Half-Year Report

2020

Unaudited interim results for the six months ended 30 September 2020

Chairman’s Statement

Christopher Deacon
Chairman
26 November 2020

I am pleased to report on the results of this first six month period of the new Regulatory Price Review and also my first as Chairman.

The Board is delighted to be joined by Angela Smith who has been appointed as a new Non-Executive Director, and would like to take this opportunity to thank Martin Johnson who stepped down in June to pursue new opportunities.

This period has seen Portsmouth Water operate in unprecedented times as a result of the Covid-19 pandemic. I am proud that the Company has been able to continue to deliver excellent levels of service to our customers during this challenging period and would like to thank the staff for their commitment, flexibility and adaptability in achieving this.

The first six months of the year have been extremely busy and challenging in other ways including making significant progress with the development of the Havant Thicket Winter Storage Reservoir, driving further business efficiencies to meet the challenging regulatory determination, managing record levels of demand for water and resuming preparations for Brexit.

We set out in the Annual Report & Accounts 2019/20 the mitigation actions that the Company was taking to respond to the impacts of Covid-19 – both operationally and financially. The Company has responded well to these challenges and has quickly adapted to operate under new norms. We have worked tirelessly to support vulnerable customers and to manage the economic impacts on debt recovery. The response to the pandemic continues to place cost pressures on the business and we have been committed to ensuring that our excellent service standards to customers are maintained. In this respect, we are delighted to have achieved the highest shadow DMEX score for 2019/20 (a measure of the satisfaction of developers with our services), with a strong performance in our CMEX rating for the current year (a measure of our customers’ satisfaction with the services we provide).

The Havant Thicket Winter Storage Reservoir, the largest project undertaken by the Company, has continued to be an area of management focus. We have taken steps to ensure that this regionally significant project has not been impacted by the pandemic. This has now reached a crucial point, with the terms of the Bulk Supply Agreement now largely agreed, planning applications submitted and primary procurement activities soon to be launched.

The PR19 Final Determination has been a challenging one for the industry. We continue to work hard at driving further efficiencies within the business and are confident in delivering a strong TOTEX performance for both the year and the AMP. We have also made good progress in delivering against challenging ODIs – although we remain concerned about the impact that changing patterns of use, as a result of lockdown and long term home working arrangements, have had on household consumption levels.

This impact on household consumption was further exacerbated by unusually hot weather in the area. During August we experienced a high demand event where we saw record level demand of 239 Ml in a single day. Local social and conventional media campaigns took place to promote the wise use of water and this had a positive effect on reducing demand. During this period customers did not go without water at any point.

Finally we have refreshed our preparations for Brexit at both local and industry levels and are comfortable that the business is well positioned to respond to any adverse impacts.

CEO's Statement

Bob Taylor
Chief Executive Officer
26 November 2020

Operating Results

I am pleased to present an overview of our business performance for the 6 months ended 30 September 2020.

Response to Covid-19

The global response to the Covid-19 pandemic has created challenging and uncertain times for us all. As the provider of a key public service our overarching objective is to maintain the provision of high quality water supplies to our customers, whilst closely adhering to Government guidance aimed at minimising onward transmission of the virus. To help us in achieving this objective we are maintaining a strong focus on protecting the health, safety and wellbeing of our customers, our staff and our supply chain contractors.

Under these circumstances, our strategy, therefore, during the initial 'lockdown' period, was to continue delivery of the 'core service' – delivering high quality drinking water to our customers' homes and businesses and responding to customer requests for support, assistance and information. We acted swiftly to implement new ways of working with the vast majority of employees now working remotely to maintain social distancing requirements. We have also reduced the level of certain activities which are more difficult to undertake safely in the current circumstances.

Whilst we recognise that we are by no means out of the woods in terms of the impact of Covid-19, we are pleased with the effective response taken by the business and the minimal impact that this had on customers.

We entered the 2020-2025 Regulatory period with limited headroom in financeability. This has been further challenged during the first 6 months of trading - primarily due to significantly lower NHH consumption. Although this has been largely offset by higher HH consumption this does not translate to equivalent levels of HH revenue as only approximately 35% of our customers have a measured tariff. We have also had some lower levels of HH and NHH meter reading due to the difficulties carrying out this activity safely.

We have taken our social responsibility very seriously and took the proactive step of putting all our customers that were aged 70 or over onto our Priority Services Register. This totalled 32,000 customers, over 10% of all households that we serve. Putting these customers, who are more vulnerable to the severe impacts of the virus, onto the Register ensures that they are prioritised for help at the time of any operational incidents, being first to receive direct contact from the company, bottled water and other help.

We have continued to proactively manage household affordability issues including increasing the number of customers on our "social tariff" by 8% and increasing our bad debt provision by £0.5m.

Some incremental operating costs have arisen as a result of Covid-19 – primarily as a result of the impact on efficiency of social distancing measures, although these have been offset to some extent by savings on fuel and travel costs and lower than expected levels of Covid-19 related sickness. Recruitment and associated additional headcount costs have been lower as part of our mitigation plan. We have also reduced planned mains renewals in the first half of the financial year and seen a drop in chargeable work activity for developers and mains diversions. The implication of reduced levels of activity means that associated costs such as permits and materials have also lowered.

The expected downward pressure on profit and liquidity has been mitigated by cost reductions including a slightly lower level of infrastructure renewals activity than originally budgeted. We feel confident that we will continue to maintain the financeability of the business but now feel that the Covid-19 business recovery period will be significantly longer than we originally hoped.

The development of the new Havant Thicket Winter Storage Reservoir is in the early stages. This is a regionally significant water resources project with already challenging delivery timescales. Whilst we are pleased with the good progress we have made, despite the impact of the pandemic, we keep under close review the potential impact that the current situation could have upon successful delivery.

In order to support our Company's Covid-19 risk assessment and response we have developed a number of management tools including a Covid-19 risk register, enhanced reporting of certain "leading indicators" and extensive financial modelling of the impact and related mitigants. This work is regularly presented to the Board.

Finally, we recognise that there remains a high degree of uncertainty as to how long this pandemic will impact daily lives and the wider economy – industry commissioned analysis is indicating that this is more likely to be of a longer duration leading to a deeper recession than has ever been experienced before. We acted quickly and decisively at the start of the pandemic, to do all we could to conserve cash and implement effective mitigations. As a smaller company, we can respond quickly and anticipate we can remobilise back to normality (or semi normality) relatively easily - so long as we retain the liquidity to do so. However, we also recognise the potentially severe financial consequences of an extended duration of the pandemic.

Operational response

We have made swift and significant operational changes across the business in order to continue to deliver our essential services to customers. This includes the following operational changes;

- Enabling a significant portion of employees to work from home including the launch of additional essential IT enablers
- Modifying essential operational activities to allow for social distancing
- Suspending/reducing certain activities which are difficult to undertake whilst maintaining social distancing, for example meter reading, non-essential street works and certain capital works
- Developing a cross-business skills matrix and other contingency plans to manage in the event of absence of essential staff.
- Ensuring that vulnerable customers are effectively and proactively supported
- Enhancing business communications, staff welfare and wellbeing support to ensure that our workforce is well looked after
- Supporting our key contractors to ensure that we continue to work effectively together and that they are resilient to the impacts of Covid-19

We have worked closely with the rest of the industry in order to understand and manage the risks and implications of Covid-19.
This has included detailed industry wide analysis, undertaken in conjunction with Frontier Economics, to support an improved understanding of the impact of Covid-19 on current regulatory performance and cost allowances.

The impacts of Covid-19 to date

In addition to the operational changes and mitigations that we have instigated, we have seen a number of significant consequences of Covid-19,in particular changes in the NHH retail market. These measures, particularly the use of Covid-19 void flags, have further exacerbated the reduction in NHH revenue.

Covid-19 financial analysis

In order to gain a deeper understanding of the likely impact of Covid-19 we have undertaken extensive financial scenario modelling. We recognise that there is a high degree of uncertainty relating to both the duration and impact of the pandemic. Accordingly we have considered, and discussed with our Board and investors, a range of scenarios together with potential mitigating actions. We have continued to closely track out-turn against these assumptions and update our financial modelling as our experience continues to develop.

- Our primary focus has been upon ensuring we remain liquid and financially resilient in order to continue to deliver essential services to our customers
- We have then considered compliance with banking covenants and key credit rating metrics
- Finally, we have considered the extent the scenarios impact on our ability to deliver regulatory performance commitments e.g. ODI improvements and TOTEX

Results of our financial analysis

We have concluded that, after taking into account reasonable mitigating action, the business is able to withstand the impact of the Covid-19 pandemic. However, Covid-19 does further weaken our financial resilience and, unsurprisingly, as the duration of the event extends the overall impact becomes more significant.

Included in our financial analysis are a number of critical mitigating activities;

- Deferral of management bonus payments and a voluntary 10% deferral of salaries for executive directors and members of the senior leadership team
- Suspension of dividend payments
- Reduction in certain capital works and in the level of infrastructure renewals
- Initial furlough of members of staff who could not undertake their jobs in the circumstances
- Extension of our current revolving credit facility by a further £5m to provide additional liquidity headroom
- Deferral of pension contributions for a 3 month period

Liquidity

We have considered liquidity as most essential, in the first instance, as we must have sufficient cash resources to be able to continue to reliably deliver our core service. In all scenarios, without mitigation, our liquidity is adversely impacting already tight headroom. Mitigating actions such as reduction in cash expenditure and increasing headroom on our RCF have been effective in managing the adverse liquidity impact.

Key financial ratios

Managing liquidity alone is insufficient to address the down-side pressures. The impacts on revenue/bad debt and operating costs have a downward pressure on profit. Accordingly, mitigating actions, such as reduction in expenditure and increasing headroom on our RCF are being used effectively to manage the impact on key financial ratios.

PR19 Business Plan - Outcome Delivery Incentives

The Final Determination confirmed 26 ODIs, including 1 for Havant Thicket.

Ofwat proposed 10 Common ODIs – which apply equally to all companies.

We proposed, and Ofwat confirmed, 15 Bespoke ODIs and Ofwat proposed 1 for Havant Thicket.

Furthermore, of the 26 ODIs - 18 are financial and 8 are reputational (non-financial). Financial ODIs may be penalty only or reward and penalty. All ODIs are listed below by type.

	Rewards & Penalties	Penalty Only	Reputational
Common ODIs	Interruptions, Leakage, PCC, C-Mex, D-Mex	Compliance Risk Index, mains repairs, unplanned outage	Severe drought, PSR
Bespoke ODIs	Catchment management, AIM, Grant scheme, Voids	Water quality contacts, Biodiversity, Low Pressure, Affordability, WINEP (timing), Havant Thicket	Resilience, TUBs, Carbon, Vulnerability, RoSPA, WINEP (delivery)

The ODI package is significantly greater than the PR14 determination, with common ODIs being applied to all companies. The financial impacts / adjustments are all within period for AMP7. In AMP6, for Portsmouth Water all adjustments were applied at the end of the period.

The following table summarises progress against each ODI. The results are for the six months ending 30 September 2020 and have not been externally audited.

We use a traffic light system to indicate performance and issues.

	ODIs	Update
1	**Compliance Risk Index (measured from 1 January 2020)**	We have had 5 water quality failures since 1 January 2020. The first 4 occurred at the same time and following our investigations we have concluded that the issue was likely to be associated with our lab rather than the water itself. DWI have confirmed that the failures will be assessed under CRI. The 5th failure occurred at the end of September and was in the network with aluminum detected in the sample. The score for all of these failures is uncertain until DWI have published their assessment at year end. However, our assessment of the lab issue based on the feedback from DWI indicates a score of 0.7 which results in a total value of 1.273 with the aluminium failure in September. We are well placed to remain below the penalty threshold of 2.0 with 3 months to go.
2	**Interruptions to supply**	Interruptions are significantly better than expected in the first half of the year partly because we ceased a number of planned activities due to Covid-19 in April – June and also good management of unplanned events. Our position at the end of September is 1 min 5 seconds per property relative to the Ofwat annual target of 6 mins 30 secs. We are therefore very well placed to earn an outperformance payment in 2020/21.
3	**Leakage**	Leakage is significantly better than expected in the first half of the year, as we have maintained the level of resource on find and fix that successfully reduced leakage over the previous two years. Our position at the end of September is 24.6 Ml/d relative to the Ofwat annual target 26.5 Ml/d. We are therefore very well placed to earn an outperformance payment in 2020/21.
4	**Mains repairs**	Mains repairs are significantly better than expected in the first half of the year, partly because we have not seen significant long dry periods of weather which adversely impact our network and result in bursts. Our position as at the end of September 2020 is 24.0 bursts per 1,000 km of mains against the Ofwat annual target of 73.8. We are therefore well placed to ensure we do not need to pay an underperformance payment for 2020/21.
5	**Unplanned outage**	Unplanned outage is significantly better than expected in the first half of the year, as we have not experienced any outage due to asset failure. Our position as at the end of September 2020 is therefore zero against the Ofwat annual target of 2.34% of peak week production capacity. We are therefore well placed to ensure we do not need to pay an underperformance payment for 2020/21.
6	**Priority Services Register**	We have increased the number of customers we have on our PSR significantly in the period by writing to more than 32,000 customers over the age of 70 who were on the government shield list for Covid-19. We have therefore already achieved our end of AMP7 target of 9%, given we serve circa 300,000 households. This is a reputational ODI.
7	**Water quality contacts (measured from 1 January 2020)**	We have seen an increase in water quality contacts in the 9 months to 30 September 2020, in part driven by the hot weather where any changes in water quality are more noticeable and partly due to more people being at home. Our performance is at 0.343 contacts per 1,000 customers served, which is 4% worse than our expectation at his stage of the year. The slowdown in September suggests we may achieve our target and not need to pay an underperformance payment for 2020.
8	**Voids**	We have not been able to reduce the number of household voids in the period as planned partly because we ceased house to house visits in response to the Covid-19 restrictions. The percentage of household voids as at the end of September 2020 is 2.5% against a target of 2.0%. We are working to achieve this ODI but it will be a challenge to average 2.0% over the whole of the year. This suggests we may need to pay an outperformance payment.
9	**Affordability**	We now have over 9,000 customers on our social tariff relative to the Ofwat target of 8,000 for 2020/21. We have seen an increase in recent months due in part to Covid-19 and we expect a further increase as government financial support ceases. This is a reputational ODI.

<table>
<tr><td>10</td><td>C-Mex – there are two surveys each quarter; each survey has a weight of 50%</td><td>The results for C-Mex for the first quarter are available and we are ranked third. The table below shows the two elements of the survey, the satisfaction with our service as a result of recent contact with the Company and the general experience. We were ranked 1st in the second quarter survey and 3rd for the year to date.
<table>
<tr><th>2020/21 Q1</th><th>Customer satisfaction</th><th>Customer experience</th><th>C-Mex</th></tr>
<tr><td>Portsmouth</td><td>84.26 ranked 5th</td><td>88.20 ranked 3rd</td><td>86.20 ranked 3rd</td></tr>
<tr><td>Leading</td><td>88.04 - Northumbrian</td><td>88.60 - Northumbrian</td><td>88.32 - Northumbrian</td></tr>
<tr><td>Average</td><td>80.68</td><td>85.48</td><td>83.08</td></tr>
</table></td></tr>
<tr><td>11</td><td>D-Mex – there is one survey and an agreed set of performance measures; each element has a weight of 50%</td><td>The results for the first quarter are available and we are ranked third. The table below shows the two elements of the survey, the levels of service provided and the satisfaction survey – which are the result of recent contact with the Company.
<table>
<tr><th>2020/21 Q1</th><th>Quantitative</th><th>Qualitative</th><th>D-Mex</th></tr>
<tr><td>Portsmouth</td><td>97.25 ranked 6th</td><td>82.50 ranked 3rd</td><td>89.89 ranked 4th</td></tr>
<tr><td>Leading</td><td>100.00 - Hafren Dfrdwy</td><td>85.91 - Bristol</td><td>91.08 - Bristol</td></tr>
<tr><td>Average</td><td>80.68</td><td>85.48</td><td>83.08</td></tr>
</table></td></tr>
<tr><td>12</td><td>Per Capita Consumption</td><td>We have prepared our first half yearly water balance as at the end of September. Despite non-household demand falling significantly due to Covid-19 restrictions, household demand has increased significantly in the period. The resultant PCC of 186 litres/person/day is heavily influenced by the impact of Covid-19 by many people being at home in the period. The outturn is significantly higher than our annual Ofwat target of 141 litres/person/day. We will be discussing this ODI with Ofwat. The likelihood is we will need to pay an underperformance payment though the penalty is capped at 8.6% above target.</td></tr>
<tr><td>13</td><td>Catchment management; target engage with 10 farmers per annum</td><td>We have actively engaged with a number of farmers in the period and have signed up 5 to the Soil Sampling and Nutrient Management Plans as a result. We are therefore well place to meet our annual target of 10 farmers in 2020/21. If we hit our target of 10 we would not need to make or receive any performance payments.</td></tr>
<tr><td>14</td><td>Grant Scheme; target £50,000 per annum</td><td>Our Grant Scheme (for biodiversity projects undertaken by Third Parties) was launched in September 2020 with the Catchment Partnerships and other local NGOs. So far we have had interest from Chichester Canal, River Itchen (INNS) and Portsmouth City Council (Portsdown Hill). Awards will be made in Q4. If we hit our target of £50,000 we would not need to make or receive any performance payments.</td></tr>
<tr><td>15</td><td>Biodiversity – maintain our sites at good status</td><td>We have agreed with Natural England a programme of work on our sites to maintain the good status we achieved in AMP6. Much of the programme relies on operational staff maintaining sites in accordance with our grass cutting regime. This activity will be monitored and reported to Natural England every six months, combined with site visits which will start in October. We do not expect to need to pay an underperformance payment .</td></tr>
<tr><td>16</td><td>AIM – impact of Northbrook on the River Hamble</td><td>We monitor the level of the river Hamble at Frogmill Gauging Station. The flow has not dropped below the trigger level (of 104 l/sec) in the period and therefore no action has been required by the Company at Northbrook pumping station. Indeed for Operational reasons abstraction at Northbrook has been significantly below the AIM target level anyway. We do not expect to need to pay an underperformance payment.</td></tr>
<tr><td>17</td><td>Low pressure – target to reduce the number of customers on the register by 10.</td><td>Under S66 of the WIA91, properties within 10.5m height difference to the draw-off point of the reservoir, are not required to be on the register. Currently we have 11 properties that are within 10.5m of the reservoir draw-off point and therefore, can be removed from the list, meeting our 2020/21 target. During Q3 we shall be confirming levels to allow these 11 properties to be legitimately removed from the register. We do not expect to need to pay an underperformance payment .</td></tr>
<tr><td>18</td><td>Carbon – a 1% reduction in carbon per Ml of water produced</td><td>Electricity is a significant proportion of our carbon emissions. In 2019/20 we reported the carbon produced as a result of electricity as 94.6 tCO_2 / Ml. In the first five months of 2020/21 the volume of carbon produced has fallen to 92.0 tCO_2 /Ml. In part this reflects the sources of water we have used to meet demand over the period and the associated pumping requirements. This is a reputational ODI.</td></tr>
<tr><td>19</td><td>Havant Thicket</td><td>A detailed update on progress with the public consultation, planning application and Southern Water is provided elsewhere in this Report. Our Ofwat ODI does not apply until 2026.</td></tr>
<tr><td>20</td><td>Avoidance of restrictions</td><td>Ground water levels are now normal relative to the long term trend, although they have reduced noticeably in the first three months of the period. Despite high demand and greater bulk supplies to Southern Water, we have not needed to introduce restrictions on customer use this summer. This is a reputational ODI.</td></tr>
<tr><td>21</td><td>Severe Drought Index</td><td>This ODI relates to the number of customers at risk of severe restrictions in a 1 in 200 year drought event. It is an Ofwat metric to quantify how companies are delivering against their WRMPs. We will undertake a detailed analysis of this at year end. This is a reputational ODI.</td></tr>
<tr><td>22</td><td>WINEP delivery</td><td>We have 18 schemes in our agreed WINEP programme for AMP7. All have progressed in the period. The most pressing deadline is the installation of eel screens at our River Itchen site. This is on schedule for completion by March 2021. This is a reputational ODI.</td></tr>
<tr><td>23</td><td>WINEP timing</td><td>As above, progress on all schemes is positive, including those being undertaken jointly with Southern Water. We do not expect to need to pay an underperformance payment as a result of late delivery on any of our schemes.</td></tr>
<tr><td>24</td><td>Resilience schemes</td><td>These are three capital schemes which were explicitly recognised in our Business Plan and the Final Determination. They are not scheduled for 2020/21 but for later in AMP7. This is a reputational ODI.</td></tr>
<tr><td>25</td><td>RoSPA recognition (measured from 1 January 2020)</td><td>Health & Safety is reported separately in this Report. Performance is good in the period. There is currently no reason to believe that we will not receive RoSPA accreditation again this year. This is a reputational ODI.</td></tr>
</table>

26	**Vulnerability survey**	This is an annual survey of organisations who support customers who find themselves vulnerable in one way or another. We have appointed Community Research to undertake the survey and we will work this pre Christmas, with the survey being undertaken in Q4 (January – March 2021).

Environmental, Social and Governance

We propose to use the PR19 ODIs as the basis of this update, and consider the following ODIs represent good indicators of each criteria. Specifically over half of our ODIs cover this issue, as described below.

Environmental	Social	Governance
3. Leakage – reducing leakage reduces the volume we need to extract from the environment	6. Priority Services Register – ensuring we can support customers in vulnerable circumstances as required.	21. Severe Drought – ensuring we deliver our statutory Water Resources Management Plan
13. Catchment Management – engaging with farmers to improve their management of the land – with a positive impact on raw water quality	9. Affordability – ensuring our bills are affordable to all customers using a social tariff as appropriate for customers who are struggling to pay their bill. It gives a 20% discount on our average bill	22 and 23. Water Industry National Environment Programme (WINEP) is a statutory programme agreed with the Environment Agency to investigate and deliver environmental aspects of our business
14. Grant Scheme – providing funding for local environment schemes which support the enhancement of the environment.	12. Per capita consumption – ensuring that household customers use the volume they want (without wastage).There is also a link to our environmental responsibility.	
15. Biodiversity – ensuring the land we own and operate enhances the biodiversity of the region	26. Vulnerability – ensuring we work with agencies who support customers in vulnerable circumstances to the benefit of our customer.	
16. AIM – reducing usage at sites which can have an impact on river flows		
18.Carbon – we produce carbon as a result of treatment and pumping activities as well as vehicles. We aim to reduce our carbon impact.		
19. Havant Thicket – the development of this reservoir will allow us to provide greater bulk supplies to Southern Water and allow them to reduce abstraction from sensitive chalk rivers.		

Customer Service

C-MeX

We have seen a strong performance in customer service, coming 3rd in the industry in Q1 2020/21 for C-Mex. C-Mex is the common water industry measure of customer service and satisfaction, as measured by independently run customer surveys.

Against the backdrop of Covid-19, much of our focus has been on supporting the vulnerable. We placed all of our customers that are known to be aged 70 or over on to our Priority Service Register. These 32,000 customers, over 10% of all our customers, are prioritised for help and assistance in the event of an operational incident.

Whilst we continue to have the lowest bills in the industry by some considerable margin, affordability is likely to be an issue for a growing number of customers in these challenging economic conditions. We are assisting customers with payment holidays, our Helping Hands Social Tariff and making efforts to identify early arrears so that we can proactively contact customers to make them aware of any help and assistance we can offer.

D-MeX

The Company was also ranked 1st, from the 17 largest water and waste water companies in England and Wales, in the 'shadow year' of the developer services measure of experience (D-MeX). D-MeX measures the quality of services we provide to our developer customers (which include large and small property developers, self-lay providers, new appointees and other customers requesting a new connection). Our industry leading score has been formally announced by OFWAT, and leaves us in a positive position to continuously improve and achieve our aim of upper quartile performance throughout the new AMP period (2020-2025).

Havant Thicket Winter Storage Reservoir

The last six months have seen a very significant amount of activity on the Havant Thicket project in spite of the complications posed by Covid-19. Design work has progressed significantly, with three packages of ground investigations and site surveys being carried out on site. The design forms the basis of a planning application for the project that we expect to be submitted the autumn.

Alongside this, the Company ran an extensive public consultation over the summer and using a combination of digital and printed methods reached over 50,000 households. The project consistently polls a high level of support from residents around the site in quantitative telephone surveys. Over 90% of residents fully or partially support the project. Environmental regulators have been involved in developing the biodiversity mitigation and compensation strategy and have expressed their support for the measures included in our planning application.

The Company has also laid the foundations to launch the main works procurements which will go out to market towards the end of 2020 so that detailed design and construction can commence in early 2022.

Finally, the Company has made huge progress with the Bulk Supply Agreement to supply water to Southern Water and expect to finalise shortly.

Biodiversity Management

We are planning and carrying out our winter programme of site enhancements including Priority Habitat management. We have launched our Biodiversity Grant Scheme as part of our environmental commitments to enhance the habitat network within Portsmouth Water's catchment area. This is a £50,000 yearly grant scheme for 5 years open to charities and other NGO bodies.

Catchment Management

Work has begun on our AMP7 WINEP Catchment Management programme that includes Payment for Ecosystem Service (PES) package of funding to support farmers to reduce pollution across our priority catchments that are at risk of failing due to levels of nitrates. We have also carried out a significant number of engagements with farmers, offered pollution prevention advice and provided capital grant funding for infrastructure and equipment improvements to reduce pollution. We are on target to meet our milestones and ODI targets.

We are over half way through our Interreg CPES project that involves 5 pilot trials in our catchment. This is an EU funded programme and includes partners in southern England and northern France. The pilot trials involve undertaking innovative schemes to reduce nitrate pollution and increase soil carbon and will hopefully help with the Government's new Environmental Land Management (ELMs) scheme that is replacing Countryside Stewardship.

Capital Programme

The approved Capital budget at the February board was £17.4m. However, this was adjusted to £9.3m in response to the pandemic mitigation plan and will be achieved through rephasing over the remainder of the AMP. Total tangible fixed asset additions in the six month period totalled £8.0 - £4.4m of which related directly to Havant Thicket.

Mains renewal activity has been significantly impacted by Covid-19 with no mainlaying occurring until July. The mains renewals budget has been reduced as a consequence.

Work on development sites has been somewhat erratic with frequent short notice requests and cancellations making our programme more reactive than usual. Most sites closed for a period as a result of Covid-19 and some only re-opened in August.

Major Schemes

Work on our disinfection improvement project continues at a number of sites and the River Itchen Eel screens have been installed and are operational in advance of the EA's required completion date in Spring 2021. Whilst work on our small non-infrastructure contract was largely suspended in the first 6 months of the year we have successfully completed our £500k network reinforcement main at Pook Lane, Lavant. In addition, our £780k Rechargeable Work for Hants County Council on the Eclipse Busway site is now expected to commence in the autumn.

Leakage

The Company has maintained leakage significantly below our target through the first half of 2020/21. Average leakage from April to September is 24.6 Ml/d compared to our ODI target of 26.5 Ml/d. Our low leakage level helped maintain supplies to our customers despite unprecedented high demand this summer.

Maintaining leakage at this low level has been a challenge this year, with restrictions on operational activities due to Covid-19. The safety of staff is always our highest priority. To reduce risk of infection, fixed noise loggers were installed in high risk urban areas to listen for leaks. Leakage technicians were instead deployed into rural areas where risk to health is lower.

Portsmouth Water has also benefited from investment in new innovative pressure loggers during 2020. Additional usage from the warm weather and Covid-19 restrictions, led to additional stress on our pipes which may cause bursts and leakage. The new loggers allowed engineers to closely monitor the network, predict where and when issues would occur and react quickly to problems as they arose.

Leakage is a very high profile issue with customers, and there are wide ranging views from customers and stakeholders. We understand the critical role lowering leakage has on abstraction, encouraging water efficiency and increasing resilience. We are therefore proud of our continued low leakage levels and outperforming our leakage target.

Health & Safety

The first half of the year has provided opportunities for us to continue our culture of outstanding Health and Safety performance, in accordance with our RoSPA accreditations.

The well-being of our staff throughout this difficult and challenging period has been prioritised in our communications with staff. During the lockdown, added focus on mental health awareness has included a bi weekly mental health and wellbeing newsletter and a continuation of our 'Good 2 Talk' initiative.

We have had no reportable accidents during the first six months.

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

We work hard to ensure that our staff continually demonstrate behaviours which align with our core values - Excellence, Respect and Integrity. We believe this work is key to successfully achieving our vision of "delivering excellence". We continue to invest heavily in our people and have utilised over £290K from the Apprenticeship Levy - this has largely been allocated to our front line operations staff. This helps ensure that we have the best trained staff delivering the best service to our Customers.

Brexit

We have reviewed potential risks in the event of a no-deal Brexit, and have identified that the main risks continue to be associated with supply chain, potential fuel shortages and logistical constraints in undertaking essential activities in areas of traffic restriction or congestion. Working with the rest of the industry, we consider we have mitigated these risks and are well placed to maintain water supplies and our high standards of service should a no-deal Brexit occur.

During the Covid-19 period we have continued to hold an increased stock of essential water treatment chemicals, exceeding the agreed industry standard. We have also maintained an enhanced level of fuel storage, and additional storage facilities of essential equipment on Portsea Island, to mitigate traffic disruption around Portsmouth International Port.

We continue close co-ordination with other water companies and government through Water UK, and also with our Local Resilience Fora. We are confident we are well placed to manage the risk in the event of a no-deal Brexit.

Development of Non-Regulated Business

The 4 new initiatives that launched early in 2020 have all continued to develop. The data sales agreement with Southern Water has shown particular resilience from the impact of Covid-19. Despite a difficult period through the summer, volumes have recovered strongly and are likely to end broadly as planned at the end of FY21. The other initiatives have seen some challenges, but all continue to grow and will benefit from the ongoing relaxation of lockdown rules. A number of new initiatives have been developed this year – most notable being the development of solar power to reduce the proportion of energy Portsmouth Water needs to buy from the grid whilst also reducing the Company's carbon footprint. A number of sites have been identified and construction is targeted to start in the second half of FY21. The Company has also started undertaking meter reading services for a number of Non-Household retailers.

Financial Results

Helen Orton
Finance and Regulation Director
26 November 2020

The results for the period have been prepared in compliance with UK Accounting Standards and reflect the provisions of Financial Reporting Standard 102 (FRS102) and on a Going Concern basis. A summary of the financial performance for the 6 months to 30 September 2020 is set out below.

	6 months to 30 September 2020 £m	6 months to 30 September 2019 £m
Turnover	20.5	21.4
Operating costs (excluding depreciation)	(12.6)	(15.0)
Depreciation and amortisation	(3.1)	(3.1)
Profit before exceptional items	4.8	3.3
Exceptional item - Covid-19 bad debt provision	(0.5)	-
Loss on disposal of Fixed Asset	-	0.1
Profit before interest and tax	4.3	3.4

Revenue

The first six months of this year have seen a reduction in revenue of £0.9m compared to last year, which is largely attributable to the current Covid-19 pandemic. The £0.3m reduction in unmeasured supplies is driven by meter optants and a lower tariff. Measured supplies have reduced by £0.7m which is a combination of higher household consumption during the periods of hot weather (£0.5m increase) and a fall (£1.2m decrease) in non-household revenue as premises have closed due to Covid-19. There is a small increase of £0.2m for chargeable work.

Covid-19 Bad Debt

As a result of the Covid-19 pandemic, a prudent approach to debt collection and debt recovery over the long term has been taken. To this effect a further £0.5m of bad debt provision has been recognised during the period. In total the balance of Covid-19 bad debt provision is now £2.0m. The Company acknowledges that this approach has resulted in a large provision being made available and this will be reassessed over time as further econometric data and trends are established.

Profit Before Exceptional Items

Operating profit at £4.8m shows an increase of £0.9m compared to the prior period of £3.3m. This has been driven by the net impact of lower revenue, offset by cost saving and cost re-phasing as set out further below.

Operating Costs

The six month period to 30th September 2020 has seen a significant decrease in both net operating expenses and cost of sales in comparison to the prior period. This decrease has been largely due to the response to the Covid-19 pandemic and reduced activity in line with a drop in revenue and anticipated fall in cash collections.

Capital Investments

Cash capital investment in the half year period was £6.6m (prior period - £6.0m).

The capital programme was re-phased as part of the Covid-19 mitigation plan. However, within the period activity has continued relating to the Havant Thicket Reservoir project, CT (disinfection schemes) and Membrane Replacement projects at our Itchen Water Treatment site.

Cash and Cash Flow

Operating cash flow in the half year of £2.0m outflow is less than that in the prior year (£4.6m outflow) and as a result of Covid-19 mitigation plans around cash expenditure.

During the period £23m of the £25m revolving credit facility was utilised.

No dividend has been paid within the first six month period.

Cash Contributions

The Company receives capital contributions primarily in connection with new mains for housing developments. In accordance with the requirement of FRS102 these contributions are deferred and amortised to the Income Statement. Amounts received year to date were £0.4m (prior year to date £0.6m) with £0.4m released in the period to turnover (prior year to date £0.3m).

Interest and other finance income

Interest payable between the two periods has been positively impacted by the level of RPI movement. Other finance income remains constant for the two periods at £100k.

Financing

On the 29 May 2020 the Company extended the revolving credit facility by £5m to a total of £25m. In total the Company has a £25m working capital facility and a £0.5m overdraft facility. At 30 September the utilised working capital facility was £23m (30 September 2019 - £10m utilised).

As we set out in the regulatory business plan, we anticipate raising additional capital, both equity and debt, in order to finance the significant growth in our asset base over the next regulatory period. This growth will be driven by both the core business and the significant investment in Havant Thicket reservoir. We are well progressed with this process and the Board is confident that the Company can access appropriate financing.

Financing structure

Since 2001 the Company has largely been financed through a 30 year (to 2029) 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 2020 was £109.7m (2018 - £106.7m).

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 then ultimate controlling party. Ancala is an independent mid-market infrastructure investment manager. Ancala is committed to supporting the Company purpose of "delivering excellence for our customers, our employees, the environment and the communities which we serve".

During the prior year, the Company's shareholders incorporated Southern Region Water Holding Limited in Hong Kong on the 13 September 2019 and transferred 100% of the investment held in Ancala Fornia Holdco Limited to Southern Region Water Holding Limited. Accordingly, Southern Region Water Holding Limited is the ultimate parent undertaking at the year end date. There was no change in the composition of the ultimate investors as a result of this. Further information on the group structure can be found in the Portsmouth Water Annual Report & Accounts 2020.

Covenant Compliance

We confirm that;

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

Ratios

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

Gearing

Net debt to regulatory capital value is a key covenant by the Company's index linked loan documents. Gearing at 68.5% (30 September 2019 – 67.7%) has remained broadly consistent from the prior year. Gearing remained comfortably within the 86% ceiling imposed by the bond covenants and below the OFWAT gearing outperformance level of 70%.

Artesian Interest Cover

The interest cover ratio of 1.74 times (September 209 – 1.61 times) remain well above the 1.4 times covenant required.

Pensions

The Company is the principal employer of the Brockhampton Pension Scheme, a defined benefit scheme. The latest valuation as at 31 March 2020 based on FRS102 assumptions and market movements was calculated and estimates a net pension asset (after deferred tax) of £15.546m (March 2019 value after deferred tax £23.782m). A full FRS102 actuarial valuation will be undertaken at the year end in line with UK GAAP requirements.

Credit Rating

As at the period end the Company had a credit rating with both Standard and Poor's (S&P) and Moody's. The rating with Moody's remained at Baa1 and S&P at BBB both on negative watch.

Financial Results - response to Covid-19

At the start of the Covid-19 pandemic the Company took swift action to assess the likely operational and financial impacts of the crisis. This included extensive financial scenario modelling including any appropriate mitigating actions.

The majority of the mitigations identified at the start of the pandemic have been implemented, to a greater or lesser degree, and we have continued to closely track out-turn, revise our assumptions and reflect on our recent experiences in our financial analysis.

Our primary focus has continued to be ensuring that we remain liquid and financially resilient in order to continue to deliver essential services to our customers. In addition, we have taken appropriate measures to ensure we remain compliant with banking covenants and key credit rating metrics, and will continue to do so.

We have also considered the extent to which the current circumstances impact on our ability to deliver regulatory performance commitments (e.g. ODI improvements and TOTEX). In particular we have seen a significant impact upon water usage (measured as Per Capita Consumption) as a result of changes in patterns of usage by households. We have also seen challenges in performing a range of activities and although we had adapted to deliver these activities there has, and continues to be, an impact on our ability to operate efficiently.

We have undertaken a rolling reforecasting exercise and track, and report to the Board, any variances from our original (business as usual) budget and our Covid-19 impacted budget.

We consider that the Company has acted appropriately and prudently in order to meet the key objectives that the Board established at the start of the pandemic, to preserve essential services and to maintain business liquidity and financeability.

Outlook

As we move into the second half of the financial year we are on track to out turn at the Covid-19 budget EBITDA level. This will involve closely monitoring the impact of future Covid-19 restrictions and changing patterns in consumptions that we have seen particularly in the non-household premises where businesses may close.

The operational focus remains on delivering exceptional customer service and providing high quality water. In addition, our leakage programme continues as well as the successful delivery of major capital schemes including new membranes at our treatment works. In addition, the activity in relation to progressing planning for the Havant Thicket Winter Storage Reservoir project, will materially increase during this period as we move into the next stage of the project.

We will continue to see a focus on cost reduction and efficiency savings to offset other cost pressures seen in the business.

Income Statement

	Unaudited 6 months ended 30 September 2020 £000	Unaudited 6 months ended 30 September 2019 £000	Audited 12 months ended 31 March 2020 £000
Turnover	**20,534**	21,339	43,147
Cost of sales	**(11,072)**	(12,621)	(24,354)
Gross profit	**9,462**	8,718	18,793
Net operating expenses	**(4,648)**	(5,446)	(10,714)
Operating profit before loss on disposal of fixed assets and exceptional items	**4,814**	3,272	8,079
Gain/(loss) on sale of fixed assets	**3**	106	103
Exceptional staff costs relating to sale of business	**-**	-	(2,433)
Covid-19 related bad debt provision	**(500)**		(1,489)
Operating profit after loss on disposal of fixed assets and exceptional items and before interest	**4,317**	3,378	4,260
Investment income	**479**	515	1,062
Other finance income	**100**	100	672
	4,896	3,993	5,994
Interest payable and similar charges	**(3,074)**	(3,571)	(7,296)
Profit/(loss) on ordinary activities before taxation	**1,822**	422	(1,302)
Taxation of profit /(loss) on ordinary shares	**(35)**	-	(2,024)
Profit/(loss) for the financial period	**1,787**	422	(3,326)

Statement of Other Comprehensive Income

As at 30 September 2020

	Unaudited as at 30 September 2020 £000	Unaudited as at 30 September 2019 £000	Audited as at 31 March 2020 £000
Profit/(loss) for the financial period	**1,787**	422	(3,326)
Remeasurement of net defined benefit asset	**-**	-	(9,269)
Movement in deferred tax relating to pension asset	**-**	-	1,760
Total comprehensive income for the period	**1,787**	422	(10,835)

Summarised Statement of Financial Position

	Unaudited as at 30 September 2020 £000	Unaudited as at 30 September 2019 £000	Audited as at 31 March 2020 £000
Non current assets	**212,271**	197,391	206,930
Current assets	**30,745**	26,087	37,428
Creditors: Amounts falling due within one year	**(41,651)**	(28,260)	(50,244)
Net current (liability)/assets	**(10,905)**	(2,174)	(12,816)
Total assets less current liabilities	**201,366**	195,217	194,114
Creditors: Amounts falling due after more than one year	**(143,299)**	(135,640)	(137,785)
Provisions for liabilities	**(8,094)**	(6,919)	(8,094)
Net assets excluding pension asset	**49,972**	52,658	48,235
Pension asset	**15,596**	23,632	15,546
Net assets including pension asset	**65,568**	76,290	63,781
Capital and reserves			
Called up share capital	**1,078**	1,078	1,078
Reserves	**64,490**	75,212	62,703
Shareholders' funds	**65,568**	76,290	63,781

Summarised Statement of Changes in Equity

As at 30 September 2020

	Unaudited 6 months ended 30 September 2020 £000	Unaudited 6 months ended 30 September 2019 £000	Audited 12 months ended 31 March 2020 £000
Called up share capital	**1,078**	1,078	1,078
Share premium account	**6,949**	4,527	6,949
Capital redemption reserve	**3,250**	3,250	3,250
Retained earnings brought forwards	**52,504**	64,591	64,591
Opening balance	**63,781**	73,446	75,868
Profit/(loss) for the period	**1,787**	422	(3,326)
New share capital/premium issued	**-**	2,422	2,433
Remeasurement of defined benefit asset	**-**	-	(9,269)
Movement of deferred tax relating to pension scheme	**-**	-	1,188
Effect of change in corporation tax rate on pension asset	**-**	-	572
Total comprehensive income for the period	**1,787**	2,844	(8,402)
Dividends	**-**	-	(3,685)
Closing balance	**65,568**	76,290	63,781

Summarised Statement of Cash Flows

	Unaudited 6 months ended 30 September 2020 £000	Unaudited 6 months ended 30 September 2019 £000	Audited 12 months ended 31 March 2020 £000
Cash (used)/generated from operations	**(2,034)**	(4,611)	11,046
Investing activities			
Sale of tangible fixed assets	**10**	160	172
Purchase of tangible fixed assets net of contributions	**(6,111)**	(6,048)	(16,497)
Purchase of intangible fixed assets	**(531)**	-	(326)
Infrastructure charges received	**1,045**	605	1,612
Interest received	**-**	-	1,135
Net cash used in investing activities	**(5,587)**	(5,283)	(13,904)
Cash flows from financing activities			
Net (repayment) working capital facility	**3,000**	3,000	500
Net inter-company loan	**500**	-	(4,263)
Dividend payments	**-**	-	(3,685)
Equity payment received	**-**	-	2,433
Interest paid	**(2,207)**	(2,013)	(4,263)
Net cash generated/(used in) financing activities	**1,293**	987	4,985
Net (decrease)/ increase in cash and cash equivalents	**(6,328)**	(8,907)	2,127
Cash at beginning of year	**29,337**	27,210	27,210
Cash and equivalents at end of year	**23,009**	18,303	29,337
Comprising			
Debt service account	**2,046**	2,013	2,021
Other cash accounts	**20,963**	16,290	27,316
Cash and equivalents at end of year	**23,009**	18,303	29,337

Appendix 1 KPI Calculations

a) Gearing - Net Debt: RCV

	Unaudited as at September 2020 £000	Unaudited as at September 2019 £000	Audited as at March 2020 £000
(i) Debt			
Bank loan (note 19)	**111,348**	108,964	110,452
Intercompany loan	**-**	-	-
Revolving credit facility (note 18)	**23,000**	13,000	20,000
Debenture stock (note 18)	**284**	284	284
Cash at bank and in hand	**(23,009)**	(18,303)	(20,588)
Net debt	**111,624**	103,945	110,148
(ii) Regulatory capital value indexed to 30 September	**162,864**	153,575	154,826
(iii) Gearing - Debt: RCV ratio (i) ÷ (ii)	**68.54%**	67.68%	71.4%

Included within the cash at bank and in hand value at the year end (31 March 2020) is amount due of (£8.749m) to be paid to HMRC relating to social security taxes. Funds to cover this payment were received from Ancala Partners LLP 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.

(i) For the purposes of this ratio, debt excludes the deferred arrangement costs of £0.682m (2020 - £0.710m) and the current asset investment of £0.002m (2020 - £0.002m).
(ii) Regulatory capital value as published by Ofwat.
(iii) Intercompany debt excluded as subordinate to external debt and therefore March 2020 position has been restated.

b) Cash interest cover	**Unaudited as at September 2020 £000**	Unaudited as at September 2019 £000	Audited as at March 2020 £000
Operating profit	**4,814**	3,272	8,079
Less exceptional National Insurance costs (below operating profit)	**-**	-	(2,433)
Less exceptional Covid-19 bad debt provision (below operating profit)	**(500)**	-	(1,489)
Gain/(loss) on disposal of fixed assets (below operating profit)	**3**	106	103
Notional pension costs (note 24)	**-**	250	864
Depreciation and amortisation charges (notes 12 and 13)	**3,105**	3,067	6,120
Interest received, excluding amounts for inter-company loan (note 7)	**-**	5	8
Taxation refund excluding payments for group relief	**-**	**-**	271
Capital expenditure (net of contributions)	**(6,642)**	(6,048)	(16,823)
Amortisation of deferred capital contributions	**(356)**	(330)	(709)
Amortised meter reading	**(78)**	(55)	(147)
Cash received from investing activities	-	-	2,433
Loan draw-down	**23,000**	13,000	20,000
Repayment of loan draw-down	**(20,000)**	(10,000)	(10,000)
Receipt of intercompany loan	**500**	-	500
	3,845	3,267	6,777
(ii) Interest paid	**2,207**	2,034	4,263
(iii) Cash interest cover ratio (i) ÷ (ii)	**1.74**	1.61	1.59

Notes

1. The interim results for the six months to 30 September 2020 have been prepared under FRS102 and on the basis of accounting policies consistent with those adopted for the year ended 31 March 2020.

   The interim financial information is unaudited and does not constitute statutory accounts as defined in s.434 of the Companies Act 2006. The results for the year to 31 March 2020 have been extracted from the latest published accounts, which have been filed with the Registrar of Companies and on which the report of the auditors was unqualified.

2. The tax charge is based on the estimated effective rate of tax, including deferred tax, for the full year to 31 March 2020.

3. Copies of the interim report are available to the public from the Company's Registered Office, P O Box 8, West Street, Havant, Hants PO9 1LG or from our website www.portsmouthwater.co.uk/news/publications/accounts.

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