	163,308
Interest on scheme assets	**4,074**	3,892
Contributions by Portsmouth Water Limited, including employee contributions under the SMART arrangement	**1,182**	1,229
Benefits paid	**(5,452)**	(3,537)
Actuarial gain	**3,295**	156
Closing fair value of scheme assets	**168,147**	165,048

Expense recognised in income statement

The following amounts have been included within operating profit:	**2019 £000**	2018 £000
Current service cost (employer's part only)	**(1,993)**	(2,095)
Total operating charge	**(1,993)**	(2,095)
The following amounts have been included as other finance income under FRS 102:		
Interest on pension scheme assets	**4,074**	3,892
Interest on pension scheme defined benefit obligation	**(3,312)**	(3,546)
Net return	**762**	346
Total expense recognised in the income statement	**(1,231)**	(1,749)

Accounts recognised outside income statement

The following amounts have been recognised within the statement of changes in equity:	**2019 £000**	2018 £000
Actual return less interest	**(3,295)**	(156)
Experience gains arising on scheme defined benefit obligation	**(3,083)**	(1,226)
Loss/(gain) due to changes in assumptions	**1,327**	(15,220)
Change in asset limit other than interest	**6,221**	-
Remeasurement loss/(gain) of net defined benefit asset	**1,170**	(16,602)

The actual return on plan assets was £7.369m in the year to 31 March 2019 (2018 - £4.048m).

Notes to the Financial Statements

26. Lease commitments
At the reporting date the Company had no commitments for non-cancellable operating leases beyond one year.

27. Ultimate controlling party
On 16 March 2018 the entire share capital of the Company's ultimate parent undertaking, South Down's Capital Ltd, was acquired by funds managed by Ancala Partners LLP ("Ancala"). The group structure is set out on page 39.

The ultimate controlling party is Ancala Fornia Holdco Ltd. For the period ended 31 March 2019 Ancala Fornia Holdco Ltd is the parent of both the smallest and largest group of which the Company is a member. Consolidated accounts can be obtained on request from the Registered Office. For the period ended 31 March 2018 South Downs Capital Ltd was the smallest group of which the company was a member.

28. Capital commitments

	2019	2018
	£000	£000
Relating to fixed assets	**3,348**	2,223
	3,348	2,223

The increase in capital commitments is as a result of future capex spend, primarily the Havant Thicket reservoir project.

29. Related Party Transactions
The Company has taken advantage of the exemption available in FRS 102 "Related Party Disclosures" whereby it has not disclosed transactions with any wholly owned subsidiary undertaking of the Group. Related undertakings are set out in the Group structure on page 39 and have the same Registered Office as stated on page 54.

30. Post Balance Sheet Event
No events have occured post 31 March 2019.

31. Disposal of the South Downs Capital Group
As noted in the Strategic Report and Corporate Governance sections of the Annual Report and Accounts, on 16 March 2018 the South Downs Capital Group (of which Portsmouth Water Limited is the primary trading company) was sold to funds managed by Ancala Partners LLP ("Ancala"), an infrastructure investment fund. The Group was previously owned 73% by an Employee Benefit Trust (EBT) and 27% by external shareholders (comprising former senior management and one current director).

As a result of this transaction, share options relating to the 73% EBT shareholding were issued to the trust beneficiaries at market value (the majority of current employees and certain former employees). These options were exercised immediately and the shares disposed of as part of the transaction.

External tax advice and HMRC clearance indicated that the sales proceeds, due to employees, were deemed to have arisen "by virtue of their employment" by the Group. As such these distributions were subject to PAYE and NI contributions. In order to tax effect these sale proceeds due to employees the gross consideration received was paid to the Company and processed through payroll with payments being made net to employees. These payments were structured to be made in three annual tranches in March 2018, 2019 and 2020. As such, additional employee PAYE and NIC contributions were settled out of the gross proceeds and were paid during April 2018 and 2019. This resulted in a beneficial cash flow position of £9.02m (2018 - £11.037m) as at 30 March 2019 due to the timing of the receipt of proceeds for distribution and the settlement of PAYE and NIC liabilities.

It should be noted that the Company's role was merely one to distribute the proceeds and, therefore (with the exception of employer NIC and apprenticeship levy – discussed further below) no income statement charges arose on this transaction.

A further impact of the transaction and its manner of distribution was the liability arising in respect of employers NIC and apprenticeship levy. As these are payable on payroll costs, a total additional charge of £2,422,000 (2018 - £2,988,000) arose in relation to the sale proceeds paid to employees. As this could not be deducted from the employees' distribution it results in a charge to the income statement which has been treated as an exceptional cost. However, this has been compensated for by the injection of additional share capital and share premium of £2,422,000 (2018 - £2,988,000) (note 23). This reflects part of the total purchase consideration.

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Portsmouth Water Limited will be held at the Company's Registered Office, PO Box 8, West Street, Havant, Hants, at 11.00am on Thursday, the 25th day of July 2019, on the following business:

1. To receive and consider the Directors' Report and Accounts for the year ended 31 March 2019 and the Auditors' Report thereon.
2. To approve the Report on Remuneration.
3. To re-elect Mr. M. P. Kirk a Director of the Company.
4. To re-elect Mr. M. P. Johnson a Director of the Company.
5. To re-elect Mr. D. W. Owens a Director of the Company.
6. To re-elect Mrs. H. M. G. Orton a Director of the Company.
7. To elect Mr. C. R. Taylor a Director of the Company.
8. To elect Mr. M. R. Coffin a Director of the Company.
9. To reappoint KPMG LLP as Company Auditors and to authorise the Directors to fix their remuneration.

Registered Office
PO Box 8
West Street Havant
Hants PO9 1LG
23 May 2019

By order of the Board
C. Hardyman ACIS
Secretary

Notes:

i) Debenture holders are reminded that the holding of debenture stock does not entitle them to attend or vote at the meeting.

ii) Shareholders are reminded that no voting rights attach to the 'A' Ordinary Shares. 'A' Ordinary Shareholders are not entitled to attend the meeting.

iii) A proxy form is enclosed for Shareholders entitled to vote at the meeting.

iv) To be valid proxies must reach the Company's Registered Office not later than forty-eight hours before the time fixed for the meeting.

Appendix 1 KPI Calculations

a) Gearing - Net Debt: RCV	**2019 adjusted* £000**	**2019 £000**	2018 adjusted* £000	2018 £000
(i) Debt				
Bank loan (note 19)	**107,476**	**107,476**	104,118	104,118
Revolving credit facility (note 18)	**10,000**	**10,000**	3,000	3,000
Debenture stock (note 18)	**284**	**284**	284	284
Cash at bank and in hand	**(18,190)**	**(27,210)**	(15,707)	(26,744)
Net debt	**99,570**	**90,550**	91,695	80,658
(ii) Regulatory capital value indexed to 31 March	**150,097**	**150,097**	144,195	144,195
(iii) Gearing - Debt: RCV ratio (i) ÷ (ii)	**66.3%**	**60.3%**	63.6%	55.9%

For the purposes of this ratio, debt excludes the deferred arrangement costs of £0.767m (2018 - £0.824m) and the current asset investment of £0.002m (2018 - £0.002m).

*Included within the cash at bank and in hand value at the year end is amounts due of £9.020m (2018 - £11.037m) to be paid to HMRC relating to social security taxes. Funds to cover this payment were received from Ancala Partners in advance of the required settlement date. An adjusted Gearing-Net Debt: RCV has been calculated to remove the effect of this atypical cash balance.

b) Cash interest cover	**2019 £000**	2018 £000
Operating profit	**7,926**	6,462
Less exceptional National Insurance costs (below operating profit)	**(2,422)**	(2,988)
Add back exceptional gain on non-household business (below operating profit)	**-**	1,843
Less loss on disposal of fixed assets (below operating profit)	**(494)**	(16)
Add back Employee Benefit Trust payment	**-**	1,267
Notional pension costs (note 24)	**811**	866
Depreciation and amortisation charges (notes 12 and 13)	**5,866**	6,409
Interest received, excluding amounts for inter-company loan (note 7)	**4**	9
Taxation refund/(payment), excluding payments for group relief	**-**	493
Capital expenditure (net of contributions)	**(14,008)**	(6,712)
Amortisation of deferred capital contributions	**(646)**	(638)
Amortised meter reading	**(174)**	(341)
Cash received from investing activities	**2,422**	2,988
Loan draw-down	**10,000**	3,000
Repayment of loan draw-down	**(3,000)**	(4,000)
	6,285	8,642
(ii) Interest paid	**4,086**	3,922
(iii) Cash interest cover ratio (i) ÷ (ii)	**1.54**	2.20

c) Return on regulatory equity	**2019 £000**	2018 £000
Revenue	**42,161**	40,489
Operating costs, excluding Employee Benefit Trust payments depreciation and amortisation	**(28,370)**	(26,351)
Regulatory depreciation (run off rate)	**(5,782)**	(5,445)
Infrastructure depreciation	**(1,115)**	(1,119)
Earnings before interest and tax	**6,894**	7,574
Current tax credit/(charge)	**140**	(69)
Interest payable, excluding indexation and amortisation	**(4,030)**	(3,921)
(i) Return	**3,004**	3,584
(ii) Average Regulatory Capital Value, equity element only (adjusted gearing)	**49,534**	50,940
(iii) Return on regulatory equity (i) ÷ (ii)	**6.06%**	7.03%

*RoRE has been calculated excluding exceptional items as set out as the face of the income statement and based on adjusted gearing, as set out above, in order to be comparable with prior periods.

Fort Southwick Reservoir