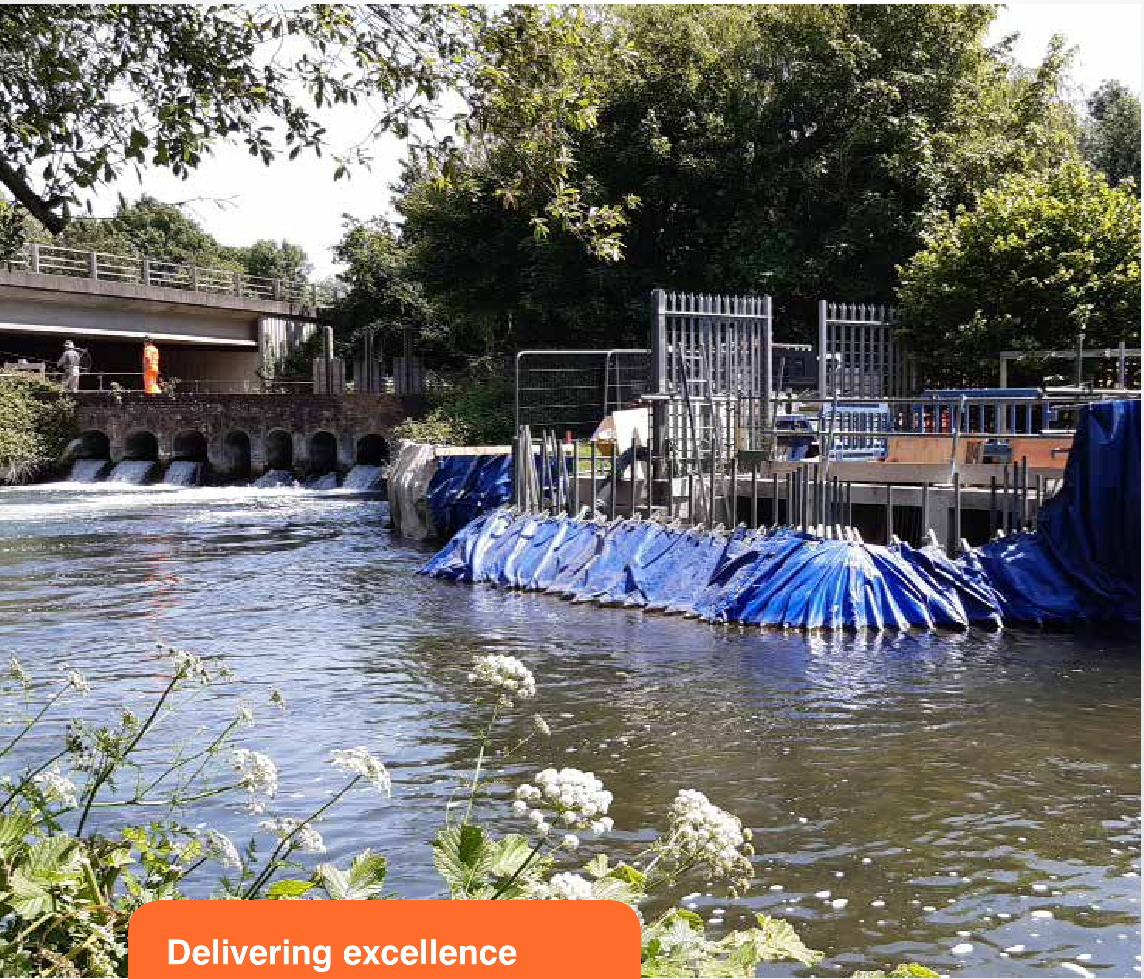
Portsmouth Water Limited

Annual Report & Accounts 2021



Delivering excellence
for our customers, our people, the environment and the communities that we serve

Production Technicians inspecting a borehole before lowering a replacement pump.

Portsmouth Water
At A Glance

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

164

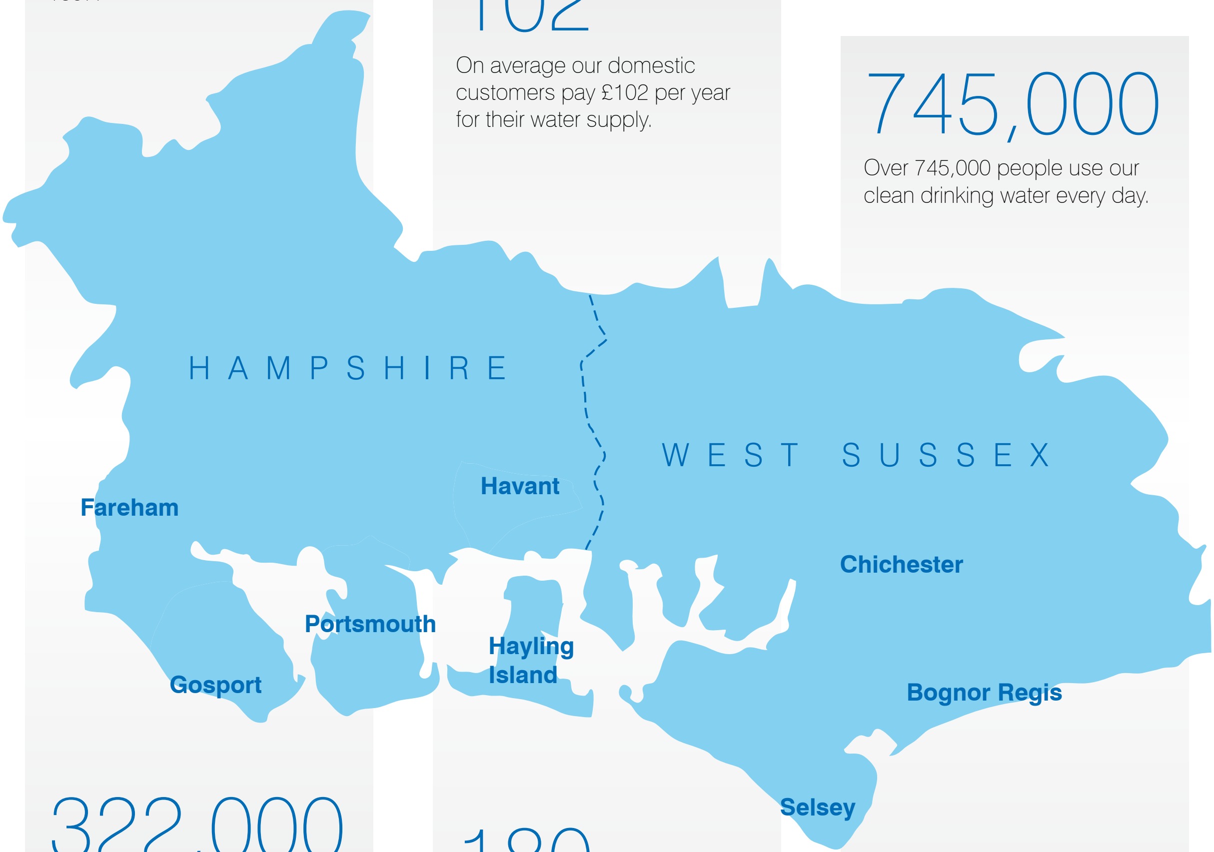
We are proud to have served the local community since 1857.

102

On average our domestic customers pay £102 per year for their water supply.

745,000

Over 745,000 people use our clean drinking water every day.



322,000

We provide clean drinking water to 322,000 homes and businesses in our area.

180

We serve the cities and towns of Portsmouth, Chichester, Fareham, Gosport, Havant and Bognor Regis. On average, each day we supply approximately 180 million litres of water.

3,370

Our area of supply has a network of over 3,370 kilometres of underground pipes.

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

Highlights

Groundbreaking and innovative bulk supply agreement with Southern Water signed

Seamlessly maintained high standards of service during very challenging Covid-19 pandemic

Best value proposition to customers in the sector through lowest bills and highest standards of customer service

Construction of Havant Thicket reservoir on track with largest financing package in the company's history completed

Strong overall ODI performance overall including industry leading leakage, interruptions and water quality

2020
RoSPA
Order of Distinction

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

Turnover

£42.0m

Cash generated from operations

£7.8m

Capital expenditure (additions)

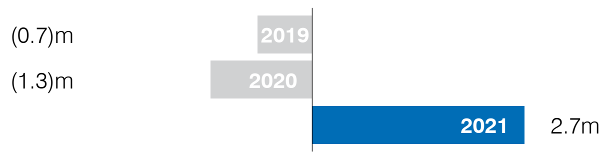
£17.0m

EBITDA[1]

£14.1m

Profit/(loss) before tax

£2.7m



[1]Earnings Before Interest, Tax, Depreciation and Amortisation and Exceptional Items.

Contents

Registered Office
PO Box 8
West Street
Havant
Hampshire
PO9 1LG

Company Number
2536455

Head Office, Havant

Chairman's Statement

Christopher Deacon
Independent Chairman
27 May 2021

I have great pleasure in presenting the Annual Report and Accounts for the first year of the PR19 regulatory cycle. Like many businesses this has been a challenging year facing the impacts of Covid-19. Despite these challenges we have delivered a strong operational performance - delivering against the more challenging levels of performance that we set out in the PR19 Business Plan. This has included achievements such as our continued excellent customer service levels and achieving significant and sustained reductions in leakage. I should like to thank our staff for their commitment in delivering this performance.

Alongside this we have also completed critical activities in relation to the development of the new Havant Thicket Winter Storage Reservoir (HTWSR).

On behalf of the Board I would like to take this opportunity to thank our people warmly for rising to the significant challenges of the Covid-19 pandemic ensuring that we have continued to deliver for customers and stakeholders.

The Board are pleased to welcome Christopher Loughlin who joins us as a Non-Executive Director representing our investors – Ancala. I also thank David Owens, who has stepped down from our Board to support other businesses in the Ancala portfolio. During his time on our Board David has made a significant contribution to the success of the business.

Facing the challenges of Covid-19

Although the impacts of the Covid-19 pandemic were only just emerging as we began the 2020/21 financial year it was clear that this would result in extensive operational challenges.

We acted swiftly to implement our Covid-19 pandemic response plan. We saw new ways of working, with the vast majority of employees now working remotely to maintain social distancing requirements. Initially we also suspended certain activities that could not be carried out safely, although we were able to resume them once we had implemented appropriate ways of working. Our scale, and our committed workforce, allowed us to respond quickly and effectively to these emerging challenges and we have continued to work flexibly to respond to Covid-19.

Following the tough regulatory settlement we enter the 2020-2025 Regulatory period with reduced headroom on financeability. At the start of the financial year we recognised that this may be reduced further as a result of the impact of Covid-19. This downward pressure has been mitigated during the year by cost reductions and careful cashflow management. The effect of lockdown on changes in patterns of water consumption has significantly increased levels of household water use with reductions in non-household (commercial) use. This has adversely impacted our per capita consumption (PCC) target. Ofwat have recently agreed to consult on the treatment of this impact and have deferred any associated penalties until the end of the regulatory period. We will be continuing a dialogue with Ofwat in relation to seeking appropriate regulatory relief in relation to this target and the possible future long-term changes in patterns of water consumption.

Shortly after the last financial year end careful consideration was given to the range of Government incentive and deferment schemes that the company would utilise. Whilst we were able to gain clearance for PAYE and VAT deferral schemes, after careful consideration and in collaboration with our specialist advisors, we did not feel that this was an appropriate action to take in the 'spirit' of the incentive mechanisms. Given the initial uncertainty of the impacts of the pandemic, we initially took a decision to take advantage of the Government furlough scheme placing 44 employees on furlough – receiving a contribution of £220,000. However, the Board subsequently took the decision to repay amounts received under this arrangement.

Water resources for the region

Our vision for PR19 and beyond is to enable enhanced water trading for the region as a whole – working closely with our neighbouring water company Southern Water. The PR19 final determination included a separate price control for the Havant Thicket Winter Storage Reservoir (HTWSR) to enable the development of a new reservoir which will enable up to 21 mega litres a day to be supplied to Southern Water.

Despite the challenges of the pandemic we have completed a number of significant milestones for the programme – negotiating and signing the related commercial bulk supply agreement, raising a total of up to £105m of new finance, commencing the procurement process and submitting planning applications. We discuss progress in relation to HTWSR in more detail in the annual report and accounts and we remain on track to deliver the reservoir by 2029. In addition to the HTWSR we also began collaborations with Southern Water for other joint schemes under the Ofwat RAPID programme. The most significant of these schemes is for the development of a 45km direct pipeline between the HTWSR and Southern Water's network at Otterbourne.

Delivering for our Customers & Communities

Our values of Excellence, Integrity and Respect are deeply rooted and embedded in our company culture. We have always believed that a values-based culture empowers our people to "do the right thing" in delivering our essential services, taking care of our customers and supporting our local communities. This commitment to a values based culture is critical to our delivery of exceptional levels of customer service.

It was very important that we engaged with our people so they understood the situation and how it affected their roles within the Company and that we communicated effectively. Therefore, it is very pleasing that in our 2020 Covid staff survey over 91% of staff felt they have been valued throughout by the Company and 99% were happy with the communication they received from the Company. This is a great testament of the healthy partnership that exists between the business and our people which is critical in challenging times.

We were delighted to be ranked 1st overall in the industry Customer Measure of Experience (C-MeX) for 20/21. This result is especially pleasing given most customer service staff have been working remotely from home during Covid-19 and yet have continued to deliver outstanding service.

For the current regulatory period D-Mex was introduced as an industry measure of developer satisfaction. In a challenging year for developers, that saw the temporary closing of development sites in lockdown 1, we continued our strong

Eels Screening Project

D-Mex performance, from the shadow year into 2020/21. At the time of writing, year-end D-Mex performance was still to be published. However in the year to date we have achieved sector leading performance in the D-Mex satisfaction survey.

In addition, we continue to be assessed through the independent Institute of Customer Service, and continue to hold the prestigious 'ServiceMark' accreditation. Their annual Business Benchmarking survey gave a score of 83.2 for Portsmouth Water. The Institute's national survey results, where utilities averaged 72.6 and all sectors averaged of 77.0, provides strong and independent evidence that our customer service rivals that across all sectors. The survey showed that customers continue to value our service reliability, helpfulness and competence of staff.

We have been pro-active in supporting our household customers impacted by the Covid-19 pandemic, by offering payment holidays and increasing promotion of our affordable "social tariff"; with the number of customers on this tariff standing at 9,327. Throughout the year we have continued to work collaboratively with other utilities and support agencies to promote assistance for those with vulnerabilities – which we feel is particularly important during these difficult times. We currently have 31,690 customers on our Priority Services Register which represents over 10% of our customer base.

On page 12 and 13 of this report we discuss the level of service we have delivered for our customers and have performed well across a range of measures.

The quality of the water we deliver to our customers is measured by the Drinking Water Inspectorate, using the Compliance Risk Index (CRI) score. Our performance this year is again good, and we expect to remain in the highest performing companies for this measure. We also report on the number of times customers contact us on water quality issues. Whilst we did see an increase in contacts in May and June 2020, driven by high household demands due to weather and Covid-19, we have maintained our overall performance this year and expect to remain industry leading on this ODI.

Unfortunately we failed to meet the target for mains repairs to our network. In January and February 2021 we saw a prolonged cold and dry weather period which resulted in a significant number of burst mains which needed repair. That said our management of this activity did not adversely impact our customers, as shown by the interruptions to supply measure. In fact despite significantly more repairs needing to be undertaken to the network, we have reduced the overall impact on customers in the year and expect to be industry leading on this measure when final comparisons are available.

Disappointingly we have not met our household usage target for per capita consumption (PCC). We saw a significant increase in household use this year primarily as a consequence of the need to stay at home to comply with the restrictions due to Covid-19. Ofwat are currently consulting on how the industry will reflect the impact of Covid-19 on the PCC measure and have deferred any resultant penalties to be considered at the end of the regulatory period.

In the measure of leakage we are pleased to have outperformed our annual target significantly, building on recent investment in our network and good performance in 2019/20. This is despite the cold period in the winter of 2021, where we did see an increase in leakage, but still significantly outperformed our annual target and expect to maintain our performance as industry leading.

Finally, we are really pleased that despite many of our staff needing to work from home during the year the level of service provided to customers remains the highest in the industry. Specifically surveys undertaken by Ofwat (C-Mex) with our customers ranking us first in the industry, a performance we are very proud of.

Supporting the local communities that we are proud to serve has been a long-term commitment for us. During the year we launched our social contract which we call the Community Partnership. This clearly establishes how we will work in partnership with our local communities and particularly how the whole process of developing and building the HTWSR project will have a community focus – in understanding what our communities would like this resource to deliver, involving them in the process and leaving a leisure and wildlife haven as a lasting legacy for our local communities.

During the Covid-19 pandemic we have encouraged our people to support the community response through volunteering and we have developed new "home schooling" educational resources.

Our Infrastructure

Over many years the Company has invested to improve the resilience of our network. A high degree of interconnectivity allows us to move water across our area of supply when needed and multiple water sources further increase resilience to enable us to manage the risk of loss of treatment works or infrastructure failures. However, we are never complacent about the importance of resilience and continue to invest in this important aspect. During the summer months we faced the twin challenge of changes in patterns of household consumption (due to lockdown) and some periods of hot weather creating an 18% increase in demand over normal averages. Despite these extreme conditions no customers went without water supplies.

During the year we also progressed work on 9 projects all supporting enhanced resilience in our operations at a cost of £2.94m.

Chairman's Statement

Through the development of the HTWSR project, we are making a significant long term investment in the resilience and security of supply for the South East region as a whole and invested £6.8m during the year with total costs to date of £14.3m.

Our People
The engagement and dedication shown by our staff is the key reason that, as the smallest UK water company, Portsmouth Water remains one of the best all round performers. In the current difficult circumstances, more than ever the commitment of our people has allowed us to respond positively and continue to deliver high levels of service for our customers.

We have been very careful in ensuring that we have changed working practices to follow Government guidelines and keep everyone – employees, customers and contractors – safe. As a result our employee Covid sickness levels have been on average below the local average. We have also recognised the wider impacts of the pandemic and have implemented an enhanced programme to support the mental health and wellbeing of our people.

Financial Results
At the start of this financial year, we undertook an immediate re-forecast to reflect the anticipated impact of the Covid-19 pandemic. This included the actions and activities that we would undertake in order to respond to the pandemic, together with the mitigating financial actions. Although the impact of Covid was highly uncertain at the time this represented our best estimate of the likely financial position. Our performance for the year has out-turned largely in line with the reforecast.

The results of the year show Earnings Before Interest Tax and Deprecation (before exceptional items) of £14.1m (2020 - £14.4m).

Turnover
Turnover is showing a £1.1m decrease from last year at £42.0m (2020 - £43.1m). As a result of the pandemic, Non House Hold revenue fell by £1.9m, Household Measured supplies increased by £0.8m (working patterns and hot weather) and offsetting this was Household unmeasured consumption which fell by £1.2m. Due to a higher level of civil engineering work in our areas of supply, Chargeable Work primarily relating to mains diversion projects increased by £1.2m

Operating Costs
Operating costs for the year totalled £34.1m compared to £35m in the previous year. This £0.9m reduction is as a result of reduced mains renewal expenses of £0.8m, reduced professional fees of £0.7m offset by an increase of £0.5m due to catchment management, chemicals and staff costs. Operating costs exclude exceptional items of £0.09m (£3.9m 2020).

Covid
The largest Covid impact seen with regard to the financial results is the changing consumption patterns as a result of commercial properties being closed during lockdown and the impact of customers using more water from their homes (where we have a 35% meter penetration rate).

Our approach to bad debt has modified in line with financial situations and potential distress of some of our customers. As a result of this consideration, we have changed our debt collection approach in some instances but continue to hold a provision within our balance sheet to reflect the ongoing impact of Covid on our customers' ability to pay.

Net interest payable
Net interest payable is at £5.5m lower than the prior year (2020 - £6.2m) due to the LIBOR rate increase year on year. Interest was payable of £61k relating to the new group financing structure.

Capital expenditure
Our Covid budget reflected a lower capital programme in FY21 with catch up planned for the remaining years of the AMP. As a result, capital additions totalled £17m in the year (2020- £19m). Havant Thicket Reservoir accounted for £6.8m of this spend.

Cash Flow
Cash generated from operations of £7.8m (2020 - £10.8m) is largely reflective of reduced customer cash collections year on year as well as prepaid legal fees relating to the refinancing.

Gearing
Gearing is calculated as a ratio of net debt to regulatory capital value. Following the recent Group financing arrangements, with the inclusion of £24.6m of intercompany loans, for the first time there is a divergence between gearing calculated for banking covenants (which excludes subordinated intercompany debt) and gearing defined by Ofwat which includes subordinated intercompany debt.

At 55.7% gearing for banking covenant purposes has fallen following the recent refinancing. Gearing as defined by the OFWAT methodology of 70.3% is broadly in line with the prior year of 71.1%.

Ratios
The Artesian Ratio at 2.04 times cover (2020 - 1.59) sits comfortably above the 1.40 covenant level.

New financing
As we explained in our PR19 Business Plan we have raised up to an additional £105m of financing over the regulatory period supporting the development of HTWSR and other enhancement capital spend. This is achieved through a combination of bank loans and wider group financing. In support of our wider environmental ambition a substantial portion of the new loans are sustainability linked based on a range of existing regulatory targets.

MY COVID WORKING EXPERIENCE...

Becci Lee
Data Analyst

With the uncertainty and worry that quickly escalated (with last year's pandemic) it was a simple and quick switch to home working with great support from my manager and communication from the company. We adapted quickly with barely any impact on our work and services we provide. It was great to grow new cultures of communication such as daily check-ins or weekly meetings and an improved focus on safety with wellbeing a number one priority. This last year has been interesting and I think we, as a company, have improved because of the challenges faced and overcome.

Network Team undertaking a mains repair

Our Company Purpose

> Delivering excellence for our customers, our people, the environment and the communities that we serve.

Our Board takes overall responsibility for developing the Company Purpose - including the strategy, objectives, values and culture that the business needs to deliver this successfully.

The Company Purpose, together with the underlying strategy and objectives, is periodically re-assessed and revised by the Board to make sure that it continues to reflect the needs of our customers and stakeholders. This took place as part of the development of the regulatory Business Plan for 2020-2025 and the longer term vision beyond that.

In developing the Business Plan and Company Purpose we undertook significant engagement activities, with both customers and wider stakeholders. The Board was closely involved in understanding the approach to, and results of, this engagement. It took overall ownership for ensuring that the results of this engagement were appropriately reflected in the Business Plan and Company Purpose together with the strategy, objectives, values and culture needed to deliver for customers and stakeholders. As a result of this we updated the underlying business objectives for the current regulatory period 2020-2025 (known as 'outcomes') as set out below.

The Board noted, in particular, the strong support across customers and stakeholders alike for our 'community driven' focus, particularly where we go beyond our statutory duties. Whilst Portsmouth Water has long been recognised as a business which cares about and supports our local communities we explicitly updated our Company Purpose to reflect this important aspect. In parallel our Young Persons Board developed and launched the Portsmouth Water Community Partnership.

The Board puts great emphasis in ensuring our business has the right values and culture - which are aligned to the Company's Purpose. Indeed we recognise that our values driven approach empowers staff to 'do the right thing' and is a strong contributor to the consistently high levels of customer service we deliver. The Board also seeks the views of customers and stakeholders, with particular emphasis on independent assessments such as the Institute of Customer Service 'ServiceMark' accreditation and staff views through regular surveys. Where there is evidence of any misalignment of values and behaviours, the Board acts to correct this, through the executive team. We explain more about our Company values under 'Our People'.

OUR OUTCOMES

- **Safe, secure and reliable supply of drinking water**
- **Long term resilience of supplies for our customers and to support the South East region**
- **Low leakage**
- **A service tailored to individual needs at an affordable price**
- **An improved environment supporting biodiversity**
- **Being recognised by the community as a good Corporate Citizen**
- **Recognised by stakeholders as having a culture of Health & Safety through all of our activities**

What We Do

"We use a combination of natural resources, technology and a motivated and committed workforce to supply high quality drinking water at the same time providing excellent levels of service for our customers at the lowest price in the country. Through the development of the new Havant Thicket reservoir we are strengthening our role of supporting water resources in the region – beyond our borders."

Our principal business activity is the supply of drinking water to both domestic (household) and commercial (non-household) customers. Through the development of the Havant Thicket Winter Storage Reservoir (HTWSR), which will enable additional water supplies to our neighbour, Southern Water, we will also become a key provider of regional water supplies.

The supply of water is a closely regulated industry. We talk about our regulators on page 32. 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 business process is broken down into five main areas and we have explained this further below.

Portsmouth Water provides water to 306,000 homes and 16,000 businesses in an area of 868km² 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 at our 21 treatment works located throughout our supply area. Further information about our water resources is set out on pages 20 to 24 under "Our Environment".

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 "Periodic 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.

This was the first year of the current five year regulatory period of 2020 - 2025.

WHOLESALE SERVICES

Water resources
We take water from natural springs, boreholes and rivers. We 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.

Regional water resources
Once complete, the HTWSR will be used to store surplus winter water and enable year-round additional supplies to our neighbour, Southern Water.

Water treatment
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
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.

RETAIL SERVICE

Customer services
Since 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.

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 Outcome Delivery Incentives or ODIs). We monitor and manage our significant business risks against our ability to achieve the Outcomes. This report sets out our business Outcomes for the regulatory period 2020-2025. We have summarised how these elements align below;

Outcomes 2020-2025	How we are delivering
OUR CUSTOMERS	
Safe secure and reliable drinking water **A service tailored to individual needs at a long term affordable price.** **Long term resilience of supplies for our own customers and to support the South East region.** **Being recognised by the community as a good corporate citizen.** **Support the Community**	• A comprehensive water quality testing programme in accordance with Drinking Water Inspectorate requirements. Clear programmes of remediation where any DWI findings are raised. • 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 • Significant regional review of water resources through work with Water Resources in the South East. Development review and monitoring of the Water Resources Management Plan. • Careful monitoring of our mains network, a programme of mains renewals and management of bursts and leakage • Provision of bulk supplies to Southern Water, the delivery of HTWSR and the development of further water resources through the Ofwat RAPID schemes. • A focus on excellent customer service underpinned by business values and culture. A personal approach with local call handlers who take ownership on behalf of customers. • 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 • Supporting vulnerable customers through a number of schemes and services • Development of the Community Partnership. Plans to leave a lasting community legacy through the development of resources associated with HTWSR. Working closely with local schools and actively supporting local education activities
OUR PEOPLE	
Recognised by stakeholders as having a culture of Health, Safety and Wellbeing through all our activities.	• Driving a culture of health, safety and wellbeing in everything we do • Renewed focus on the importance of mental health • 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	
Low leakage **An improved environment supporting biodiversity**	• Investment in an enhanced programme of leakage monitoring, leak detection and repair • Complete our agreed Biodiversity Action Plan during 2020/25 • Promotion of water efficiency through advice to customers, water saving devices, smart metering trials and community events. Lobby for a change in "water stress status" and drive meter penetration. • Development of our Catchment Management team and programme • 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 and a Board focused on continuous improvements • Operation of effective financial processes and internal controls • Close monitoring of budget and out-turn financial performance against KPIs, covenants and ratings metrics • Transparent executive remuneration linked to stretching performance targets • Effective financing arrangements • A transparent and sustainable dividend policy

Key Performance Indicators (pages 12 to 13)	Risks (pages 38 to 39)
• Water quality standards • Water quality contacts • Burst pipes • Interruptions to supply • Ofwat service measures - C-Mex & D-Mex	• Operational • Water Quality • Business Continuity
• RoSPA accreditation • Health and Safety "reportable accidents" • Health and Safety "total accidents" • Employee absence	• Human Resources • Health and Safety
• Leakage • Per capita consumption • Temporary water usage bans • Biodiversity Action Plan	• Environmental
• EBITDA • Cash Interest Cover • Gearing (Net Debt: RCV) • Regulatory Rewards and Penalties (ODIs)	• Financial • Regulatory • Legal and Governance • Political • IT

How We Measure Success

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 (2020-2025) 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').

KPI	Definition
OUR CUSTOMERS	
Water quality standards (Compliance Risk Index) * (Calendar year)	The CRI score is calculated for every individual compliance failure at water supply zones, supply points/ treatment works and service reservoirs. The annual CRI for a company, for any given calendar year, is the sum of the individual CRI scores for every compliance failure weighted by the potential number of properties affected.
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.
Mains repairs *	The number of repairs required on our network as a result of bursts and leaks, defined in accordance with Ofwat guidance. Defined as the number of mains repairs per 1,000km of network.
Interruptions to supply *	Average time of supply interruption per property (includes both planned and unplanned interruptions).
Customer measure of experience (C-Mex) *	Based on two quarterly surveys undertaken by an independent third party on behalf of Ofwat to establish the quality of the service we provide to our customers in general.
Developer measure of experience (D-Mex) *	Based on two surveys a month (six a quarter) undertaken by an independent third party on behalf of Ofwat to establish the quality of the service we provide to developers. This measure also includes the levels of service we provide to developers.
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.
OUR ENVIRONMENT	
Leakage *	The total level of leakage, including customer supply pipe leakage, as measured on an annual 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	
Profit - EBITDA	Financial measure in accordance with UK accounting standards being Earnings Before Interest, Tax, Depreciation and Amortisation.
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.
Ofwat Gearing (Net debt: RCV)	The ratio of Net Debt (loans and debentures less cash) to RCV. A detailed calculation is included in Appendix I as defined by Ofwat.
Return on Regulatory Equity (RoRE)	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.

2020/21 Target	Our performance				2020/21 target met?
Financial year	**2020/21**	**2019/20**	**2018/19**	**2017/18**	**pages 14 - 15**
< 2.0 units (Calendar year)	0.58	0.03	1.78	n/a	✓
< 0.440 contacts per 1,000 population (Calendar year)	0.432	0.395	0.437	n/a	✓
< 73.8 per 1,000km	76.3	50.0	71.8	n/a	✗
< 6 mins 30 secs per property	2 mins 48 secs	3 mins 22 secs	3 mins 54 secs	n/a	✓
n/a (Ranking)	1st	1st	n/a	n/a	✓
n/a (Ranking)	Upper quartile**	1st	n/a	n/a	✓
Calendar year	**2020**	**2019**	**2018**	**2017**	**pages 16 - 17**
RoSPA awarded	Awarded	Awarded	Awarded	Awarded	✓
0 accidents	0	1	3	0	✓
< 12 accidents	3	5	8	6	✓
< 2.5 days	✓	✓	✓	✓	✓
Financial year	**2020/21**	**2019/20**	**2018/19**	**2017/18**	**pages 20 - 25**
< 30.1 Ml/d	23.4 Ml/d	24.4 Ml/d	28.3 Ml/d	n/a	✓
< 141 l/h/d	171 l/h/d	150 l/h/d	151 l/h/d	n/a	✗
0 bans	0	0	0	0	✓
Financial year	**2020/21**	**2019/20**	**2018/19**	**2017/18**	**pages 26 - 27**
On budget	£14.1m	£14.4m	£13.8m	£12.9m	✓
> 1.40	2.04	1.59	1.54	2.20	✓
< 80%	70.3%	71.5%	66.3%	63.6%	✓
> 6.0%	7.15%	6.62%	6.06%	7.03%	✓

* These measures are also part of the Ofwat Outcome Delivery Incentive Mechanism.

** Based on interim results. Final results were not available at the time the financial statements were approved.

Our Customers

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

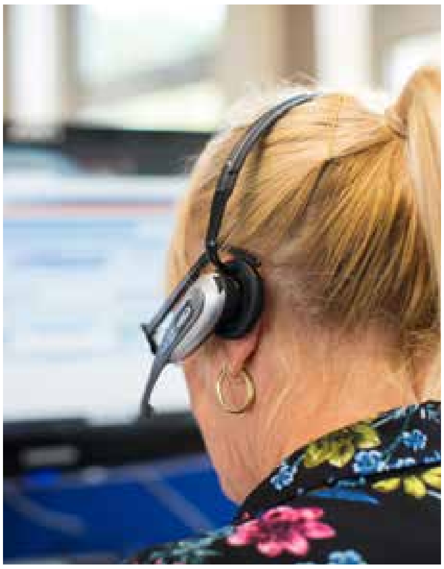
ServiceMark
Accredited from Apr '18 to Apr '21
The Institute of Customer Service

Our Values – Doing the right thing for our customers

Our Company values of "Excellence, Respect, Integrity" are central to delivering the best possible levels of service to our customers every day. We believe that these values create a great customer service culture and empower our people to "do the right thing" for our customers. We talk more about this under "Our People".

We think about our customers individually but also, collectively, in the communities that we serve. As a small local company, we have long been recognised as being connected to our customers and driven by what is important to them – both our essential services and our wider social purpose. Recognising the increasing importance of having a clear social purpose, during the year we formalised this in our Community Partnership. We are currently engaging with customers on our Community Partnership to ensure we understand the needs of our local communities beyond the service we deliver as a drinking water supply company.

The impacts of Covid-19 continue to be at the forefront of our minds and over the past year we have continued to work closely with local support agencies to ensure we are responding to the developing needs of our customers. This includes offering payment holidays for customers, making it easier for customers to set up payment arrangements, such as a Direct Debit via our website, and having an increased focus on making sure customers are on the best possible tariff.



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 is measured and compared via the Customer Measure of Experience (C-MeX). 2020/21 has been a challenging year given that we quickly moved most of our call centre staff to working at home and in the first lockdown suspended some business activities such as meter reading. Despite these challenges we are very proud to report we have been ranked 1st in the industry.

The number of written complaints per 10,000 connection is 10.8, very similar to last year where we were second in the industry. We have seen a number of complaints this year as a result of the need to change our policies on meter reading in response to the restrictions required to meet the Covid-19 pandemic. Customers were unhappy that we had not read their meter but sent estimated bills out instead. We are once more able to read all meters as planned and expected by our customers.

We achieve a wider service comparison through our membership of the Institute of Customer Service. The Institute has over 400 members in the United Kingdom, representing a broad cross section of sectors. In 2020, we improved our score in the Institute's customer and staff surveys, getting closer to the performance needed to achieve Distinction in the Institute's Service Mark award. Customers were most satisfied with service reliability, helpfulness of staff and the competence of staff.

Affordability and Vulnerability

We have the most affordable bill in the industry, with our average bill in 2020/21 being £102, against an industry average of £194 and the next lowest to ours being £145. Our Helping Hand Social Tariff helps those on low incomes and caps our bill at £75.75 for the 2020/21 billing year. Numbers supported have grown from 8,400 in March 2020 to 9,327 in March 2021.

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 Bureaux, charities and directly with vulnerable customers. This year, for the first time, we completed a piece of research focusing on how satisfied local organisations were with the support we offer for vulnerable customers. We achieved a satisfaction rate of 84% which is a great performance given the challenging circumstances of the previous 12 months.

KPI Performance

Set out on pages 12 and 13 are the key performance indicators that we use to help us manage the business. Whilst we are pleased with our overall performance disappointingly, we have failed to meet 2 of these measures - mains repairs and per capita consumption.

Mains repairs

We saw a significant increase in mains repairs in winter 2021 as a result of a prolonged cold and dry weather period. In January 2021 for example we had 65 bursts on the network, almost double that of January 2020, and high relative to the long term average of 40. That said our management of this activity did not adversely impact our customers, as shown by the interruptions to supply ODI. In fact despite significantly more repairs needed to be undertaken to the network, we have reduced the overall impact on customers in the year and expect to be industry leading on this measure when comparisons are available.

Per Capita Consumption

We have seen a significant increase in household use in the year from 150 litres per person per day up to 170 litres per person per day. This was the consequence of the need to stay at home to comply with the restrictions due to Covid-19. We remain committed to promote the efficient use of water and will work with our customers to ensure this is the case. There is uncertainty as to what level of household demand we should expect in the future but we are well placed to accommodate any continuation of this step change.

Compliance Risk Index
The measure of water quality now used by DWI is the Compliance Risk Index (CRI). We had 5 water quality failures in the calendar year with minor impact on the CRI score. Accordingly we expect to remain industry leading on water quality compliance when the DWI publish its annual review later in the year.

Reportable Accidents
During the year we had no RIDDOR reportable accidents (an accident that has caused an individual to be off work for more than 7 days). Whilst we are pleased with this outcome we continue with the highest focus on Health, Safety & Wellbeing of our people, contractors and members of the public.

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 made a total of 68 payments with 27 related specifically to one event in February 2021 where we did not restore supplies in accordance with our expectations.

Non Household performance success
Performance of trading parties in the business retail market is measured against 19 Market Performance Standards (MPS) and 22 Operational Performance Standards (OPS). We made a good improvement in both MPS and OPS metrics in 2020/21, and achieved sector leading performance is both metrics. Our MPS performance was 98.9%, an improvement of 5% from 2019/20. Our OPS performance was 99.8%, an improvement of 2% from 2019/20.

We have also continued to collaborate with retailers and made good progress investigating long unread meters and the accuracy of those premises marked vacant in the Market systems.

We were not subject to any Initial Performance Rectification plans during the year.

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. It 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 have achieved our first year target for AMP7 of 0.440 contacts per 1,000 population served. Our performance was industry leading for the last two years, 2018 and 2019, and we expect this to be the case again this year, 2020. We did experience an increase in contacts in the summer this year, as water demand was significantly higher due to the good weather and Covid-19, but ended the year back at more normal contact rates.

Leakage
We realise that leakage is an important priority for many customers and have invested significantly in leak detection and repair activities over recent years. As a result, we have reduced leakage to 23.4 Ml/d in 2020/21 compared to 24.4 Ml/d last year and outperformed our regulatory target for 2020/21 by over 6 Ml/d. This is a very good performance in light of the need to change our operational processes due to Covid-19 restrictions. It was further compounded by the cold weather in January and February 2021, when we experienced a significant increase in bursts on our network. We have installed new technology in our 3,370km network to help us identify and locate leaks quickly. This has resulted in us now having an industry leading level of leakage at just under 73 litres per property per day. We are well placed to continue this improvement in the remaining 4 years of AMP7, where we plan to reduce leakage by 15%.

Interruptions to supply
We continue to have one of the best levels of performance in the industry for interruptions to supply for customers. At an average of 2 minutes 48 seconds per property, compared to a target of 6 minutes 30 seconds, this is our best performance in the last six years and is one of the best performances in the industry. Our network has been designed so that water can be quickly fed to customers using different pipes in the event of a burst on their normal supply. This allows us to keep the impact to customers of any burst in our pipes to a minimum. We also consider carefully the impact on customers when we plan essential work. In many cases we provide temporary supplies to customers whilst we undertake work on our network. We continue to explore the use of new technology to make repairs to our network, so that customers are not impacted by any failure. Again the impact of Covid-19 restrictions required us to change our operational process, which we did successfully without a detriment to customers. We are well placed to achieve our regulatory targets for the remainder of AMP7.

Regulatory Outcome Delivery Incentive ("ODI") performance
The Company has 26 ODI targets as part of the regulatory performance framework. These were set as part of the PR19 business plan process and reflect stretching, performance targets. A number of these ODIs are also business KPIs as explained in "How we measure success". During the year the Company has achieved 21 of 26 ODIs in total. We are very disappointed about the 5 failures to meet these challenging standards and have action plans in place to address those not achieved. We have discussed above performance in mains repairs and per capita consumption (which are also KPIs).

The void target of 2% was not achieved this year and was adversely impacted by Covid restrictions when meter reading and visits to properties could not be undertaken during April – June 2020. We have made good progress on this measure more recently. Following significant progress enhancing the biodiversity on our sites it was disappointing that we could not demonstrate this had been maintained for all sites. This ongoing work was adversely impacted by Covid operational challenges which curtailed our ability to mow grassland during a critical period. We have employed an additional two members of staff to undertake this activity in future.

In the vulnerability survey we narrowly missed its satisfaction rating with a result of 84% versus a target of 85%. We believe this is still a good result, given the challenges in serving these customers and organisations during this year.

Our People

Health, Safety and Wellbeing

Health and Safety continues to be our top priority and our focus on this area is maintained by openly sharing information on accidents and near misses inside and outside the company. We achieve this with an ongoing programme of company-wide campaigns and initiatives and through our extensive staff training and development. These activities have enabled the business to record a dramatic fall in the number of accidents over the last 10 years - clearly illustrating the emphasis and priority given to Health and Safety.

In terms of Health, Safety and Wellbeing 2020 has been a very challenging year dominated by the Covid pandemic. That said, the year started very positively with the award of RoSPA's "Order of Distinction" for the very first time. To be recognised externally for our efforts over the long term in developing a strong Health, Safety and Wellbeing culture is something we are all very proud of.

This is also the first year we formally amended our approach to include the area of wellbeing. We now focus on Health, Safety and Wellbeing and this is shown in our annual policy statement endorsed by the Board. Mental health and wellbeing is an area that is becoming more prominent in wider society and the workplace – even more so during the pandemic. We have a long track record of supporting our employees in many areas of mental health. Wellbeing should now be thought of on an equal footing to conventional Health and Safety throughout the business.

2020 saw us review and amend a number of our day to day working practices to take into account the added pressures and requirements brought by Covid-19. Our people have more than risen to the challenges that Covid-19 has brought, never forgetting that Health, Safety and Wellbeing will always be our number 1 priority even in the most challenging of times.

Dealing with the Pandemic

Covid-19 saw us fundamentally change the way we work whilst continuing to deliver our core service to our customers. As we explain further on page 35 a working group was set up advising the business on the guidance and regulations related to working within the pandemic. We responded rapidly, changing our approach to working and following key principles with staff working from home wherever possible, maintenance of social distancing, hand sanitization and mask wearing. We also reinforced the need for self-isolation and testing of staff with any Covid-19 symptoms or potential contact with sufferers. Recently we implemented our own Covid-19 testing facilities for staff. The safety and wellbeing of our customers, staff, contractors and suppliers has remained our utmost priority.

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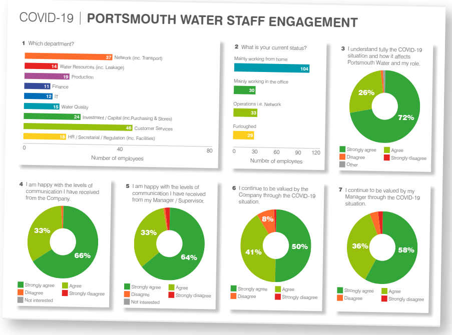
Employee Staff Engagement Survey 2020

During the pandemic we felt it was important that we understood how our people were feeling and that we had good safe practices in place and were communicating these to the wider business. Pleasingly our survey showed that our people were very happy with our approach.

- 98% said they understood fully the Covid situation and how it affected both PW and their roles.
- 99% said they were happy with the communication received from the Company.
- 91% said they continued to be valued by PW during the pandemic.



Working from Home

Almost immediately, the majority of staff that were previously office based were working from home. We gave guidance and advice on how to set up a workstation at home and devised a temporary Display Screen Equipment (DSE) assessment that all staff had to complete. These were reviewed with their Manger ensuring that the home workplace was in line with DSE guidelines.

Key Workers

As key workers we still maintained our operational activities and we reviewed all of our risk assessments to bring them in line with Covid guidance. Some of the measures included:

- No sharing of vehicles
- Full PPE for entering customer properties
- Pre checks with customers by telephone prior to any visits

Communication

During 2020, through a weekly zoom briefing to all staff we updated the business on the current Covid-19 situation – this included any new Government guidance, reinforcing working principles and keeping people connected. Throughout the year we have communicated with staff about how we are dealing with the pandemic and how we can help staff adjust. Whilst at times it has been a challenge, with the support and commitment of staff we have delivered the first class service our customers expected and deserved.

It is a true testament to the value we all place on Health, Safety and Wellbeing that despite all of the challenges we have faced this year we still had a "RIDDOR" free year when it came to accidents. In addition our sickness levels during the pandemic have remained very low.

Whilst Health, Safety and Wellbeing will always be our number 1 priority - we must never become complacent – and it is critically important that anyone who comes to work for Portsmouth Water returns home safely to their loved ones at the end of each day. Nothing has brought this home more then when news came about the four people who tragically died in the serious accident at Wessex Water – we sent our condolences to all those affected by this tragedy and have reviewed certain of our own practices in response.

Wellbeing and the pandemic effect

With the added pressures of dealing with the impacts of Covid-19 we understood the need to promote and support areas of wellbeing. We had in early 2020 established our Mental Health and Wellbeing Champions and our "good to talk" initiatives but we wanted to go further. During the year we produced a fortnightly wellbeing message promoting tips and advice to support staff and their families and this was often supported by our CEO Bob Taylor during his weekly message to staff. Wellbeing was at the top of the agenda throughout 2020.

Our programme of Mental Health Awareness Training commenced during the year. Not having the ability to do this in person made the delivery challenging. However, given the importance of good mental health during the pandemic we worked closely with the mental health charity Mind to deliver the sessions via zoom. We have had very positive feedback from those attending and to date 80 employees have now completed the training.

Flu Jab

In response to the risk of a "twin-demic" – impact of Covid with potential flu outbreak – we offered all staff the opportunity of a flu jab. This was positively received with over 100 staff taking up the offer.

RoSPA 2020 Order of Distinction
We were awarded the RoSPA Order of Distinction Award for the first time. This 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 15 years or more.

The Order of Distinction Award 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 of the efforts that everyone in the Company has made in making Portsmouth Water a safe place to work.

2020
RoSPA
Order of Distinction

Investing in our future through education & training

We are firmly committed to the development of our staff and 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. 2020 saw 16 of our people undertake further education fully funded and supported by the Company.

Our 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.

All new supervisors are required to undertake formal further education qualification in the management field with a minimum level 3 qualification. Many have decided to take the Level 5 Management Diploma to further enhance their skills in this area. In 2020 we had 9 people successfully complete the Level 5 Management Diploma.

Utilising the Apprentice Levy we commenced a 5 year £1.5 million training program in 2018. This will bring all Operational Staff up to a minimum national level 3 standard. It is a significant investment in our people ensuring we have the best people with the best skills delivering the best service for our customers.

"I am delighted to have achieved my M&E Apprenticeship Level 3. This is a result of 4 years hard work especially over the last 12 months due to the pandemic. I am thankful for the support and encouragement of Portsmouth Water and in particular my colleagues."

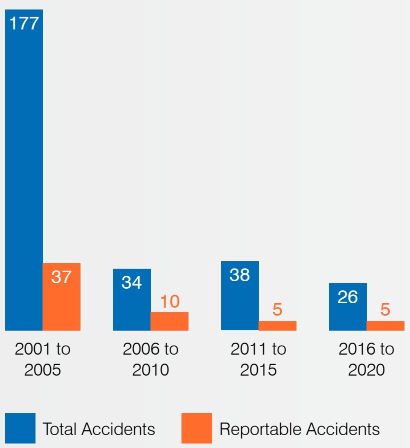
Brandon Davies

MY COVID WORKING EXPERIENCE...

Dave Jupp
Network Technician

As a key worker we had a big responsibility to ensure we carried out all our operational activities in line with Covid guidance. By doing this we were able to continue our core service to our customers – delivering water to our customers 24 hours a day 7 days a week.

Total and Reportable Accidents



Number of Accidents in 2020
We measure the number of accidents through a calendar year. 2020 saw no reportable accidents for the year. A reportable accident means someone has been injured seriously enough to be off work for over 7 days

Overall there were three accidents during the year. The graph shows how far we have progressed in making the Company a safer place to work.

Non-regulated Business

The new initiatives that launched early in 2020 have all continued to develop successfully.

CON29DW
DRAINAGE AND WATER ENQUIRY

CON29DW (Drainage and Water Searches) – The new arrangement with Southern Water has completed its first full year of operation. In the 12 months ending March 2021, Portsmouth Water received and responded to 9,800 residential requests and 510 commercial property requests.

The majority of requests (which require completion of property specific data as well as an underground asset map) were responded to within 24 hours, and provided a richness and quality to the data that had been missing previously – providing the best possible introduction to Portsmouth Water for its newest customers. Despite the shutdown of the housing market for much of the summer, the hastily introduced Stamp Duty Land Tax 'holiday' stimulated demand in the second half of the year.

Linesearch beforeUdig

Water SERVICES

Two other smaller initiatives LineSearchBeforeUDig (who provide real time asset information, online via a secure portal to a wide range of different utility and developer companies) and Standpipe Outsource Management (partnering with Aquam's Water Services division), both launched in 2020, have also faced challenges during the Covid-19 restrictions. Despite this, both have achieved their budgeted revenue, have been well received by customers and are well placed to benefit from the expected increases in usage and demand over the next 12 months.

HomeServe

The fourth new business area launched in 2020 is Portsmouth Water's relationship with home services provider HomeServe. The service offers an insurance backed plumbing and drainage service that provides peace of mind and high quality repairs and maintenance for our customers.

Responses from the initial marketing activities have been 'market leading' and Portsmouth Water has achieved the highest direct mailing response rates of any English Water company. Additionally, the 'Value Added Service' (VAS) activity (where inbound callers into our call centre are offered the opportunity to take out discounted insurance) has also been launched during this year. Despite difficult working conditions during the Covid pandemic, we achieved an overall transfer rate of 2.5% of all inbound calls.

Altogether, numbers of policy holders have grown from 500 at the start of the year to 3,500 – an excellent result given the wider challenges to the home services market due to Covid-19. A wide range of marketing activities and the acceleration of the VAS programme is planned in FY22.

Meter Reading

The Company has started undertaking meter reading services for a number of Non-Household retailers utilising the existing meter reading personnel, with initial activity being focused on providing an ad hoc service for retailers who have a large number of ‘Long Unread Meters’ (defined by MOSL as ‘meters associated with occupied premises that have not had a read entered into CMOS for 12 months).

These long unread meters increase the risk of incorrect customer bills and can impact on the customer switching experience which inhibits progress against wider sector goals such as leakage reduction and improved water efficiency. Portsmouth Water’s IT team have under taken the necessary changes to the current solution to allow for additional retailers to receive their customers’ read and skip data.

Plans are now being developed to invest further in meter reading and field services capability to widen the range of services to NHH retailers as well as improve the experience for our own HH customers, whist increasing efficiency and reducing costs.

Solar Power

Throughout the last 12 months, a number of potential solar sites have been identified and prepared for development. In parallel, a procurement process has been completed and a preferred bidder for panel supply/installation for the first ten sites has been nominated.

These sites have been short-listed due to the availability of suitable land as well as sufficient demand onsite to consume the locally generated renewable power. The objective is to design, build and operate a number of solar assets across the PW estate to generate ‘behind the meter’ power that will support Carbon reduction and bring financial benefits to both the regulated and the non-regulated businesses, by providing an operational power cost saving to and deliver long term security of pricing under a Purchase Agreement.

Geotechnical and shading surveys have been completed for the sites, and the planning process is now underway. It is expected that all sites will complete construction and deliver power before the end of FY22. Once complete, the sites will deliver 3,000MWh of electricity annually, representing about 15% of Portsmouth Water’s total power demand.

Our Environment

> An improved environment supporting biodiversity

Portsmouth Water has made a commitment, as one of our business 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 negative 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), are identified by our surveys as having a high conservation value. They have been designated as Sites of Importance for Nature Conservation (SINC) by Hampshire County Council.

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. The recommendations were collated and prioritised into a programme which was agreed with Natural England and the Customer Challenge Group.

The following conservation activities have been completed in 2020/21;

- Employed an experienced botanist to carry out detailed vegetation monitoring on a number of sites
- Employed specialist consultants to complete invertebrate surveys at one high conservation value site, Whiteways Lodge. This site will be monitored and management arrangements changed if needed.
- Employed a specialist Riparian Mammal consultant to re survey the river system at Fishbourne to see if the improvement works had helped water voles extend their territory.
- The new hedgerows at Soberton Meadows and Clanfield Reservoir were regularly maintained to ensure that they become an improved environment supporting biodiversity and a new line of hazels were planted at Walderton WTW. These projects have increased the connectivity of the habitats on site for the benefit of wildlife.
- Continued scrub and tree clearance at Highwood Reservoir to keep the banks open for the benefit of wildflowers and reptiles.
- Hedge laying at Whiteways Lodge should increase the biodiversity and connectivity of this important site.
- Woodland thinning, coppicing and scrub management was carried out at Lovedean Reservoir, Hoads Hill Reservoir, Itchen WTW, Nore Hill Reservoir, Maindell WTW, Appledown Reservoir, Hoe and Shedfield Reservoir. This will allow remaining trees to have the space to mature, and increase the biodiversity at the sites.
- The site at Nore Hill, Slindon had its Barn Owl box replaced which will give the barn owls needed nesting space for years to come.
- Tree guards were removed from a number of sites, these can cause problems when left on for too long, where possible they were kept to be reused.
- Reed maintenance at Fishbourne was started, this will take a couple of years and will create better habitat for nesting birds and small mammals.

Trail Camera Project

Portsmouth Water has purchased a number of trail cameras to help survey its land holdings. These can take still pictures or short video clips. The project plans to cover all the sites over a couple of years to check local wildlife. To start with basic cameras have been put out onto two sites which we know to have badgers. As the project progresses we hope to expand the range of cameras and sites.

High demand for water event

The warm sunny weather enjoyed by many in summer 2020, combined with additional demand as a result of Covid, created exceptionally high demand for water from our customers. The level of demand rose to 239 Ml in a single day. This is unprecedented in Portsmouth Water's recent history and 34% higher than an expected average summer demand of 178 Ml per day.

The very warm weather – above 30 degrees, combined with the summer holidays and Covid working patterns put a strain on the levels of water flowing out of our storage facilities and into the homes and businesses of customers. This event needed careful management across the distribution and storage network and our Production and Distribution Network teams were dedicated and efficient in ensuring supplies remained constant.

Teams across Portsmouth Water performed exceptionally well to balance the supply of water to our customers, working continuously to ensure customers did not go without water.

Media campaigns took place to promote the use of water wisely. Zonal pressure management was reviewed to assist in controlling demand. These both had positive effects on the demand for water from our customers.

Water storage was balanced across the network to extend the storage capacity evenly.

Our Environment

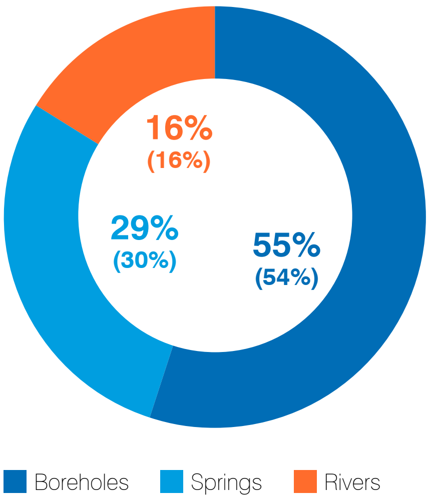
Water Resources in 2020/21
Following a wet start to 2020, we started the year with levels of groundwater in the chalk system around the South Downs above their long term averages. Groundwater levels are a good indicator of the water available to Portsmouth Water as we abstract the majority of our water for supply from the chalk aquifer.

The Spring and Summer were notably dry and the levels of water in the ground fell rapidly, passing below the long term average levels by early July. Groundwater levels stabilised by the end of September and following a very wet autumn returned to above average levels by the end of the year. Whilst this is an unusual pattern, groundwater levels did not come close to the level that would prompt us to implement our drought plan.

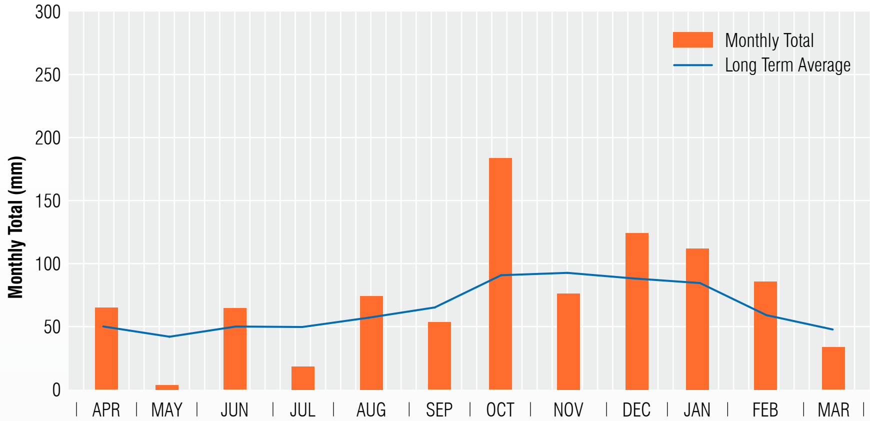
In contrast, the pattern of demand experienced through the year was unprecedented. With Covid restrictions confining many of our customers to their homes, we saw a significant increase in household demand. This increase was dramatically amplified in a number of short periods of very hot weather. Notably in August, during a period of 5 consecutive days of temperatures over 30 degrees Celsius, we had to increase the amount of water we put into supply from 202 million litres to 239 million litres – a new record daily level for the Company.

We have reflected on our experiences through Covid and used that learning to improve the way we predict and prepare for periods of high demands in the future.

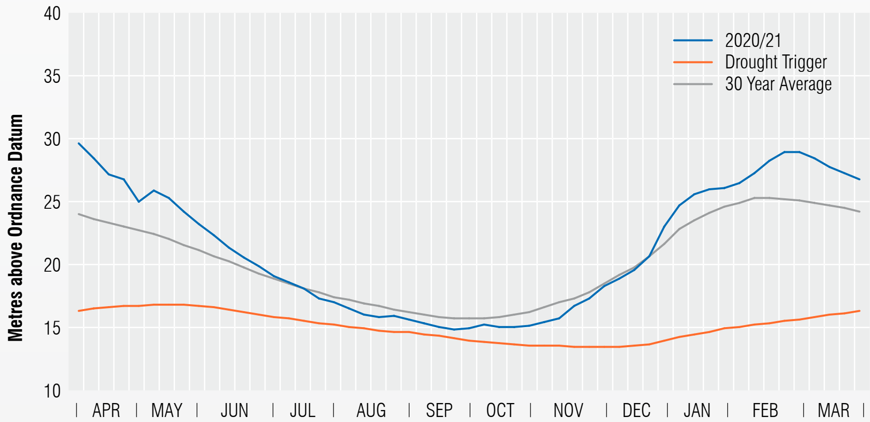
Abstraction Sources 2020/21 (2019/20)



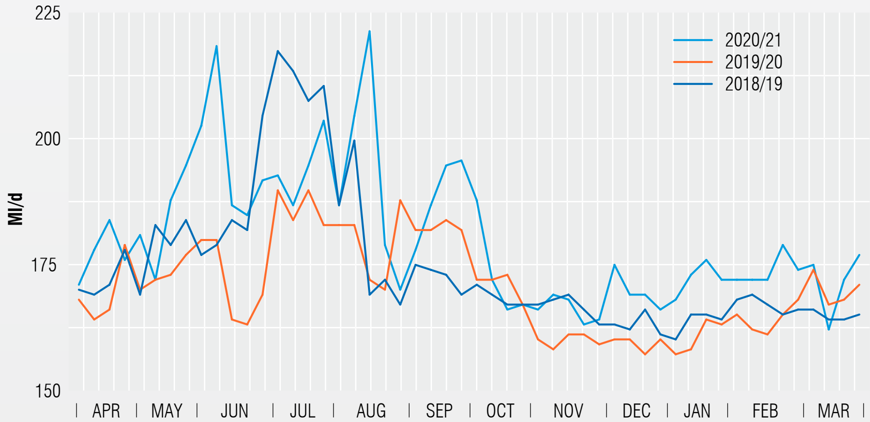
Rainfall at Havant 2020/21



Trends in Groundwater Levels



Distribution Input 2020/21



Strategic water supplies and planning for the future

Led by the statutory requirement to produce a Water Resource Management Plan (WRMP), our strategic water planning work follows a 5 year cycle. The current cycle, that will culminate in our next WRMP in 2024, has a number of significant changes that mark it apart from previous ones.

Regional Planning
The Water Resources national framework published by the Environment Agency in March 2020 has introduced the requirement for water companies to co-operate their water resource planning activity around 5 Regional groups. Portsmouth Water is a member of the Water Resources in the South East (WRSE). This group is working to produce a multi-sector water resilience plan for the Southeast of England, seeking to optimise the opportunities for inter-company transfers to provide the best value plan to supply water into the future. It is expected that all Water Company's own WRMPs will directly correlate with the Regional resilience plan.

Resilience
Historically, Water Resource Management Plans have sought to ensure the resilience of supplies to our customers in the face of the worst drought in the records. In developing our current WRMP we were required to plan to a 1:200 year (0.005% chance of occurring in any given year) drought. For this future planning round the expectation is Regional plans would seek resilience of supplies to a 1:500 year (0.002%) drought. Such a drought does not occur in the historic records and so we are using complex statistics to generate a view of what such an event would feel like and importantly the extra resources and equipment we would need to be in place in order to secure supplies under those conditions.

Planning horizon
Previous WRMPs were required plan for the provision of a resilience supply for a minimum of 25 years. The Water Resources national framework now introduces the need for Regional and Company Plans to plan for a resilient supply out to the year 2100.

At key points as we develop our thinking, we will be engaging with our customers and stakeholders for their views and ideas. This will be important as these significant changes will undoubtedly identify a number of fundamental challenges in the way we source, treat and supply water. Tackling these challenges, in collaboration with our fellow water companies in the Southeast, should provide our region with the most comprehensive and far reaching Water Resource Management Plan for a generation.

Elm Tree Stepping Stones Project

Photo by Leif Wahlberg

Portsmouth Water has for a number of years been working with The Butterfly Conservation Trust. Our site at Fort Nelson has been used to plant varieties of Elm trees to see which is a good disease resistant variety that will grow well in the South of England.

Elm trees are important as the White-letter Hairstreak Butterfly need them to lay their eggs on. These butterflies are in decline due to the spread of Dutch Elm disease in the 1970's. We are now in a position where we are starting to plant the best variety across a few of our sites to provide stations for the butterfly's to land at, lay eggs and fly to the next stepping stone.

Our Environment

Biodiversity Management
We have been planning and carrying out our winter programme of site enhancements including Priority Habitat management. This has been challenging due to Covid-19 restrictions this year though these challenges have been overcome. We successfully launched our Biodiversity Grant Scheme as part of our environmental commitments to enhance the habitat network within Portsmouth Water's catchment area. We received 8 applications this year totalling to just under £50,000. The range of activities include:

- Chichester Ship Canal - Biodiversity assessment of the canal
- Eastleigh Borough Council - River Itchen Himalayan Balsam and Mink eradication
- National Trust – Woodland Ride Creation
- RSBP – Avocet protection scheme
- Fareham Borough Council - Fruit Tree plantation
- Sussex Wildlife Trust –Fen restoration
- Manhood Wildlife and Heritage Group – update to Water vole management plan
- Portsmouth City Council – SSSI restoration

Catchment Management
Our AMP7 WINEP Catchment Management programme has just finished it's first year of a 5 year 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. The results have included putting up to 700 hectares of arable land in to schemes to help reduce nitrate leaching, provided funding to farmers for enhanced soil testing that has enabled better nutrient management plans and we have also carried out a significant number of engagements with farmers, offering 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.

Other work
- Undertaking Catchment Walkover and Abstraction Programme inspections. Catchment walkovers are a DWI requirement for our catchment risk assessments & assist with gaining land use knowledge on the ground.
- Responded to 23 planning applications for development within our groundwater Source Protection Zones to ensure the protection of groundwater quality.
- Extensive meetings and agreements to address the development risks of the Aquind Interconnector cable and sub station National Infrastructure Development.
- Re-launch of joint oil care campaign with DEFRA & EA planned for new year. Mailshot and engagement tactics in place.

Cross Channel Payments for Ecosystem Services (CPES) Project
The Channel Payments for Ecosystem Services (CPES) Project is a cooperation project under the Interreg VA France (Channel) England program and is co-financed by the European Regional Development Fund. The project began in 2017 and will end in December 2022 following a year extension due to the impacts of Covid-19. The project aims to improve water quality of groundwaters, rivers and lakes located in the South of England and North of France through the implementation of Payment for Ecosystem Services pilots in six case-study catchments. The project has fourteen partners all working together towards a common goal. The main objective of the project is to encourage farmers and landowners to adopt land management practices that are more sympathetic to catchment water quality.

Portsmouth Water is leading one of the six case study pilots which consists of four nitrate leaching reduction trials in Portsmouth Water's supply area. The case study pilot has influenced the design of Portsmouth Water's first Nitrate Intervention Scheme launched in April 2020 to safeguard the quality of our public water supply sources. The project will continue to influence Portsmouth Water's Catchment Management Programme going forward for an effective approach to water quality protection.

MY COVID WORKING EXPERIENCE...

Rob Hall
Production Team Leader - Technical

In a challenging year it was great how we worked together in partnership keeping our people safe, caring about their wellbeing whilst still providing excellent service to our customers.

Havant Thicket Winter Storage Reservoir

Benefitting society and the environment for decades to come

We are in a privileged position to be progressing the first water storage reservoir in the UK for decades, providing a flagship project for the South East which will ensure our area thrives during the challenges of climate change.

The reservoir, will boost the resilience of water supplies in the water-stressed South East. It also has a fundamental role to play in protecting two precious chalk streams in Hampshire – the River Test and River Itchen – by supporting Southern Water to reduce the amount of water it takes from them to supply its customers. It will enable the supply of up to 21 mega litres a day of water to Southern Water and will be filled during wetter winter months from surplus water supplies at our springs in Havant.

As well as providing vital water resources, the site will offer many wider benefits to the environment and our communities – enhancing biodiversity, offering recreation, education, health, wellbeing, local employment and training. We will create a new wetland to support threatened species of local and migrating birds, as well as new woodlands, hedgerows and wildflower banks, and are already improving existing woodlands. We began planting new trees in 2019, with a further 3,000 planted in 2020 to create a memorial garden and provide a future foraging habitat for the 13 species of bat recorded on the site.

In addition, we will build a visitor centre, with education facilities as well as play and picnic areas linked to paths which can be used for walking, running, dog walking, cycling and horse riding.

We are keen to maximise opportunities for local employment during the reservoir's construction. We also intend to create opportunities for training, volunteering and jobs locally as the reservoir and its amenities are created and come into day-to-day use, leaving a really positive legacy in our communities.

Progress during the year

This has been a very significant year of progress for the project. We have invested a further £6.8m with total capital expenditure of £14.3m. Four major milestones were achieved; the signature of the commercial Bulk Supply Agreement between the Company and Southern Water, finalisation of the associated financing, launch of two major construction contract procurements and submission of our planning application.

On 29 January 2021 we signed a Bulk Supply Agreement with Southern Water for the supply of 21Ml/d of water. This is a major milestone for the project and the first of a kind commercial arrangement in the water industry. We look forward to continuing our close working relationship with Southern Water on both the reservoir and other regional water resources solutions as part of the Ofwat RAPID programme.

The signature of the Bulk Supply Agreement also allowed us to complete a Group corporate financing of up to £105m over the remainder of the current regulatory period. This supports the significant growth in the regulatory capital value of the business.

The procurement of the two main works contracts was launched in early January 2021. This covers the construction of the reservoir itself and the 3km pipeline from Bedhampton springs which will fill the reservoir. Market responses to the pre-qualification assessment were received in February 2021 and have been positive. The competitive process will continue throughout 2021 and we are expecting to award both contracts in Spring 2022. Detailed design will commence once contracts are awarded and the main activity on site will commence in early 2023.

Our planning application was submitted on 29 October 2020 and we are expecting to know the outcome from the planning committee in the Summer of 2021. We are pleased with the level of public and regulatory support for the project and are anticipating a positive outcome.

We continue to have a positive relationship with Ofwat on the Havant Thicket project. In early 2021, Ofwat made changes to both our licence and the Southern Water licence to support the Bulk Supply Agreement.

Memorial woodland

We have been working closely with Havant Borough Council to establish a new memorial woodland to give local people a place to visit for quiet reflection and to remember those who have passed away.

The scheme, has seen more than 3,000 trees planted, creating an enhanced green space next to where the reservoir will be built. By planting now, the woodland has time to become established.

These additional trees will also create valuable, new wildlife habitat, providing connection between other areas of woodland nearby and further afield. This means birds and mammals, on the site, such as dormice and bats, will be able to move around and feed more easily.

Providing new wetland and wildlife habitats

The reservoir gives us a great opportunity to create a new wildlife conservation area, by developing a 10-hectare wetland on the reservoir's northern edge. This is a key part of our overall environmental mitigation and compensation plan for the project. Wetlands are a vital habitat for wildlife and for people to enjoy and get closer to nature, but they are coming under increasing pressure from pollution and droughts. We will create a sustainable wetland along the northern shore of the reservoir to offer a new home for a wide range of wetland wildlife

The wetland will provide a resilient habitat which will thrive and which can be managed and maintained for decades to come. It will create a diverse ecosystem connecting to other habitats on the site and give people a new green space to enjoy and learn about nature and the environment.

Our Business

The year ended 31 March 2021 was the first year of the current Ofwat regulatory review period. We have made positive progress in delivering against challenging ODI targets whilst addressing the significant challenges of the global Covid-19 pandemic. We have also made significant progress in the development of the Havant Thicket Winter Storage Reservoir (HTWSR).

Covid-19 impacts
We have set out further detailed information relating to our response to the Covid-19 pandemic on page 35. 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 on social distancing. We have successfully implemented new ways of working with the vast majority of employees now working remotely. During this time we have paid close attention to the mental health and wellbeing of our employees. We have worked hard supporting customers through this difficult time increasing the number of vulnerable customers on our Priority Service Register from 730 to 31,690 and supporting customers having difficulty paying. We also initially took a cautious financial approach suspending or reducing certain activities in order to manage cash flow and have managed our financial performance in line with the Covid budget set at the start of the year.

HTWSR
We have made significant progress in the development of the HTWSR and discuss this further on page 25. In particular we were pleased to sign the related bulk Supply agreement with Southern Water and to implement related licence changes. We have also commenced the procurement process for the main works contract and related pipeline with a positive response from the market.

Ownership structure
The Group is wholly owned by Ancala Partners LLP ("Ancala"). This was effected through Ancala Fornia Holdco Limited, the Group's then ultimate controlling party. Ancala is an independent European 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".

Ancala's ownership is effected through Southern Region Water Holding Limited in Hong Kong. Accordingly, Southern Region Water Holding Limited is the ultimate parent undertaking at the year end date. Further information on the group structure is set out on page 47.

Financing structure
Since 2002 the Company has largely been financed through a 30 year (to 2032) index linked loan with a base value of £66.5m. This was drawn in 2002, with inflation risks on the cost of the loan 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 2021 was £111.6m (2020 - £109.7m).

During the year the Group has raised up to an additional £105m of financing over the regulatory period supporting the development of HTWSR and other enhancement capital spend. This is achieved through a combination of revolving credit facilities in Portsmouth Water and our intermediate holding company together with new investor capital. In support of our wider environmental ambition a substantial portion of the new loans are sustainability linked based on a range of existing regulatory targets.

Gearing and liquidity
Gearing is calculated as a ratio of net debt to regulatory capital value. Following the recent Group financing arrangements, with the inclusion of £24.6m of intercompany loans, for the first time there is a divergence between gearing calculated for banking covenants (which excludes subordinated intercompany debt) and gearing defined by Ofwat which includes subordinated intercompany debt.

At 55.7% gearing for banking covenant purposes has fallen following the recent refinancing. Gearing as defined by the OFWAT methodology of 70.3% is broadly in line with the prior year of 71.1%.

Gearing has been impacted by the growth in RCV of £13m as a result of inflation plus Havant Thicket Winter Storage Reservoir additions.

During the year the Company and the Group undertook a refinancing exercise, raising financing of up to £105m, primarily to support the development of the new reservoir project. At the year end £32.1m of this financing had been utilised.

The Company also had a revolving credit facility available of £25m - £2m of which was drawn down at the year end.

The cash balance at the year end was £28.4m.

Interest Cover
At 31 March 2021 the interest cover ratio, defined by the covenants associated with Company's index linked loan, of 2.04 times (2020 – 1.59 times) remains comfortably above the 1.40 times at Portsmouth Water level covenant required.

Return of regulatory equity (RoRE)
RoRE, of 7.15% is reflective of the growth in RCV of £13m between FY20 and FY21 (6.62%).

Review of Trading Performance
Operating Profit after exceptional items
Operating profit at £7.8m shows an increase on the prior year of £4.2m. This is as a result of no exceptional social security costs payable in the current year as well as movements in revenue and costs as discussed below.

Revenue
Turnover of £42.0m (2020 - £43.1m) shows a £1.1m decrease from 2020. This decrease is due to a significant reduction (£1.9m year on year) in the consumption charge generated from Non Household water customers who have required less water whilst Covid-19 lockdown restrictions have been in force. Unmeasured revenue has fallen by £1.2m from 2021 to 2020 as a result of meter optants and lower tariffs. Offsetting this is an increase of £0.8m generated from higher consumption by

household measured customers which has been driven by consumption patterns during Covid when customers were advised to stay at home and £1.2m increase in revenue from Chargeable Works – most notably Mains Diversions. This is driven by a higher-than-normal level of activity of new infrastructure work which has been undertaken in our area of supply.

Operating costs
Operating costs at £34.1m show a £0.9m reduction year on year. This movement is explained by an £0.8m reduction in our mains renewal programme, £0.7m reduction in professional fees and a £0.3m reduction in staff costs. Additional chemical spend of £0.2m driven by higher demand for water, £0.4m of additional catchment Management spend and £0.3m of additional customer services activity.

Exceptional items
One exceptional item has been charged to the income Statement during the year. This £91k relates to the Covid bad debt provision which is held as a result of the economic impact on customers of the pandemic.

Last year, Exceptional items included the social security cost payable by the Company relating to a distribution of sales proceeds to employees. This was the final year of the distribution. It also included additional Covid-19 related bad debt provisions.

Interest payable & other finance income
Total interest payable for the period is £6.309m (2020 - £7.296m) and showed a slight decrease relating to the movement in RPI year on year. Other finance income is driven by the net return on the pension scheme asset of £0.479m (2020 - £0.672m).

Taxation
The tax charge in the period of £0.717m is split between current year tax payable on the profits of the Company (£175k) and deferred tax charges of £542k. The deferred tax charge relates to short term timing differences.

Dividends
Dividends are consistently calculated based upon two elements – a return on the equity component of the Regulatory Capital Value (RCV) and a "recirculating" element which permits interest on certain intercompany loans receivable to be serviced. This second element is received by the Company in the form of interest payments and does not result in any net cash outflow.

As part of the Company's PR19 business plan submission a revised Dividend policy was adopted. This is centered upon a base dividend reflecting a 5% return on the average equity RCV for the year. This is then further adjusted (upwards or downwards) depending upon the following factors which reflect financial resilience and overall Company performance;

- Overall financial performance of the appointed and non-appointed business
- Reflecting the Company's performance against commitments to customers and stakeholders.
- Demonstrating financeability tests to ensure sufficient liquidity for the medium term and testing the financial viability of the company.
- Recognising Regulatory requirements in particular Licence Condition F.

Following the emergence of the Covid-19 global pandemic in early 2020, the Board confirmed its intention to suspend dividend payments until the full effect was better understood. Accordingly no final dividend was declared in respect of the year ended 31 March 2020. Interim dividends declared and paid during the year related solely to the recirculating amounts explained above totaling £1.1m.

In March 2021, following careful consideration of the relevant factors, the Board concluded that dividends could be resumed. In reaching this decision the Board also decided to first repay all amounts received by the Company under Government furlough arrangements. Accordingly final dividends, in respect of the financial year ended 31 March 2020 of £1.7m and in respect of the year ended 31 March 2021 of £3.5m, have now been declared.

Capital investments
Gross capital investment in the year was £17.0m (2020 - £19.7m).

As a result of the revised capital programme put into place as part of the Covid measures, the total spend decreased year on year. However a catch up programme is in place for the remainder of the AMP.

Of the £17.0 of additions, £6.8m related to the HTWSR project, £1.4m was spent on Contact Time chlorination projects and £0.9m for the Eels screen projects. As these are long term projects in nature, the majority of this cost remains within Work In Progress and will be capitalised at a later date.

Further information on the capital programme is set out in the Engineering Report on page 30.

Mains activity

	2020/21 £m	2019/20 £m
Renewals charged in the income statement	1.2	2.0
Mains capitalised	1.1	2.4
Total mains investments	2.3	4.4

During the year the Company renewed 4.3km of mains (2020 – 8.1km) at a cost of £1.2m (2020 - £2.0m) charged to the income statement.

A further 3.8km (2020 – 6.9km), of new mains and enhancements to the network were capitalised at a cost of £1.1m (2020 - £2.4m).

Capital contributions
The Company receives capital contributions, primarily in connection with new mains for housing developments, which amounted to £0.8m (2020 - £1.6m). In accordance with the requirements of FRS 102 these contributions are deferred and amortised to the Income Statement.

Pensions
The Company is the principal employer of the Brockhampton Pension Scheme, a defined benefit scheme. The latest actuarial valuation as at 31 March 2021 was carried out in accordance with FRS 102 and shows a net pension asset (after asset ceiling restrictions and deferred tax) of £17.6m (2020 - £15.5m).

Cash and cash flow
Cash generated from operations of £7.8m is less than the prior year of £10.8m. This reduction is explained by a fall in customer cash collections £0.7m and the payment of prepaid refinancing fees of £2m (some of which has been recharged but not settled by another group company).

Non Regulated Business
The Non Regulated business accounted for £0.2m operating profit in the year. This was primarily achieved through CON29DW (Drainage and Water) Searches and meter reading services for Non Household retailers, both of which generated £0.2m revenue. Staff costs incurred in delivering Non Regulated activities is the largest cost, at £0.2m.

Tax Strategy

Corporate Structure
The Group structure is set out on page 47. The Group is wholly owned by funds managed by Ancala Partners LLP ("Ancala") through a Hong Kong domiciled holding company Southern Region Water Holdings Limited.

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 values of Integrity, Excellence and Respect.

Corporate Interest Restriction
Corporate Interest Restriction is applied at a group level and the tax cost is incurred at group level.

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 tax affairs is delegated to the Group 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 operating costs in the water industry.

Capital Allowances
As with all large infrastructure companies, we manage our application of Capital Allowances carefully. This ensures we maximise legitimate taxation opportunities where possible.

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. This extends to the recently implemented IR35 legislation.

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.

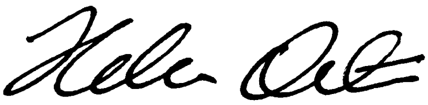
Employee responsibilities
Our code of conduct sets the standards of behaviour we expect all employees to adhere to and if employees are ever asked to act in any way that could facilitate tax evasion, this must be reported without delay. This is formalised through our whistleblowing policy.

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 underpin 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

Our approach during Covid
At all times during the Covid-19 pandemic, the Company paid over all taxes as and when due. Whilst deferment periods were available for utilisation, the management of the Company considered this to be the fairest approach.



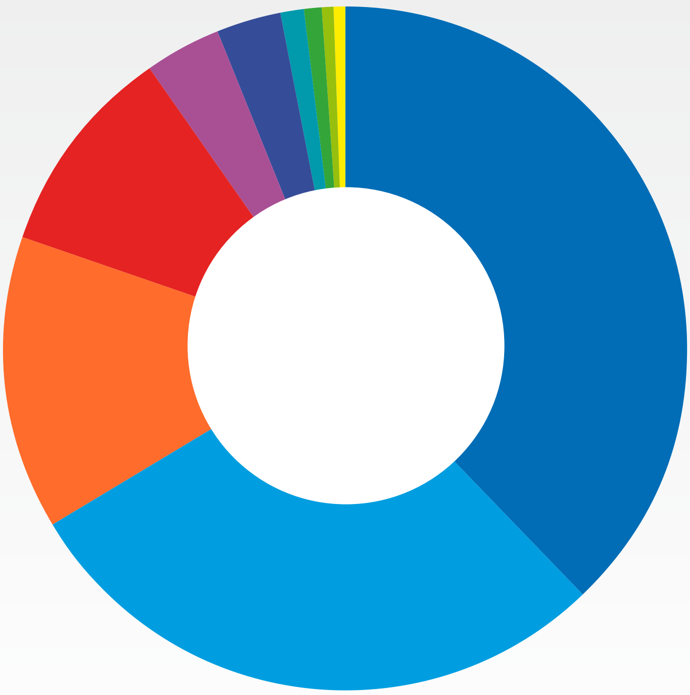
Helen Orton
Finance & Regulation Director

MY COVID WORKING EXPERIENCE...

Ben Potts
Financial Analyst

I have found that the business' flexibility during Covid has allowed me to manage my work life balance well, allowing me to meet the increased workload that Covid has brought with less stress. It has also given me more time to bond with our new dog.

Portsmouth Water paid the following amounts of tax in the current year



Business Rates	£2,422k
PAYE	£1,840k
Employer's NI	£881k
Employee's NI	£641k
Climate Change Levy	£232k
Permit Schemes	£187k
Fuel Duty	£70k
Insurance Premium Tax	£62k
Road Fund Licence	£34k
Apprenticeship Levy	£27k

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. Further information on the major Havant Thicket Winter Storage Reservoir project is included on page 25.

Mains Renewal (Below ground assets)

The impact of the coronavirus meant our Mains Renewal programme was stopped for 3 months between April and June. We restarted in July ensuring Covid compliance and by the end March 2021 had laid 8.1km of mains in line with our revised programme. 74% of this main laying was undertaken using no dig methods. The continued use of these methods to renew mains reduces the impact on customers and local communities and is a more efficient way of completing the work when compared to methods requiring open trenches.

Customers continue to give very positive feedback with 93% (87.5% last year) rating the work and associated communication either ‘good’ or ‘very good’.

Non Infrastructure framework contract (above ground assets)

Some elements of the our non infrastructure investment programme were paused at the start of the coronavirus pandemic and are reprogrammed to be completed in 2021/22.

We have just completed a 9 month procurement exercise for our AMP7 non-infrastructure framework contract. Trant Engineering were awarded our 4 + 5 year contract in March which aligns the company with one delivery partner who has design, offsite build capability, civil, mechanical and electrical expertise to help deliver the key elements of our investment programme. Our robust approach ensures we have a partner who can provide value for money and efficient delivery whilst working in alignment with our ODIs.

Water Quality

Our works on implementing our revised disinfection policy and strategy has continued. Trant Engineering, who were awarded the contract for the rebuilding of Lavant WTW, are working closely with us on the design and planning approval. We have created a new programme of works, entitled: Water Quality 2020 & beyond. This is as a result of a recent DWI audit and encompasses all water quality and CT related schemes as well as provision of documentation, O/M manuals, training of staff and aligning with industry best practice.

Eel screens

We have installed a new set of screens at the intake of our River Itchen Water Treatment Works, and are now compliant with the Eel (England and Wales) Regulations 2009. These screens will stop protected eels and lamprey from entering the works and helps protect their habitat allowing their numbers to increase. The eel screens were installed by our contractor Barhale during the summer of 2020 and we have received positive feed back from the Environment Agency following the successful completion of the project. Our work was undertaken at such times to minimise our impact on the river and the local environment.

Developer Services

In a challenging year for developers, that saw the temporary closing of development sites in Lockdown 1, we continued our strong D-MeX performance, from the shadow year into 2020/21. At the time of writing, year end D-MeX performance was still to be published. Year to date we have achieved sector leading performance in the D-MeX relationship satisfaction survey.

We continue to implement improvements based on the feedback we receive from developers on our service delivery. Improvements in 2020/21 included provision of digitally produced mains designs and the development of a Developer Services online bilateral portal.

During 2020/21 we have continued to see a good rise in the number of applications from Self-Lay Providers, and also an increase in the number of applications from New Appointments and Variations (NAVs).

We have seen a smooth transition of the Water adoption codes which came into effect on 1 January 2021. The Codes for Adoption are the agreements that developers and Self-Lay Providers enter into when they want an appointed water company to take over responsibility for infrastructure they have constructed.

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. We have provided more information on some of these issues later in this section.

Covid-19

The impact of Covid-19 on the business, society and the UK economy is still highly uncertain. However, what is clear is that it will continue to have a significant impact upon business operations and the wider economy in the forthcoming year and possibly beyond that. We have responded swiftly and effectively to mitigate the ongoing impacts – focusing on the delivery of our core, essential, services. We have set out more detail in relation to our Covid response on page 35.

Regulation

The water industry is highly regulated (see page 32 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 receive from customers.

The Environment Agency ('EA') regulates the amount of water that we are allowed to take from the Environment and the quality of what we return. 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 and a further, cross border, supply to Southern Water.

The Drinking Water Inspectorate regulates the quality of water that we supply to our customers and sets the standards required.

Brexit

In 2020, leading up to 31 December, we continually reviewed potential risks in the event of a no-deal Brexit. We assessed activities against the risks as they emerged from Central Government, DEFRA and the Local Resilience Forums.

Measures were put in place to mitigate risks to an acceptable level. We have had representation on the Water UK OSG groups that feed into Brexit planning for the water sector, including the Platinum Incident Management, National Incident Management, Chemicals and Communications groups. These groups ensure risks are aligned and information can pass between all parties to improve the effective management of any Brexit related incident.

To date there have been no EU Exit issues and we note the Government has recently pushed back the date to introduce customs arrangements on EU imports from 1 July 2021 to 1 January 2022, which we will continue to monitor.

Resilience of regional water supply

The South East of England faces the dual challenges, in both the near and long term, of continued population growth and the impacts of climate change upon water resources. Most of the South East, with the exception of the area supplied by the Company, is currently designated as an area of 'serious water stress'. Predictions also suggest that this part of the UK may be disproportionately impacted in the future by climate change resulting in atypical weather patterns. In addition there is a need to protect the natural environment through the reduction of abstraction from chalk streams such as the Test and the Itchen.

As a result of these pressures, the Company continues to focus on balancing supply and demand for water. We are currently lobbying for our water stress status to be re-designated in order to allow us to compulsory meter customers. We recognise metering as being the fairest way to charge for water consumption and as an important tool in managing water consumption.

Through the development of Havant Thicket Winter Storage Reservoir together with future water resources developments through the Ofwat RAPID programme, we will strengthen our role as a regional water supplier.

This significant 10 year reservoir 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.

As a local company, the community is at the heart of our business. We have developed a Community Partnership, which has a focus on helping the most vulnerable within society. We have commenced ambitious plans to help more customers than ever before by expanding our Priority Service Register and increasing numbers of customers assisted via our Social Tariff. We will achieve this by working closely and collaboratively with support agencies, utilities and other key stakeholders.

MY COVID WORKING EXPERIENCE...

Kim Rowe
Customer Services Supervisor

During this time we have faced many challenges that we have not encountered before and found it difficult at times managing a large team who were at home. Despite these challenges we have kept in contact with everyone on a weekly basis and have still given excellent customer service with us remaining number 1 at year end for C-Mex, this results reflects the hard work that the Team have put in over a very difficult year.

The Issues That Affect Us

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 to monitor 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.

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 (CCW) is the independent voice for all water consumers in England and Wales. It was established to provide consumers with strong representation, making sure that customers are at the heart of decisions made by water companies. It provides free advice to consumers and keeps them informed on the issues that affect their water and sewerage services. CCW monitors 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 its evolution through its continued work with the Code Panel.

Our Stakeholders

Our Customers and our community
Customers are at the centre of our business and we are continually reviewing the services we provide and how we can improve them. We supply water to over 322,000 households and 16,000 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 people we serve, having supplied drinking water locally for over 160 years.

- Most of our employees are from the local area
- We have a partnership with Staunton 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

We have recently formalised our commitment to the communities that we serve through our Community Partnership.

Customer Challenge Group
The independent Customer Challenge Group ('CCG'), 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 performance against the regulatory Business Plan.

Our employees
One of our primary objectives is that our employees return safely to their families at the end of the working day and customers are safe when we are working near their homes or when they are near our sites. The Board of Directors sees Health, Safety & Wellbeing 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, Safety & Wellbeing perspective
- A focus on both physical and mental health & wellbeing.

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 appropriate 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 47 the Group is owned by Southern Region Water Holdings Limited, an investment holding company for a UK based infrastructure investment fund.

We are financed through an existing index linked loan together with up to an additional £105m of debt, recently secured across the Company and the Group, to finance growth in the business. These facilities all include a financial covenant structure. 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 & business partners
Suppliers, business partners 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. We use strategic business partnering arrangements to ensure high quality services delivered efficiently. Our suppliers range 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 deal with our suppliers with a '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. We apply the requirements of the Modern Slavery Act to our supply chain and set out our Statement in this regard on the Company's website. Our business terms and policies reflect the requirements of IR35.

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.

Customer Challenge Group Report on ODI performance 2020/21
The Customer Challenge Group (CCG) provides independent challenge and assurance on the quality of the Company's customer engagement and it monitors and reviews the performance against the Outcome Delivery Incentives (ODI).

ODI Performance 2020/21
The Company met 21 of the 26 Outcome Delivery Incentive (ODI) measures. In particular the CCG are very pleased to note the continued improvements in a number of the ODIs - particularly leakage, interruptions to supply and C-Mex. It is disappointing to note that the Company failed to meet 5 ODIs:

- **Mains repairs** were adversely impacted by a higher than average level of repairs in January 2021.
- **Per capita consumption.** There is clear evidence to suggest that the volume of water delivered to households has seen a step change in 2020/21 as a result of restrictions in place to manage the Covid-19 pandemic. The CCG accept this position but re-iterate its challenge to increase metering.
- **Voids.** The Company has not hit its void target, in part, due to the need to change operations to address Covid-19 when it ceased meter reading and visits to properties.
- **Biodiversity.** Following significant progress in recent years the CCG are disappointed that the Company cannot demonstrate it has maintained this performance in 2020/21. The CCG understands that operationally this was a challenging year and that other issues took priority. We are pleased that the Company has employed an additional two members of staff to undertake this activity.
- **Vulnerability survey**. The Company narrowly missed its satisfaction rating by 1%. This is still a good result, given the challenges during this year.

The Company has been transparent in explaining performance, and the CCG considers that we have a good understanding for the reasons and mitigations the Company has put in place to improve in these areas.

Lakh Jemmett
Chair of Customer Challenge Group
27 May 2021

The Issues That Affect Us

Water Resources Management Plan

On the 1st April 2020 the latest iteration of our Water Resource Management plan went live.

Our plan describes how we will meet the ever increasing demands for water resulting from population growth, climate change and tightening environmental requirements. The key component of our plan is the construction of the Havant Thicket Winter Storage Reservoir, the first to be built in the South East since the 1970s. This will allow us to provide greater bulk supplies to our neighbour, Southern Water, into their Hampshire zone, which is in deficit. The project will be complete by 2029.

Furthermore, we have an ambitious programme to work with customers to reduce their household usage. There are many elements to this programme - including a greater use of metering.

Regulatory Price Review 2020-2025 and beyond

In 2019/20 the industry concluded the process of the 2020-25 Regulatory Price Review. This process is managed by Ofwat, the industry regulator and sets the revenue we may recover from customers each year, the levels of return to investors and drives improvements in the levels of service to customers.

This determination was challenging in many areas but particularly in relation to the allowed cost of capital, which puts pressure on our financeability.

We were also pleased with the strong support received for Havant Thicket Winter Storage Reservoir (HTWSR) from our regulators, local people and wider stakeholder groups.

As the first year of the regulatory period the business implemented its plans to meet the stretching performance commitments that we agreed. We have worked hard to reduce any adverse impact on this performance as a result of the Covid-19 pandemic. However, we note there have been consequential impacts in some areas most notably in the patterns of household consumption. We plan to continue a dialogue with Ofwat in relation to these impacts.

We are also working alongside Southern water in the programme to deliver additional water resource schemes under the RAPID programme.

Finally we are beginning the process with regulators, stakeholders and our Board to develop a strategic approach to the challenges of the next price review - PR24. Most notably we anticipate significant work streams in delivering resilient water resources, carbon reduction and environmental mitigation.

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.

Governance arrangements
Leveraging our emergency response plans we acted quickly mobilizing a Coronavirus Incident Team in mid- February 2020. A full review of the relevant business continuity plans was undertaken, and an action plan formulated which was approved by the Board and used throughout to manage the rapidly changing situation.

Executive meetings were held twice weekly with regular updates to the Board and the Company was represented on Water UK Platinum Incident Management, National Incident Management and Local Resilience Forum Groups. We have also worked closely with other stakeholders throughout the pandemic.

A formal Board reporting dashboard was prepared and circulated, to support the Executive and Board Covid meetings. This included a Covid risk register, enhanced reporting of "leading indicators" and extensive financial modelling of the impact and related mitigants. At least weekly Covid updates have been maintained with the senior leadership. Board Covid meetings, initially weekly, were reduced to fortnightly and eventually monthly as business risk dictated. A working group was set up to advise the business as the Government guidance and regulations were updated through the year. Weekly zoom briefings were held for all staff.

Operational response
Initially we took a very conservative approach to our response both in terms of maintaining financial headroom and managing our activities safely within Government guidelines. This meant that, initially some activities – particularly those that involved working with others or with members of the public, were suspended in the short term.

We acted quickly and wherever possible have enabled staff to work from home. Where this is not possible we worked with our staff, suppliers and contractors to enable new – socially distanced – ways of working. At all times we have followed Government guidelines. This allowed activities, which were initially suspended, to recommence fully or on a modified basis.

Our modified approach to working has allowed us to maintain lower than average levels of absence due to illness or self-isolation with a rate no greater than 5% at its most significant.

We have been particularly focused on supporting our customers increasing the number of customers registered for "Priority Services" by 30,960 customers to a total of 31,690 (10% of our customer base). We have also increased the number of customers on our social tariff and worked pro-actively to support customers having difficulties paying.

Recognising the mental health implications of the pandemic we stepped up our support for employees, with additional mental health training and programmes. We worked hard to keep everyone connected with regular company-wide calls.

Changes in patterns of usage resulted in a significant increase in household "per capita" consumption (PCC) levels – driven by "stay at home" advice. This has dramatically increased PCC and, if not rebased, will result in additional financial penalties. Whilst recognising this effect Ofwat is still to consult and conclude on the approach that will be taken to this matter. In the interim Ofwat has confirmed that any ODI penalties will be deferred until the end of the regulatory cycle.

Financial impacts
We entered the current regulatory period with lower financial headroom and therefore took a very cautious approach to managing the financial impacts of Covid. Undertaking extensive financial downside modelling we undertook an immediate reforecast exercise which was reviewed and approved by the Board.

A number of mitigating measures were planned and executed including increasing our revolving credit facility, suspending dividend payments and reducing activities to conserve costs. We also made significant additional bad debt provisions at the end of the 2019/20 financial year.

Our financial outturn has been largely in line with this Covid reforecast and our 2021/22 budget has been prepared on the basis that some level of Covid disruption continues. Whilst we initially took advantage of the Government furlough scheme placing 44 employees on furlough and receiving contributions of £220,000 we have subsequently repaid this support as we have managed the financial downside effectively. We will also plan to recommence deferred dividend payments.

Our key financial ratios and covenants have and continue to be forecast to be met.

The Issues That Affect Us

Statement by the Directors in performance of their statutory duties in accordance with s172(1) of the Companies Act 2006

The Directors of the Company have a duty to promote the success of the Company for the benefit of its members as a whole, as set out in Section 172 of the Companies Act 2006. In doing so, the Directors must have regard to the needs of, and impact on, our stakeholders and other matters described in the section.

The Board of Directors consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, in the decisions taken during the year ended 31 March 2021. In doing so the Directors have regard to the range of stakeholders and matters set out in s172(1) (a-f) of the Act.

We have set out more detail, throughout our Strategic Report, and have provided further references below;

a) The business is one with particularly long term horizons. Accordingly all business decisions made by the Board are made with regard to the longer term implications. This is evident in the long term business planning cycle and runs through our Annual Report, particularly "Our Company Purpose" "What we do", "Our Strategy", "The Issues That Affect Us" and "Principal Risks & Uncertainties". This is further underpinned by Corporate Governance.
b) The interests of the Company's employees are explained in "Our People" and in particular how we promote a 'values based' culture, assess employee satisfaction and ensure Health and Safety.
c) The need to foster the company's business relationships with suppliers, customers and others is set out in "The Issues That Affect Us" particularly within the section covering stakeholders. We have also explained our payment practices and performance.
d) The impact of the Company's operations on the community and the environment are primarily covered in "Our Customers" and "Our Environment".
e) The desirability of the Company maintaining a reputation for high standards of business conduct is covered in our Corporate Governance statement.
f) The need to act fairly as between members of the company is covered under the 'Ownership Structure' and as part of the wider Corporate Governance statement.

In particular the Directors have considered their approach with reference to the most significant decisions made in the business during the year;

The Company's response to Covid-19:
The Board set and monitor a strategy to respond to the effects of the pandemic. Further information on the Covid response is included on page 35.

- The Company response supported the dual objectives of continuing to deliver essential services whilst ensuring that the long term viability of the Company is protected.
- The Board's considerations have included wider stakeholder groupings, particularly how we support local communities & vulnerable customers, working effectively with & supporting suppliers and consulting regulators. For example we added all over 70's to our priority services register.
- Our employees have been a key consideration in our response – both in terms of their safety and their commitment to working flexibly to support business operations. We have developed new ways of working to ensure we remain engaged fully with our employees.
- As the Board of Directors, our intention is to behave responsibly and ensure that the management team operate the business in a responsible manner, with high standards of business conduct and good governance during this difficult time.
- As the Board of Directors, our intention is to behave responsibly toward our shareholders particularly in ensuring we respond appropriately to protect the long term financial resilience of the business.

The key decisions relating to the delivery of Havant Thicket Winter Storage Reservoir including related financing:
Key decisions during the year have included the agreement of the commercial terms between the Company and Southern Water, the submission of Planning applications, revision to the Company license, agreeing external facilities, across the Company and the Group, for up to an additional £85m of debt and additional investor capital of up to £20m. More about HTWSR is included on page 25.

- The strategy to utilise our strong water resources position and land to develop a long term asset and contractual arrangement (80 years) was designed to provide a long-term beneficial impact on the Company and the wider region. Commercial terms have been designed to align with this objective
- We have consulted extensively, with employees, local communities, suppliers & delivery partners, regulators and regional bodies. This will ensure that the HTWSR delivers the right benefits across the multiple interested stakeholder groups, as informed by their views.
- Plans for HTWSR take into account how it impacts our environment, both in terms of creating a lasting legacy, with a net biodiversity gain and how it allows a reduction of the impact on sensitive chalk stream habitats in Hampshire. This has been reflected in Planning submissions.
- As the Board of Directors, we have been closely involved in the HTWSR project including a non-executive presence on key programme governance committees and Board approval of key decisions. This has included the approval of Licence changes.
- The Board of directors has been closely involved in the process of developing and executing a financing strategy including engagement with relevant stakeholders.
- As the Board of Directors, our intention is to behave responsibly toward our shareholders and investors and treat them fairly and equally, so they may benefit from the successful delivery of this major capital programme.

Report On Payment Practices and Performance

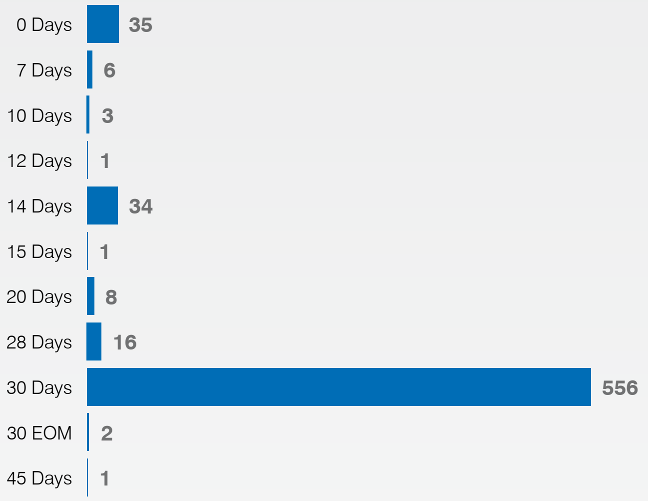
Ensuring a collaborative and good working relationship with all of our suppliers is key to the operational success of Portsmouth Water.

We are aware of the importance of being paid on time and within a reasonable period 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 2021.

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 Procurement 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 term is 45 days.
- Change of payment terms occur rarely. However, this would be on an individual supplier basis and changed through a collaborative process.
- 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 which continues through our procurement and framework processes

Supplier Payment Terms



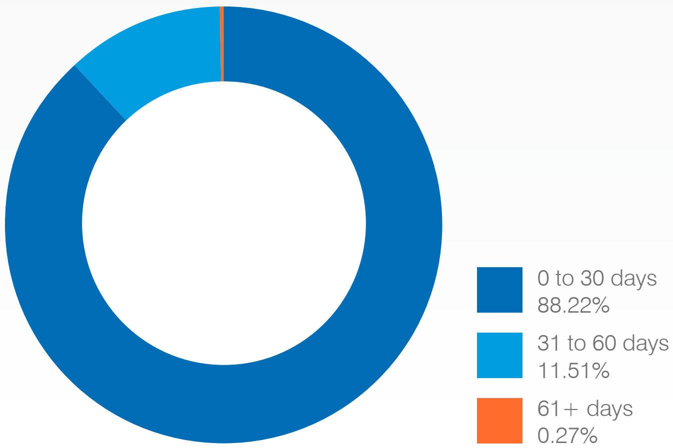
Suppliers on zero day payment terms are generally paid by direct debit

Extensive work has been carried out during the year to streamline our supplier processes.

Invoices with a receipt date between 1 October 2020 and 31 March 2021*

Total number of those invoices paid	7,292
Total number of those invoices unpaid	1,042
	8,334
Total number of those invoices unpaid but due	92

Breakdown of Percentage Paid



Average number of days taken to make payments within the dates above from receipt of invoice*	21.29 days

Those due for payment within period up to 31 March 2021*

Not paid	1.10%
Not paid within terms	27.06%
Not paid within 30 days of receipt	10.31%

**Statutory disclosure requirements*

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 make sure we keep risk management at the heart of what we do. We have revised the assessment of the 'Operational & Financial' risk categories in terms of both likelihood and trend to reflect the impact of the ongoing Covid-19 pandemic. We have also set out more detail, in relation to the financial and operating implications, of Covid-19 in the Strategic Report on page 25.

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 or impact of major national event including contamination of raw water sources.	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 including water resources	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 including the impact of Covid-19.	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	🟢	🟠
Major programme delivery	Delivery of Havant Thicket Winter Storage Reservoir	Major programme delay, cost overruns and regulatory ODI penalty.	Operational Reputational Financial	🟢	🔴
IT	Significant cyber-attack on the Company	Loss of critical computer systems resulting in failure to operate business as usual activities.	Operational Reputational Financial	🟠	⚫

KEY TO OCCURRENCE

Likelihood of occurrence
● Low ● Medium ● High

Impact of occurrence
● Negligible ● Moderate ● Serious ● Catastrophic

The table on pages 10 and 11 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 46.

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. - Innovative programme to reduce risk of domestic oil spills & mobile treatment (GAC) facilities which can be re-deployed in the event if an incident.
↑	- 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. - A programme responding to DWI notices which includes changes in process, structure and culture.
↔	- 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 led 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. - Renewed emphasis on mental health wellbeing.
↑	- 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. - Work in conjunction with WRSE programme and contribution to development of RAPID water resources programme.
↑	- 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) supporting 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 is 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.
↔	- Performance against regulatory targets is reviewed on a monthly basis by the Board and 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.
↑	- Detailed risk register and risk management process - Appropriately experienced and qualified programme management team - Signed contract with Southern Water sets out key terms and protections - Specific regulatory protections including cost adjustment mechanism and licence obligations - Appropriate financing arrangements have been executed
↔	- We leverage a mix of technologies, threat intelligence, training and network isolation in order to protect, detect, contain, respond and adapt to the continuously evolving cyber threat. - 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.

Viability Statement

1. Assessment of prospects

The Board has assessed the prospects of the Company over a period of 10 years.

Background information

The Company's business model and strategy are central to an understanding of its prospects. Further explanation of the business model and strategy can be found on pages 8 to 11. 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 2020 to 31 March 2025 and for the Havant Thicket price control for 10 years to 2030) 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 the regulatory period. In addition we have extended our assumptions for the core business in order to reflect our estimate of the regulatory outcome (for the core business) for the period to 2031. More information in respect of the regulatory regime is set out in pages 31 to 36.

The Company has just completed the first year of the current regulatory cycle 2020-2025 (for the Havant Thicket price control the period from 2020-2030) and together with an estimate of the regulatory outcome for the period to 2031 considers that this represents the best indication of future operating activity and financial results.

The Board continues to take a balanced approach to the Company's strategy. The business' focus is largely on delivering the agreed regulatory Outcomes and out-performing the operating costs set out in the Ofwat Final Determination. 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 lower allowed cost of capital, the development of Havant Thicket reservoir and a more challenging regime of rewards and penalties.

Given the current circumstances of the Covid-19 pandemic and its impact on business operations and the wider economy, the Board has also considered the Covid-19 impacts which have been included in the underlying budget together with a scenario modelled on a further period of full lock down.

The assessment process of the Company prospects;

The Board recognises that the assessment of viability is dependent upon forecasts which, by nature, involves a significant element of uncertainty.

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 financial position set out in the Ofwat Final Determination for the core business period to 2025 and Havant Thicket price control to 2030 which drives the key budget assumptions. This has been extended to cover a longer term, 10 year duration.

The budget prepared included;

- Detailed budget analysis by department for the forthcoming (2021/22) financial period.
- Long term analysis to 2025 in line with the Final Determination.
- Cash flow projections to 2025.
- 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 and 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 2025 regulatory period) and related objectives, led by the CEO and Finance Director, through the Company's Budget Committee. 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 Company's submitted business plan and 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 January and February 2021.

The key business assumptions in the budget related to;

- The extent and duration of ongoing effects of the Covid-19 pandemic
- Increase in CPI(H) (which drives tariffs and costs)
- Levels of capital and renewals spend and related efficiency and cost savings
- Levels of capital spend relating to Havant Thicket reservoir and additional funding to finance this growth in RCV
- Headcount and salary increases
- Interest rates and loan indexation rates
- Levels of operating expenditure out-performance against the final determination and targeted cost savings
- Levels of activity and cost related to delivering key ODI improvements – particularly leakage and PCC.

Risk assessment

The Company 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 assessment was completed and updated in March 2021. As part of the PR19 Business Plan process the Company also performed an assessment of "resilience in the round" building from an understanding of operational risks through financial resilience and with regard to overall company resilience including governance and management effectiveness.

The overall summary of the principal risks and uncertainties (set out on pages 38 and 39) reflects this consideration of "resilience in the round". Details of the Board risk assessment process are set out on page 55. 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 and considered the impact of the current Covid-19 pandemic.

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 10 years to 31 March 2031. The Board considers that this period of 10 years to be most appropriate given the current stage of the regulatory review cycle, the longer term nature of the business and the new 10 year Havant Thicket price control. This period covers; for the "core business" the 4 years remaining of the next regulatory period and an assessment of the results for the successive 6 years; and for the Havant Thicket price control the 9 years to the end of the price control and the successive year. This is consistent with the timing of the regulatory review cycle and an expectation that, for the subsequent regulatory periods, Ofwat's methodology will not be significantly changed. This is also consistent with Ofwat's guidance relating to the period of assessment.

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, the delivery of Havant Thicket reservoir and the related Outcomes are significant drivers of the business strategy & performance. In addition the Board has considered the impact of the Covid-19 pandemic. These are key drivers to the end of the next regulatory period and beyond to 2031.

2. Assessment of viability
The Assessment of Viability therefore uses; for the "core business" a period of 4 years of regulatory business plan to 2025 and a further 6 years of projection to 2031; and for the Havant Thicket price control a period of 9 years of the regulatory business plan together with a further year to 2031. Although these results 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 covenant and regulatory gearing, net and interest cover). These scenarios (which are summarised on pages 42 and 43), have been driven from the Boards assessment of the ongoing impact of Covid-19 and of "resilience in the round" (and are reflected in the principal risks and uncertainties set out in pages 38 and 39). These scenarios 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 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, 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 ten year period ending 31 March 2031.

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.

For and on behalf of the Board

Bob Taylor
Chief Executive Officer
27 May 2021

MY COVID WORKING EXPERIENCE...

Nicola Nestor
Group Financial Controller

I have been working from home for most of Covid and coming into the office when I need to. Covid has been challenging as far as managing the Finances have been involved. We have never experienced a time like this so it is hard to plan and forecast with certainty. I have a really wonderful team who make this possible and the camaraderie and team spirit have been great.

Viability Statement

Set out below are summaries of the results of the financial sensitivity analysis performed in support of the Viability Statement both on a pre and post mitigation basis.

Individual Scenario	Impact (pre mitigation)	Mitigation	Opex	Capex	Borrowing	Capital
3 month Covid impact	Assumption that a 3 month period of Covid disruption in FY22 is equivalent to 50% of the Covid impact in FY21. Revenue loss of £1m (predominantly the NHH market), together with £400k increased HH bad debt and £350k of other cost increases. This causes the Moody's ICR to fall to 1.15x (against a target of 1.50x), and the Covenant ICR to fall to 1.19x (target of 1.40x) in FY22. There are no impacts assumed beyond FY22.	In line with the Company's response to Covid in FY21, the infrastructure renewals programme could be reduced in year. A £1.75m reduction in FY22 ensures that both key ICRs are met. Headroom in the ratios means that the AMP infrastructure renewals programme can still be achieved in full by the end of the AMP with catch up of £500k, £500k and £750k in FY23-FY25 respectively.	✓			
Major non-household (NHH) retailer default and increased household (HH) bad debt	Assumed loss of NHH income from largest retailer at £1.4m in FY22. This represents an assumed write off of the gross debtor, together with a loss of income for 3 months (however, this lost income is assumed to be recovered over the remainder of the AMP once a new retailer is appointed). There is also an assumed £500k increase in HH bad debt. This leads to an Covenant ICR of 1.15x and Moody's ICR of 1.12x. No impact assumed beyond FY22 other than £100k of additional NHH revenue per annum to reflect recovery of lost billing period.	£2m of cost saving in FY22 is required to achieve key ICRs. This can largely be achieved through infrastructure renewals (£1.75m reduction in FY22), supported by £250k deferral of other costs. All of these cost can be recovered over the course of the AMP such that net spend in the AMP is unaffected. £1m of RCF drawdown is required in FY24 to support the increased spend in the year to recover underspend in FY22. This is repaid in full in FY25.	✓		✓	
Multiple ODI failures equal to 3% RoRE ODI penalty per annum	Based upon FY21 RORE, a 3% penalty equates to £2m. The regulatory framework means that this penalty to revenue would apply from FY23. Thereafter the penalty is assumed to increase annually with CPIH. Such penalty every year causes a number of ICR failures, with the Covenant ICR falling below the 1.40x target in FY23, FY24 and FY26. The Moody's ICR falls below the 1.50x target in FY23-FY25, FY28-FY30.	Cost savings of £3.65m in AMP7, and £3m in AMP8 are required to ensure compliance with key ratios. This could be achieved by annual reductions in mains renewals of £0.5m, staff costs of £0.2m and general savings of £0.2m (in AMP7 only). There is also a drawdown on the RCF in FY26 of £1.5m (repaid in full in FY27) required.	✓		✓	
50bps reduction in WACC	Assumption that the WACC for AMP8/9 is 50bps lower than anticipated in the current model. This reduces EBITDA £1m-£2m per year from FY26 to FY32. The Covenant ICR is 1.36x in FY26, while the Moody's ICR is 1.48x and 1.43x in FY29 and FY30 respectively.	A drawdown on the RCF of £1m is required in FY26 to ensure the Covenant ICR is met. This can be repaid in full in FY27. Cost saving initiatives are required in FY29 and FY30 (amounting to £1m over the two years). However, there is sufficient headroom in the first half of the AMP that this cost saving could be a reprofiling of costs to earlier in the AMP.	✓		✓	
Loss of company specific premium to WACC	The company specific premium to WACC in AMP8 is assumed to be 33bps. Losing this in the period reduces EBITDA over the AMP by £3.8m, causing the Covenant ICR to fall below 1.45x (to 1.43x) in FY26, and the Moody's ICR to fall below 1.50x (to 1.49x) in FY30.	£0.5m of RCF drawdown in FY26 (repaid in FY27) and cost saving of £250k in FY30 are required.	✓		✓	
£5m pension deficit – recovered through increased annual contributions of £0.5m	Assumed pension deficit of £5m at the end of FY21, recovered through increased contributions of £556k per annum from FY22 to FY30. This causes the Covenant ICR and Moody's ICRs to fail (1.45x and 1.40x respectively) in FY22.	Compliance with the ratios can be achieved through a £600k cost saving in FY22. Limited scope to recover this in AMP	✓			
Delay in HTWSR	The HTWSR delivery team value a delay of 12months at £2.6m of additional cost. This scenario assumes a reprofiling of costs together with an additional £2.6m of cost (real terms) overrun. The volumetric revenue and economic profit under the BSA is also assumed to be delayed. This causes the Covenant ICR to fall to 1.18x in FY27, and 1.42 in FY28 and FY29.	A drawdown of £5m on the RCF is required in FY26 as well as a £2.75m drawdown in FY29. The full £7.75m could be repaid in FY30. The same effect could be achieved by reprofiling external or intercompany debt drawdowns over the period to better match capex spend.			✓	
£1.5m cost shock in FY22	Assumed increase in costs of £1.5m in FY22 only. This causes the both key ICRs to fail with the Covenant ICR being 1.24x and the Moody's being 1.20x. No impact in any other year.	A reduction in the infrastructure renewals programme of £1.5m in FY22, which can be recovered over the AMP evenly at £500k per year from FY23-FY25.	✓			

Individual Scenario	Impact (pre mitigation)	Mitigation	Opex	Capex	Borrowing	Capital
Combined scenario - Pension deficit, WACC reduction and loss of company premium	Assumed pension deficit of £5m at the end of FY21, recovered through increased contributions of £556k per annum from FY22 to FY30, together with a reduction in allowed Ofwat returns. This causes numerous instances of key ratios being failed (FY22 both Covenant ICR and Moody's ICR, FY26 (Covenant ICR) FY28-FY29 (both) and FY30 (Moody's only)).	This can be managed by a £600k cost reduction in FY22 with a net saving of £4.85m in opex over AMP8. Drawdowns on the RCF (£3m at FY26, further £3.5m at FY28, repaid over FY29 and FY30) are also required to ensure ratio compliance	✓		✓	
Combined scenario - Covid and NHH retailer default	This scenario assumes a significant period of Covid in FY22, together with largest retailer defaulting. This results in a £3.2m reduction in EBITDA in FY22, causing the Covenant ICR (0.88x) and the Moody's ICR (0.86x) to fall below the required level in the year.	Opex savings at £3.25m are required in FY22, which could be achieved through a reduction in infrastructure renewals and other activities across the business, some of which would not be possible due to Covid. The majority (£2.75m) of these costs could be recovered later in the AMP.	✓			

MY COVID WORKING EXPERIENCE...

Hayley Wakeford
Project Engineer

During the last 12 months, it has been a privilege to have continued to provide our community with wholesome clean water and deliver the same excellent customer service without our customers knowing the challenges we have faced with the coronavirus pandemic. We have continued to work quietly in the background and when our families ask what we did to help during the pandemic we can say with pride that we kept our hospital taps flowing in their most challenging time since the war.

Corporate Responsibility Statement

Affordability
In recent years the UK has seen increasing levels of household debt, particularly this year as a result of the impact of Covid-19 on our residential customers. Accordingly the Company pays close attention to how we support domestic customers who may be struggling to pay their water bill. Whilst at £102 our average bill is the lowest in the country, we still 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 £75.75, 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 408 customers on this scheme with over 600 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 individuals to use more water or have 3 children under the age of 19 resident in their home. 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. We increased the compensation payment amounts beyond what is required in the GSS standards.

Streamlined Energy and Carbon Reporting (SECR)
As with all of the UK water companies energy is still a significant cost to the business, but as a business we are not only looking at energy from a monetary cost perspective but also the environmental impact it has and the way we as a single business and as an industry we can limit that impact as we head for the industry agreed Net Zero 2030 ambition.

We are already on a journey of developing our Net Zero plan and pulling on various resources to reduce our impact on the environment. Some of which include increasing our solar arrays on our operational sites and the move away from combustion engine transport. When we have completed our transition plan we expect to be generating an additional 12% of our power needs. Our current 6 arrays produced over 302,000 kWh's of renewable energy which can be enough to power over 100 homes.

Our gross carbon emissions for the year were 5880 tCO2e for Scope 1 and Scope 2. The tables below show our energy consumption, greenhouse gas emissions for Scope1 and Scope 2 but also the volume of water we deliver to our customers.

How we address our carbon emissions:
- Maintain and operate our current solar arrays to maximise performance and generation and make the investment case to develop further solar arrays.
- Purchase almost all of our energy from green energy sources.
- Implementing technology advances and control systems with our SPORT project which is automating decisions relating to our pumping regimes making our systems more efficient.
- TRIAD/Tariff management, utilising our flexibility to be able to remove load at peak times in the day to reduce stress on the electricity network.
- Continue to monitor our vehicle telematics to improve driving efficiency.

Our future plans to reduce our environmental impact will be pivotal in our Net Zero 2030 strategy and beyond, making informed decisions and implementing all possible advances in technology and systems to further reduce our operating emissions.

kWh Energy Consumed	*2020/21*
Electricity	23,300,000
Natural gas	717,000
Gas oil	30,300
Transport	1,990,000
Total	**26,037,300**

tCO²e Emitted	*2020/21*
Scope 1	450
Scope 2 (LB)	5,430
Scope 3	-
Total	**5,880**

Volume of Water (Ml/year)	*2020/21*
Total	**67,700**

Intensity Ratio (tCO²e/Ml)	*2020/21*
Total	**0.087**

	Units	*2020/21*	*2019/20*	*2018/19*
Electricity used	MWh	23,300	23,022	23,875
Gross greenhouse gas emissions	tCO_2e	5,880	5,884	8,417
Water delivered - Distribution input	Ml	67,700	62,362	63,725
Gross Greenhouse gas emissions per million litres of water delivered	**$KgCO_2/Ml$**	**89**	**94**	**132**

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.

Working in the Community
2020/21 saw the continuation of our education program and website, something we have been able to promote an educational tool whilst children were home schooled during the pandemic.

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. Activities are designed to be easily understood with supporting information for adults so they can engage in the learning together with their children.

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.

Community Partnership
The Portsmouth Water Community Partnership was launched in 2019. This programme sets out the commitments we have made to do the right thing for the communities that we serve. In 2020 Portsmouth Water took this partnership out to consultation to gain further views from the community on the direction in which this programme moves forward.

Catchment Management
Our AMP7 WINEP Catchment Management programme has just finished it's first year of a 5 year 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. The results have included putting up to 700 hectares of arable land in to schemes to help reduce nitrate leaching, provided funding to farmers for enhanced soil testing that has enabled better nutrient management plans and we have also carried out a significant number of engagements with farmers, offering 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.

WaterAid
The Company continues to support and promote the charity WaterAid to customers and staff. Over the last 40 years donations from our customers, together with fundraising efforts of our employees have raised over £1,000,000 for WaterAid. This funding is used by WaterAid to develop low cost water supply and sanitation infrastructure in developing countries.

In 2020 Portsmouth Water's WaterAid Committee became a constituted WaterAid committee.

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 this is minimised. As part of our wider commitment to improving the environment, we aim to conserve and enhance biodiversity on the 44 operational sites as well as other land that we own. Sites are located in a variety of habitats including chalk downland, river catchments and coastal margins.

Habitat management plans have been agreed for all operational sites and a number of other land parcels we own. 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 20 to 25 "Our Environment".

Data Protection
The Company continues to take its obligations under data protection seriously and can confirm that it is compliant with all aspects of data protection law.

The Company's Privacy Policy is available on the Company's website and all employees have undertaken 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.

Net Carbon Zero
The Water Industry is an energy intensive industry accounting for almost a third of industrial and process emissions within the UK accordingly the industry has made a commitment to achieve Net Zero by 2030. The water industry is the first sector in the UK to sign up to this commitment, and is leading UK industry in its approach to carbon reduction.

The water industry has been tracking carbon emissions for over 10 years. Portsmouth Water has a good track record in reducing gross emissions. Over the past 5 years, emissions have reduced through improved energy efficiency along with utilising green energy purchase and solar generation.

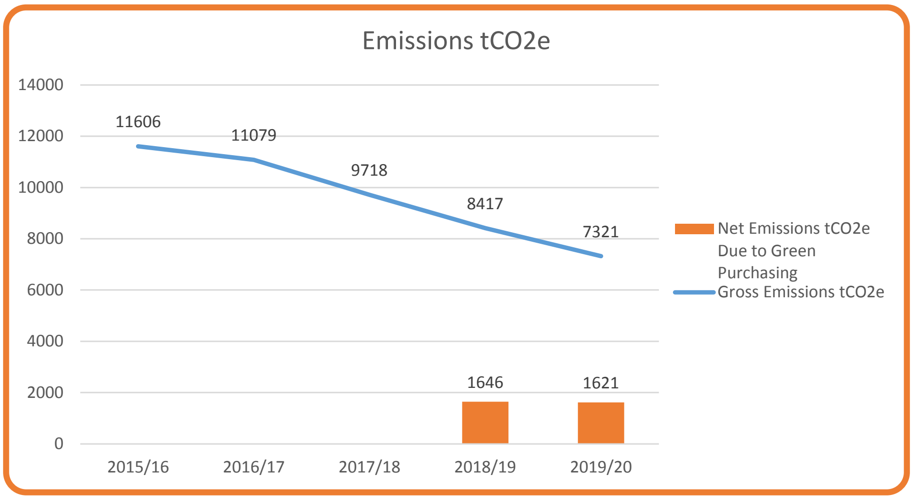
However to achieve Net Carbon Zero by 2030 we and the industry will need to make further step changes. Portsmouth Water has been working with the other water

Corporate Responsibility Statement

companies, through Water UK, for many years as part of various groups including the Energy Management Forum and the Carbon Working Group. These groups meet on a regular basis to share best practice, new innovations and novel approaches to energy management and carbon reduction. All water companies have worked closely together in developing the 2030 Net Zero route map.

To achieve the challenging Net Zero targets we will be following the 3 stage approach of reducing emissions where possible, followed by netting off measures and finally and only if absolutely necessary we will be offsetting any remaining emissions. Offsetting is likely to be the highest cost option for achieving the target.

There are a multiple activities currently underway or planned within the business, which will have a positive impact on our Net Zero target, and also our ODI performance. These include a programme to optimise all of our process which uses power, solar generation with our sister company, leakage & PCC reduction, a new transport strategy, biodiversity and catchment management.




HITACHI
HITACHI

Governance

Christopher Deacon
Independent Chairman
27 May 2021

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 Ofwat's Board Leadership Transparency and Governance guidance. We refer throughout this Corporate Governance report to the principles of the UK Corporate Governance Code and we have also summarised on pages 56 and 57 how we have complied with the Ofwat provisions.

Board Composition

We have seen a number of changes to the Board membership during the financial year with the retirement of Mike Kirk, our previous chairman. Martin Johnson, a Non-Executive Director also stepped down to pursue new opportunities. I should like to take this opportunity to thank both Mike and Martin for their service and contribution to the success of Portsmouth Water. I am pleased to confirm that Angela Wilson joined us during the year as a Non-Executive director. Finally, in March 2021 David Owen's, our investor appointed Non-Executive retired from the Board in order to support other Ancala investments and was replaced by Christopher Loughlin.

Board Evaluation

We undertook an external Board evaluation and review exercise in early 2021. The Board felt that this was particularly important given the recent Board membership changes, the ambitious agenda for change in the business and the strategic work planned in support of the business plan for PR24 and beyond. We have given more information about this review on page 54.

Contents

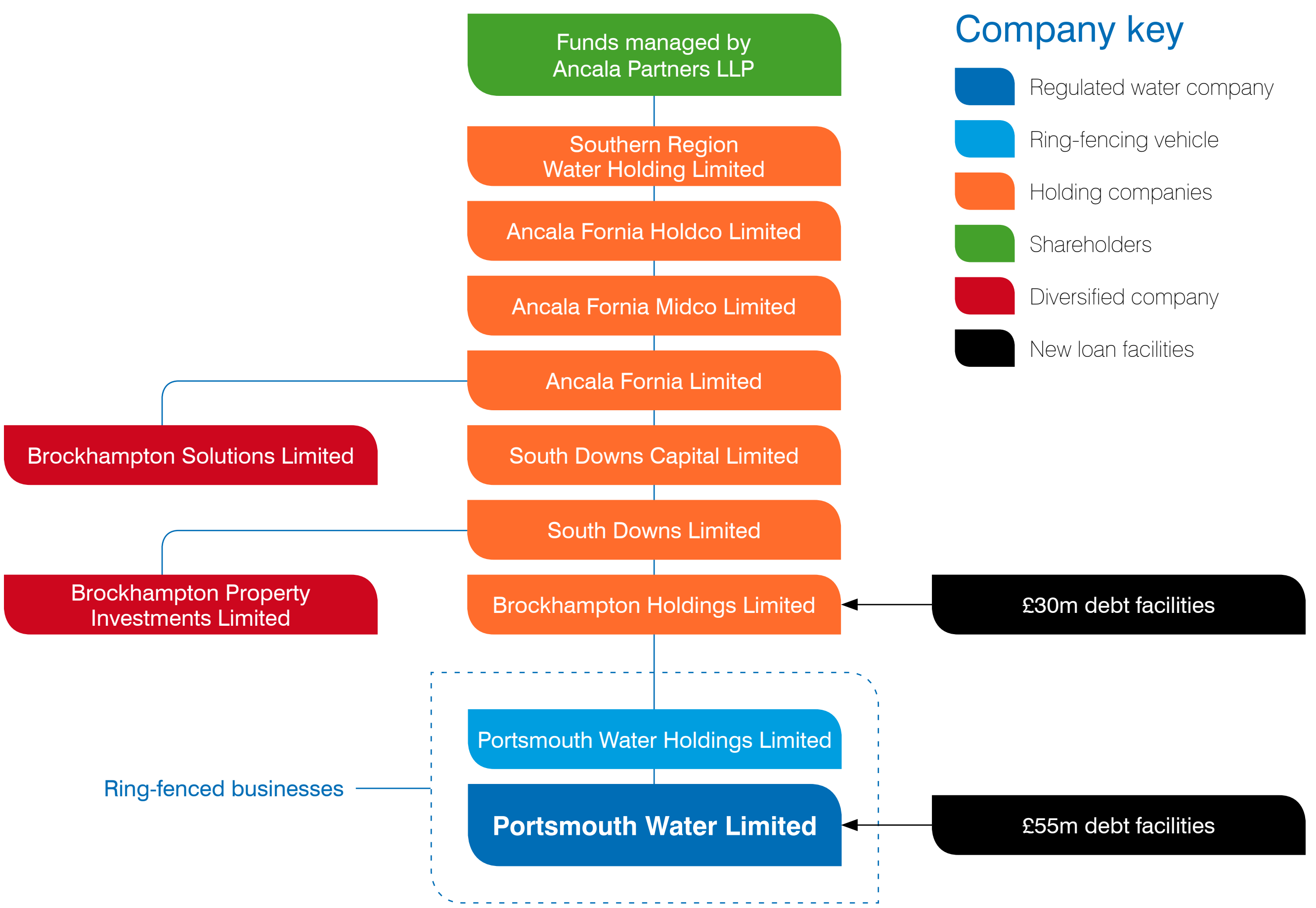
Links

A copy of the FRC 2018 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 Ofwat Board Leadership Transparency and Governance principles can be found at:
www.ofwat.gov.uk/publication/board-leadership-transparency-and-governance-principles/

Portsmouth skyline

Ownership Structure



The chart above shows the ownership structure and new financing arrangements of the Company and the Group. All companies are wholly owned by the parent company indicated and all companies, with the exception of Southern Region Water Holding Limited (which is Hong Kong tax domiciled) 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 Limited, 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 and European corporate and local authority pension plans. The acquisition of the South Downs Capital group of companies, in March 2018, was undertaken by Ancala Fornia Limited, which is incorporated in the UK. Ancala Fornia Midco Limited and Ancala Fornia Holdco Limited were also inserted into the Group as part of the acquisition structure.

The ultimate parent undertaking is Southern Region Water Holding Limited (SRWHL) which is incorporated in Hong Kong. The investors in SRWHL comprise a number of investment vehicles, all focused primarily on UK long term infrastructure investment and managed by Ancala Partners LLP. Ancala manages approximately €2 billion of funds with investment primarily from UK and European pension plans and institutional investors with a long term investment horizon.

We consider SRWHL to be the ultimate holding company and ultimate controlling entity. Consolidated group financial statements for the year ended 31 March 2021 will be prepared at the level of Ancala Fornia Holdco Limited and SRWHL (this will be the largest Group for which consolidated financial statements are prepared).

During the year, Brockhampton Holdings Limited investment in Brockhampton Property Investment Limited was transferred to South Downs Limited. No gain or loss was crystallised in respect of this reorganisation. In addition Brockhampton Solutions Limited was established in order to develop new business opportunities relating to renewable energy and other services supporting the water industry.

Financing

Portsmouth Water Limited was historically financed primarily by way of an RPI index 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 £111.6m (2020 - £109.7m).

During the year the group also raised additional debt facilities for up to £85m in order to finance the development of Havant Thicket Winter Storage Reservoir (HTWSR) and other capital investments. This was raised under two debt facilities with up to £30m available to Brockhampton Holdings Limited and up to £55m available to Portsmouth Water Limited. The new loans are repayable in March 2025 by which time the group plans to refinance. Of the new loan facilities a total of £55 million is sustainability linked.

Board of Directors

Independent Non-Executive Directors

N R

Christopher Deacon (73)
Appointed: 1 May 2020

Independent Chairman

M.A.

Christopher Deacon has a background in private finance in infrastructure and in the water and electricity utilities. He was Head of Project Finance with HSBC/Midland and lead banker for the Eurotunnel financing in the1980s and since then he has been involved as a Board Adviser on major world-wide infrastructure projects. More recently, since the early 2000s Christopher has held several Non-Executive Directorships. He recently stood down as a Non-Executive Director of Thames Water but continues as an Independent Director of companies in the Aspire Defence Group. He also advises OFGEM on commercial aspects of the UK electricity network, particularly relating to offshore wind transmission. Christopher is Deputy Chairman and Treasurer of the Franco British Council and an Independent Director of the London Business School Trading Company Ltd.

A N R

Michael Robert Coffin (62)
Appointed: 2 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, working with a range of listed and regulated entities. He is a governor at Portsmouth Grammar School where he chairs the Audit and Risk Committee.

R A N

Angela Wilson (59)
Appointed: 1 July 2020

Independent Non-Executive Director

BA (Hons)

Angela Wilson, a former MP and Shadow deputy leader of the House who has sat on both Government and Opposition benches joined the Portsmouth Water Board as an independent non-executive director in July 2020. Angela served as an MP between 2005 and 2019 and during her time in Westminster held the position of Shadow Environment Minister and sat on the influential Environment, Food and Rural Affairs Select Committee. She has a strong interest in the water sector and chaired the All Parliamentary Party Water Group and an inquiry into water and housing building policy. Her extensive experience of water and wider environmental policy, as well as being a strong advocate for customers, means she is well placed to make a valuable contribution to the Board of Portsmouth Water.

KEY TO COMMITTEES A Audit N Nomination R Remuneration Committee Chair

Executive Directors

N

Colin Robert Taylor (59)
Chief Executive Officer

Appointed: 1 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). Bob is currently a Director of Water UK and President Elect of the Institute of Water.

Helen Mary Grace Orton (51)
Finance and Regulation Director

Appointed: 12 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

N

Christopher Loughlin (68)
Investor Representative

Appointed: 1 April 2021

BSc Hons, MICE, CEng, MBA

Chris has extensive experience of the regulated business environment and the management of major engineering and infrastructure services. He has been Group Chief Executive Officer of Pennon, a FTSE 100 company, Chief Executive of South West Water and a Director of a wide range of organisations over many years. He started his career as a chartered engineer working in both the consulting and contracting sectors and, after holding a number of senior positions with British Nuclear Fuels plc, joined its board as an Executive Director. He was also Chief Operating Officer with Lloyds Register and before that, Executive Chair of Magnox Electric plc. He was also a senior diplomat in the British Embassy, Tokyo. Chris has a comprehensive understanding of the water industry. He was Chair of Water UK, a past President of the Institute of Water and is currently chairman of British Water. Chris is currently Chair of the charity Reall, and the Senior Independent Director of Mears Group PLC and a Director of Ence Energia in Spain.

Board of Directors

Meeting	Board	Audit	Nomination	Remuneration
Number of meetings in the year	**12**	**3**	**2**	**4**
Chairman				
Mike Kirk (Resigned June 2020)	2/2	-	-	1/1
Christopher Deacon (Appointed May 2020)	9/9	-	2/2	3/3
Independent Non-Executive Directors				
Martin Johnson (Resigned June 2020)	3/3	1/1	-	2/2
Mike Coffin	10/10	3/3	2/2	4/4
Angela Wilson (Appointed July 2020)	7/7	2/2	-	2/2
Executive Directors				
Helen Orton	10/10	-	-	-
Bob Taylor	10/10	-	2/2	-
Investment Director				
Christopher Loughlin (Appointed April 2021)	-	-	-	-
David Owens (Resigned November 2021)	9/9	-	1/2	-

The Board is required to comply with Ofwat's Board Leadership Transparency and Governance guidance. As a matter of best practice the Board is also guided by the UK Corporate Governance principles. A summary of compliance with the Ofwat Board Leadership Transparency and Governance guidance is included on pages 56 and 57 and we refer to the relevant UK corporate Governance principles throughout this Governance report.

Promoting success

UK Corporate Governance Principles

A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

Consistent with the Provisions of the Companies Act s172 The Board of Directors consider, both individually and together, that they have acted in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. This is set out in more detail on page 35 of the accounts. The Board is comprises of individuals with relevant experience and appropriate qualifications acting within a framework designed to meet appropriate levels of Governance and promote the overall success of the business for its investors and stakeholders.

As part of the work to develop the current regulatory Business Plan the Board undertook an extensive review of the Company's Purpose, values and strategy. The Board continues to keep these under review on an ongoing basis to ensure that they remain appropriate. For example, in considering the impact of the Covid-19 pandemic, the Board worked closely with the senior leadership team in considering and executing changes in strategy needed in response. Consistent with observations made as part of the recent Board evaluation the Board and senior leadership are now undertaking a process to update purpose, values and strategy to reflect the upcoming challenges for the next regulatory review (PR24) and beyond.

The Board has maintained sound links with employees and wider stakeholder groups and direct lines of communication are in place between employees and the board (including confidential "whistle blower" policies). As part of the recent Board evaluation process the Board has established plans to further deepen links with senior management and employees and has appointed Angela Wilson to take an oversight role for employee and stakeholder engagement. We are also developing plans to further review and update our Human Resources strategy to better align culture with strategy.

UK Corporate Governance Principles

The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.

The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.

Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

How the Board Operates

The Board has a schedule of matters reserved for its decision and delegates more detailed consideration of certain matters to Board Committees including the audit, remuneration and nomination committees. All these committees report directly to the Portsmouth Water Board of Directors, where the final decisions are taken. The Board is confident that reserved matters are appropriate for a regulated business and focuses on the key regulated activities.

The independence of the Board is maintained with the independent non-executives being the largest group and the Investor limited to one Director - although the Board do recognise the importance that our shareholder plays within the Company. No matters are reserved for the shareholders.

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. Non-executive directors provide appropriate levels of challenge in holding the business executive directors and senior leadership team to account.

The Board is confident that the non-executive directors have sufficient time, experience and support to execute their duties. The matter of "over boarding" is considered and all directors are recognised as having appropriate capacity to carry out their roles. 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.

Chairman and CEO

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. He is independent of both Management and the Investors.

Board Committees

A range of key matters delegated to the Board's Committees are set out on pages 48 to 66 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.

Conflicts of interest

The Board has a conflict of interest policy which defines conflicts of interest, sets out the requirement to declare such conflicts and agrees how any conflicts arising would be dealt with. This includes the position that "interested" board members may not vote on matters affecting their own interests.

Board Effectiveness

UK Corporate Governance Principle

The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

There have been a number of changes in the Board composition in the last year and further information is set out in the Directors' biographies. The Board consists of three Non-Executive, two Executive Directors and an Investor Director. We believe the composition of our

Board of Directors

Board is appropriate for balancing the needs of customers, the environment and our shareholder, and also complies with the Governance requirements of 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. A thorough review of skills of each Director and the Board as a whole was carried out during the year and has been recently updated following changes in Board members.

The appointment of Angela Wilson, with strong experience of stakeholder engagement and the recent appointment of Christopher Deacon as Chairman, for his detailed infrastructure experience, are examples of how the Board reviews the required skills and makes changes to reflect any gaps.

Performance Evaluation

UK Corporate Governance Principles

Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

During the year the Board commissioned an independent Board evaluation review. This review had the dual objectives of offering assurance to the Board on its Governance effectiveness and seeking out opportunities for continuous improvement.

The evaluation concluded that the Board operated effectively and that each Director demonstrated commitment to the role and performed effectively. It noted the quality of Governance arrangements in place – particularly given the size of the business and was positive about the quality of Board discussions and management information. However, the review also recognised the challenges of business change including considerable aspiration for business progress, recent changes in the Board composition, response to Covid-19, the implementation of PR19 strategies (particularly the development of HTWSR) and the developing challenges for PR24 and beyond. As such it identified opportunities for the Board to make further improvements that would benefit the business as a whole.

The recommendations made followed two strands;
- Strategy - An updated review of purpose to further shape common vision, strategy and drive business and cultural transformation.
- Performance - The implementation of short term recommendations to enable the Board to improve performance in parallel with the longer term strategic review work.

A full report on the evaluation responses was considered at the February 2021 Board Meeting and an initial action plan was presented in March 2021. With recommendations to:

- Review Company Purpose, Vision and Values and then update Strategy
- Capture stakeholder expectations and bring together long term business issues into a strategy for PR24 & beyond
- Improve transparency and communications between the Board, senior leadership team and employees
- Consider the updated Human Resources strategy needed to develop cultural change and deliver business change
- Consider the need for further sub committees including a Havant Thicket sub committee

The Board has approved an initial plan to implement the recommendations.

The Board continues to strive for diversity across the Company and is proud of the graduate, apprenticeship and leadership programme within the business to ensure inclusivity is embedded in both our organisation and in our succession planning. Diversity is crucial for the long term success of the business.

Stakeholder & Shareholder Engagement

UK Corporate Governance Principles

In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

The Board maintains a close understanding of the needs and objectives of the shareholder. The Group comprising Portsmouth Water is 100% owned by funds managed by Ancala Partners LLP. As part of the agreement when the Group was purchased, Ancala are allowed one member on the Portsmouth Water Board. For the majority of the financial year this was undertaken by David Owens and going forward will be Christopher Loughlin following David's resignation. In other relevant matters we work closely with Ancala both to ensure close alignment of objectives and to utilise Ancala's relevant experience. For example the recent new financing arrangements were executed working closely with Ancala.

The Board also seeks to maintain a sound understanding of its responsibilities to other stakeholders. This is achieved through multiple routes including direct Board engagement with regulators, review of customer engagement feedback and through representatives of other stakeholder groups such as the CCG. The Board reviewed extensive stakeholder engagement as part of the PR19 process and has seen wide stakeholder engagement continue in the development of HTWSR and the associated Board decisions. Further information is included in the Directors' statement in relation to compliance with section 172(1) of the Companies Act 2006.

The Board has direct access to the senior leadership team and there is a clear whistleblowing route for employees to the Chairman of the Audit committee. Prior to Covid-19 employee representatives regularly attended Board lunches. Whilst the effect of Covid has impacted this approach, the Board has maintained some level of direct contact by periodically attending employee Zoom calls. Accordingly, following the recent Board evaluation review, the Board has put plans in place to increase direct exposure to employees by other means. It has also recently appointed Angela Wilson to take oversight of stakeholder engagement.

Risk Management and Internal Control

UK Corporate Governance Principles

The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

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 2021 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 regularly.

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 committee with delegated authority 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 are reviewed annually by the Company.

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 March 2021, 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 of Directors

The Board has considered the Ofwat requirements in relation to leadership, transparency and governance and has, for ease of reference, summarised below how the key provisions have been met.

Purpose, values and culture

The Board of the Appointee establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

Provisions

The board develops and promotes the company's purpose in consultation with a wide range of stakeholders and reflecting its role as a provider of an essential public service.	Following the extensive stakeholder engagement as part of PR19, we undertook work to update the Company Purpose, this is set out in more detail on page 8. In parallel to this we also formalized out commitments to the communities that we serve through our Community Partnership. Following the recent Board review, and as we move towards PR24, the Board is implementing plans with the senior leadership team, to undertake an updated review of the Company Purpose, Vision, Values and Strategy.
The board makes sure that the company's strategy, values and culture are consistent with its purpose.	The Company's Purpose is developed from and underpinned by the Company's "Vision" and "Values". We explain more about our values under "Our Customers and "Our People". We note the Board's plans to update this area in contemplation of the challenges of PR24 & beyond.
The board monitors and assesses values and culture to satisfy itself that behaviour throughout the business is aligned with the company's purpose. Where it finds misalignment it takes corrective action.	The Board assesses behaviours throughout the business in a number of ways including reviewing the results of Company-wide staff surveys and regular monthly management reporting. Where the Board finds misalignment this is addressed directly through the actions of the Executive directors and senior leadership team and through direct alignment to the company staff assessment and appraisal process. We explain more about this alignment under "Our People". Following the recent Board review we plan to do further work to develop an HR strategy to support the alignment of values and culture and support further business change needed to deliver the long term strategy.
Companies' annual reporting explains the board's activities and any corrective action taken. It also includes an annual statement from the board focusing on how the company has set its aspirations and performed for all those it serves.	This is communicated throughout the Annual Report and Accounts and in particular under, "Our Company Purpose", "Our Strategy" and "How we measure success". We also consider key elements further within this Corporate Governance report and in the Directors Statement on s172 of the Companies Act.

Standalone regulated company

The Appointee has an effective Board with full responsibility for all aspects of the Appointee's business for the long term.

Provisions

The regulated company sets out any matters that are reserved for shareholders or parent companies (where applicable); and explains how these are consistent with the board of the regulated company having full responsibility for all aspects of the regulated company's business, including the freedom to set, and accountability for, all aspects of the regulated company's strategy.	This is set out in the Corporate Governance section under "Board of Directors". No matters are reserved for shareholders and the Board has a majority of independent Non-Executive directors. Accordingly the Board has full responsibility for all aspects of the regulated business' strategy.
Board committees, including but not limited to audit, remuneration and nomination committees, report into the board of the regulated company, with final decisions made at the level of the regulated company.	This is the case as set out in the Corporate Governance section under "Board of Directors". The Board is made up of a majority of independent non-executive directors. This is set out in the Corporate Governance section under "Board of Directors".
The board of the regulated company is fully focused on the activities of the regulated company; takes action to identify and manage conflicts of interest, including those resulting from significant shareholdings; and ensures that the influence of third parties does not compromise or override independent judgement.	The Board has a conflict of interest policy which defines conflicts of interest, sets out the requirement to declare such conflicts and agrees how any conflicts arising would be dealt with. This includes the position that "interested" board members may not vote on matters affecting their own interests. This is set out in the "Board of Directors" section.

Board leadership and transparency

The Board of the Appointee's leadership and approach to transparency and governance engenders trust in the Appointee and ensures accountability for their actions.

Provisions

An explanation of group structure;	The Group structure is set out on page 49 of the Corporate Governance report.
An explanation of dividend policies and dividends paid, and how these take account of delivery for customers and other obligations (including to employees);	The dividend policy is explained on page 27 of the strategic report. This was updated as part of the PR19 Business Plan process.
An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed;	The Principle risks and uncertainties faced by the business are covered both under "the issues that affect us" and "Principal risks and uncertainties".
The annual report includes details of board and committee membership, number of times met, attendance at each meeting and where relevant, the outcome of votes cast;	This is set out in the table of meetings on page 52.
An explanation of the company's executive pay policy and how the criteria for awarding short and long-term performance related elements are substantially linked to stretching delivery for customers and are rigorously applied. Where directors' responsibilities are substantially focused on the regulated company and they receive remuneration for these responsibilities from elsewhere in the group, policies relating to this pay are fully disclosed at the regulated company level.	This is reflected under "Remuneration Committee" on pages 60 to 66, including the linkage of remuneration to stretching delivery targets.

Board structure and effectiveness

The Board of the Appointee and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs.

Provisions

Boards and board committees have the appropriate balance of skills, experience, independence and knowledge of the company. Boards identify what customer and stakeholder expertise is needed in the boardroom and how this need is addressed.	This is set out in the Corporate Governance section including how we recruit NEDs to ensure the right balance of skills on pages 53 and 59. The Board have updated their assessment of the composition of Board.
Independent non-executive directors are the largest single group on the board.	This is set out in the Corporate Governance section under "Nomination Committee" on page 59.
The chair is independent of management and investors on appointment and demonstrates objective judgement throughout their tenure. There is an explicit division of responsibilities between running the board and executive responsibility for running the business.	This is set out in the Corporate Governance section under "Board of Directors" on page 53.
There is an annual evaluation of the performance of the board. This considers the balance of skills, experience, independence and knowledge, its diversity, how stakeholder needs are addressed and how the overarching objectives are met. The approach is reported in the annual report and any weaknesses are acted on and explained.	The board completes and annual performance evaluation and has set this out under "Board of Directors" on page 54. The Board has also updated its skills matrix and has been mindful of the appropriate balance of skills and experience in making new appointments.
There is a formal, rigorous and transparent procedure for new appointments which is led by the nomination committee and supports the overarching objective.	This is set out in the section covering the "Nomination Committee" on page 59.
To ensure there is a clear understanding of the responsibilities attached to being a non-executive director in this sector, companies arrange for the proposed, final candidate for new non-executive appointments to the regulated company board to meet Ofwat ahead of a formal appointment being made.	This is set out in the section covering the "Nomination Committee" on page 59. The Candidates appointed during the current year have all undertaken a meeting with Ofwat prior to their appointment.
There is a majority of independent members on the audit, nomination and remuneration committees and the audit and remuneration committees are independently led.	This is set out under Board Composition on page 52 and in the sections covering the Audit, Nomination and Remuneration Committees.

Audit Committee

Mike Coffin
Chair of Audit Committee
27 May 2021

Audit Committee Members

Mike Coffin (Chair)

Martin Johnson (Resigned June 2020)

Angela Wilson (Appointed July 2020)

UK Corporate Governance Principles

- The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.
- The board should present a fair, balanced and understandable assessment of the company's position and prospects.

Audit Committee Chair

Mike Coffin commenced his role as Chairman of the Audit Committee on 1 April 2019 and has held the position since.

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.

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
- Reviewing the critical accounting judgements and key sources of estimation uncertainty in the Financial Statements
- Overseeing an audit tender process
- Review of GDPR process and controls
- Reviewing the Audit and Assurance work carried out by the Company's Reporter
- Review of the UK Corporate Governance Code and Ofwat Governance Code
- Assessing the calculations of the 2021/22 Customer Tariffs and NAV Tariffs
- Consideration to Fraud Risk within the Company and updating the Company's whistleblowing policy
- Reviewing the status of internal control recommendations provided by the Reporter and the Auditor

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, including a review of non audit services policy, 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 initially carried out as part of the Audit Tender and is monitored throughout the year. During the year we undertook an audit tender process and following due consideration the current auditors, KPMG, were reappointed. The current Auditors have been in tenure for four 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 and the level of assurance on operational controls and data that is provided by the external Reporter. 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.

Nomination Committee

Christopher Deacon
Independent Chairman
27 May 2021

Nomination Committee Members

Christopher Deacon (Chair)
(Appointed Chair May 2020)

Mike Kirk (Chair) (Resigned May 2020)

Mike Coffin

Angela Wilson (Appointed July 2020)

Martin Johnson (Resigned June 2020)

Bob Taylor

David Owens (Resigned March 2020)

Christopher Loughlin (Appointed April 2021)

UK Corporate Governance Principles

- Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

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 on Equal Opportunities, including diversity and inclusion are adhered to across the business

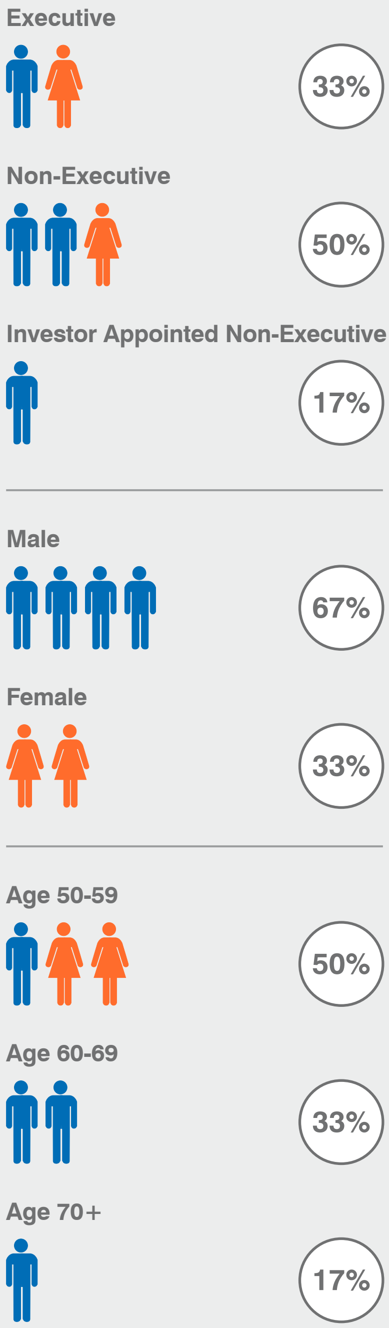
The Committee comprises of all three Independent Non-Executive Directors, the CEO and the Investor Director.

Activities During the Year

The Committee met twice during the year to consider the vacancy left by a resigning director. During those discussions the Committee considered the mix of skills around the Board table, considered potential routes to finding an appropriate candidate, and finally made a recommendation to the Board on the replacement.

A formal, rigorous and transparent search for appropriate candidates was carried out by a combination of approaching potential individuals who had the balance of experience, skills and diversity criteria that we had identified. In particular we were seeking to improve our gender and neurological diversity and seeking an applicant that had experience balancing stakeholder interests. We employed corporate head-hunters in this exercise. The rigorous appointment process included a meeting of the final candidate with the Ofwat Chairman ahead of her appointment. At the end of the process the committee were delighted to recommend the appointment of Angela Wilson.

Board composition*



*This reflects the Board composition at the date of signing of the Annual Report & Accounts.

Remuneration Committee

Angela Wilson
Chair of Remuneration Committee
27 May 2021

Remuneration Committee Members

Angela Wilson (Chair)
(Appointed July 2020)

Martin Johnson (Chair)
(Resigned June 2020)

Mike Coffin

Christopher Deacon
(Appointed May 2020)

Mike Kirk (Resigned June 2020)

UK Corporate Governance Principles

- Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.
- A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.
- Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

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 for the benefit of customers, the environment and stakeholders.

We align executive pay to stretching delivery targets ensuring we deliver real value through high quality customer service and operational performance, whilst ensuring we provide the cheapest water in the country through incentivising financial efficiencies.

Within these arrangements, 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.

At the beginning of the year the Committee undertook a review setting both the Executive annual incentive plan and LTIP for the current regulatory reporting period. In doing so the Committee had regard to the objectives set out by Ofwat and the proposals made by the company as part of the Business Plan submission. Details of this bonus structure are discussed later in this report.

Activities During the Year

During the year the Committee dealt with the following matters:

- Annual executive salary review and achievement of performance targets (2020)
- Concluding the Executive Bonus Framework for AMP7, aligning Remuneration to the key strategic objectives and stakeholder priorities. This included determining performance targets in respect of 2020/21 annual incentive bonus plan and finalizing the LTIP structure
- Development of an annual incentive scheme for the Company's senior leadership team
- Taking ongoing responsibility for the approval and changes in Manager salaries

Remuneration Report

Remuneration Policy

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

The remuneration packages of the Executive Directors, as reported in the accounts, includes a performance related element. This is on the basis of achieving stretching annual performance targets in terms of service delivery, company finances and personal objectives.

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. He is also a Director of Water UK, the industry trade association.

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, car allowance, 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.	None
Annual bonus (Variable Pay) To reward performance by linking to achievement of key performance objectives aligned to the strategy of the Company. A significant proportion to be linked to stretching performance objectives.	Bonus awards to Executive Directors are made each year and are approved by the remuneration committee. A significant portion (66%) of executive bonus awards are linked to stretching performance levels for the relevant financial year together with personal performance objectives. Details of the performance levels for the most recent financial year and performance against them are provided below.	The maximum bonus potential for each Director is 60% of base salary of which 40% is payable in year and 20% is payable at the end of year five (see below).	The incentive scheme is split between; Stretching delivery targets (operational and financial) 66.6% and personal performance objectives 33.3%.
Long-term incentive scheme (Variable Pay) (1) 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.	20% of salary per year paid at the end of year five.	The incentive targets are as set out for the Annual Bonus award. The discretionary 25% uplift is determined by successful outcome at PR24.
Long-term incentive scheme (Variable Pay) (2) To incentivise Executive Directors to deliver sustained long-term performance	Long term bonus award to Executive Directors on the basis of business performance over the five year performance period. Annual assessment of likely performance conducted, with a provision for 1/5th of the likely bonus at the end of the period.	30% of outperformance in excess of £8m to the Totex set by Ofwat for the AMP, together with 30% of non regulated EBITDA in excess of £4.75m target for the AMP. A further 25% (to a cap of £0.625m) is payable at the discretion of the ultimate shareholders. These amounts are payable 50% and 25% to the CEO and the FRD respectively.	Totex and EBITDA from the non regulated business.

Remuneration Committee

Long-term incentive scheme (Variable Pay) (3) To incentivise the CEO to deliver the critical HTWSR programme.	Long term bonus award to CEO on the basis of on time delivery (wet commissioning ODI) and cost efficiency.	Up to £500,000 constrained by level of Totex efficiency outturn.	Wet commissioning ODI and HTWSR Totex out-performance.
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

Variable pay/performance measured pay for Executive Directors and senior leadership team

In line with the start of the current regulatory period (2020-25) the Remuneration committee developed a new performance incentive scheme. In developing this scheme the Committee was guided by the principles set out by Ofwat in the Putting the Sector into Balance report. This included linking a substantial proportion of variable pay to stretching performance measures and has a short term (annual) and long term (5 year) element. At this time it was also agreed to include a variable element of performance related pay for members of the senior leadership team. Bonus amounts are non-pensionable and require the recipient to remain in role until the date of award and payment – July of the following financial year.

The scheme pays up to the following percentage of base pay;

	Total Maximum Variable Element	Annual Variable Element	Long Term Variable Element
Total maximum variable bonus allowance (%)			
Executive Directors	60%	40%	20%
Senior Leadership Team	20%	13%	7%

The total bonus pool awarded in any year is based upon three equally weighted components; service objectives, financial objectives & personal objectives. The table below provides further information about how the bonus components are determined. Once the bonus pot for any year has been determined 2/3 will be paid in year and the remaining 1/3 will be deferred and included in the long term incentive which will be paid at the end of the regulatory period. The long term element of the scheme is designed to encourage retention of key employees.

Components of the variable bonus elements	Total maximum variable element (Executive Directors)	Total maximum variable element (Senior Leadership Team)	Objective	Percentage of variable bonus element awarded
Service objectives	20%	6.7%	The 10 stretching performance measures (See table below with further information on targets).	10 measures met 100% 8 measures met 75% 6-7 measures met 50% <6 measures 0%
Financial objectives	20%	6.7%	Financial measures two of which are linked directly to stretching performance measures on TOTEX and Capex (see table below with further information on targets).	EBITDA linked to stretching TOTEX out-performance up to 40% Capex linked to stretching delivery up to 40% Cash flow up to 20%
Personal objectives	20%	6.7%	Personal objectives linked directly to strategic business objectives.	Full or substantial 100% Partial 75% Some progress 50% Incomplete 0%
Total	**60%**	**20%**		

Service metric targets	Ofwat AMP7 Target	Company AMP7 Target	2020/21 spot target
Compliance Risk Index	0	< 2.0 reducing to less than 1.5 in year 3	< 2.0
Interruptions	6 mins 30 to 5 mins over AMP7	4 mins to 3 mins over AMP7	4 minutes per property
Leakage	15.2% reduction over AMP7	15.2% by year 2022/23	3.10% reduction in the year
PCC	6.3% reduction over AMP7	3.6% reduction over AMP7	1.30% reduction in the year
Mains repairs	73.8 repairs reducing to 68.6 over AMP7	68.3 repairs reducing to 67.3	73.8 repairs
Unplanned Outage	2.34% pa	2.34% pa	2.34% pa
C-Mex	No explicit target	Reward equating to 4% pa	Upper quartile
D-Mex	No explicit target	Reward equating to 2% pa	Upper quartile
Priority Services	2% to 9% over AMP7	2% to 9% over AMP7	2%
Severe Drought	84% reducing to 32% over AMP7	84% reducing to 32% over AMP7	84%

Financial objectives	Target
EBITDA (before exceptional items)	£13.9m
Capex - programme	£9.75m
Capex - efficiency	Better than 3%
Cash generated from operations - half year	Greater than £5m
Cash generated from operations - full year	Greater than £10.4m

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 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 2021 £000**	Total 2020 £000
Executive:						
H. M. G. Orton	132	14	65	14	**225**	183
C. R. Taylor	172	8	95	17	**292**	257
Non-Executive:						
M. Coffin	27	-	-	-	**27**	26
C. Deacon (Appointed May 2020)	42	-	-	-	**42**	-
M. Johnson (Resigned June 2020)	7	-	-	-	**7**	26
M. P. Kirk (Resigned May 2020)	8	-	-	-	**8**	41
A. Wilson (Appointed July 2020)	20	-	-	-	**20**	-
	408	22	160	31	**621**	533

The Investor Director, now Mr. C. Loughlin (previously Mr. D. W. Owens) is not remunerated by Portsmouth Water Ltd as his primary employer is Ancala Partners LLP.

Mr. M. Johnson and Mr. M. P. Kirk resigned in 2020 and Mrs A. Wilson was appointed during 2020.

Directors' emoluments waived during the year
There were no Directors' emoluments waived during the year.

Remuneration Committee

Taxable benefits

Benefits comprise company car (taken in cash and as a benefit in kind) and medical insurance.

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

	2021 £000	2020 £000
Car benefit	**17**	14
Medical insurance	**5**	5
Total	**22**	19

Short term annual bonus award

As explained above 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 stretching performance objectives linked to service objectives, financial objectives & personal objectives. This includes a short term annual element paid in the first half of the next financial year and a long term element deferred until the end of the regulatory period.

We summarise below and explanation of the performance for the year in relation to the Executive Director's Bonus scheme.

	% of targets achieved	% of bonus provision earned
Service objectives	80 (8/10 ODIs)	75
Financial objectives:		
EBITDA (before exceptional items)	100	100
Capex - programme	100	100
Capex - efficiency	95	95
Cash generated from operations	50	50
Personal objectives:		
H. M. G. Orton	86	75
C. R. Taylor	100	100

As a consequence of this performance the following performance related awards were made in respect of the current financial period.

Performance related bonus achieved 2020/21:	% of base salary (out of possible 60%)	Bonus £
H. M. G. Orton	47.80	62,917
C. R. Taylor	52.80	90,882

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

	Service Objectives %	Financial Objectives %	Personal Objectives %	Total %
H. M. G. Orton	33.3	33.3	33.3	100
C. R. Taylor	33.3	33.3	33.3	100

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

	Service Objectives %	Financial Objectives %	Personal Objectives %	Total %
H. M. G. Orton	13.3	13.3	13.3	40
C. R. Taylor	13.3	13.3	13.3	40

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

	Target %	Service Objectives £	Target %	Financial Objectives £	Target %	Personal Objectives £	Maximum Variable Pay - Payable in Year £
H. M. G. Orton	13.3	17,550	13.3	17,550	13.3	17,550	52,650
C. R. Taylor	13.3	22,950	13.3	22,950	13.3	22,950	68,850

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

	Achieved	Service Objectives	Achieved	Financial Objectives	Achieved	Personal Objectives	Variable Pay Achieved - Payable in Year
	%	£	%	£	%	£	£
H. M. G. Orton	10.0	13,163	12.0	15,620	10.0	13,163	41,945
C. R. Taylor	10.0	17,213	12.0	20,426	13.3	22,950	60,588

Long term incentive scheme 1

The Directors could earn up to 20% 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 2020. This payment will be made at the end of a five year performance period, subject to the achievement of performance conditions.

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

	Service Objectives	Financial Objectives	Personal Objectives	Total per annum	5 Year Total
	%	%	%	%	%
H. M. G. Orton	6.6	6.6	6.6	20	100
C. R. Taylor	6.6	6.6	6.6	20	100

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

	Target	Service Objectives	Target	Financial Objectives	Target	Personal Objectives	Maximum Variable Pay - Payable under LTIP1
	%	£	%	£	%	£	£
H. M. G. Orton	6.6	8,775	6.6	8,775	6.6	8,775	26,325
C. R. Taylor	6.6	11,475	6.6	11,475	6.6	11,475	34,425

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

	Achieved	Service Objectives	Achieved	Financial Objectives	Achieved	Personal Objectives	Variable Pay Achieved - Payable under LTIP1
	%	£	%	£	%	£	£
H. M. G. Orton	5.0	6,581	6.0	7,810	5.0	6,581	20,972
C. R. Taylor	5.0	8,606	6.0	10,213	6.6	11,475	30,294

All variable pay has been awarded in accordance with the remuneration policy and criteria agreed by the committee at the start of the regulatory period and summarised earlier in this report.

Long term incentive scheme 2

This scheme is payable in addition to the schemes outlined above and is related entirely to business performance. It is not set in relation to the Executive Directors salary, as outlined below.

	Target	Projected outperformance	Maximum Bonus	Projected Bonus for 5 Year Period
	£000	£000	%	£000
Totex	8,000	132	30	40
Non Regulated EBITDA	4,750	-	30	-
Total				40

One fifth of the projected bonus has been accrued in the year as set out below.

	Maximum	Projected 5 Year Bonus	LTIP2 - Bonus Accrued in Year
	%	£	£
H. M. G. Orton	25	9,900	1,980
C. R. Taylor	50	19,800	3,960

Note, the remaining 25% bonus is payable to a member of the Senior Leadership Team.

Long term incentive scheme 3

This scheme is payable based on on time delivery of wet commissioning (in line with the HTWSR wet commissioning ODI) together with cost savings of at least £0.5m (Totex out-performance). Given the very early stages of the programme and early indications of cost pressures, no provision has been made in relation to this incentive scheme at this time.

Remuneration Committee

Summary of Total Bonus Scheme earned in year

	Variable Pay Achieved - Payable in Year £	Variable Pay Achieved - Payable under LTIP1 £	LTIP2 - Bonus Accrued in Year £	Total Bonus Scheme for Year £
H. M. G. Orton	41,945	20,972	1,980	64,897
C. R. Taylor	60,588	30,294	3,960	94,842

Pension Entitlements (Audited Information)

The Company participates in two pension schemes, a defined benefit scheme and a defined contribution scheme, to provide pension benefits for its employees. At the year end no Executive Directors were members of or have accrued pension benefits under the Brockhampton Pension Scheme, which is a defined benefit scheme.

Mrs. H. M. G. Orton and Mr. C. R. Taylor are both members of the defined contribution scheme. Contributions amounting to £31,506 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.

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

£10,148 was paid in June 2020 to Mr. R. C. Porteous, a former Director, relating to leakage performance from the last AMP.

Remuneration of the Chief Executive Officer

The table below summarises the remuneration of the Chief Executive Officer for each of the last six financial years.

Year ending 31 March:	2016	2017	2018	2019	2020	**2021**
Total remuneration excluding pension (£000)	162	161	164	167	257	**292**

Percentage Change in Remuneration of the Chief Executive Officer

The following table shows the percentage change in the base salary and benefits of the Chief Executive Officer between the current and previous financial year compared to the average for all employees of the Company.

% change in:	Chief Executive Officer	Average for all employees
Base salary[1]	1.25%	1.25%
Benefits[2]	0%	0%

[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.

CEO Ratio Reporting for the Year Ended 31 March

CEO total pay as a ratio of the following:	**2021**	2020
25th percentile	**1 : 6.93**	1 : 6.13
50th percentile	**1 : 9.06**	1 : 7.87
75th percentile	**1 : 11.79**	1 : 10.45

The calculation does not include the benefit of pension contributions as this is complex to ascertain for all employees given the two schemes in operation.

The Company believes that the 50th percentile ratio is consistent with the Company's general employee pay, reward and progression policies due to the pay grade structure in place.

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 stretching performance targets in relation to the strategic and annual expectations for the Company including the stretching performance levels set out in the Business Plan for 2020 - 2025.

Approval

This report was approved by the Board on 27 May 2021 and will be subject to shareholder approval at the Annual General Meeting to be held on Thursday 29 July 2021.

Angela Wilson
Chair of the Remuneration Committee

Directors' Report

The Directors have pleasure in presenting their Report and Accounts for the year ended 31 March 2021.

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 pages 4 to 6 and the Strategic Report on pages 8 to 47.

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 38 and 39.

Financial Results and Dividends
The Company's profit (2020 - loss) before taxation amounts to £2.7m (2020 - £1.3m loss). After deducting the tax charge of £0.7m (2020 - £2.0m), a profit of £2.0m has been transferred to reserves (2020 - £3.3m loss).

In response to the start of the Covid pandemic the Directors did not propose a final dividend for 2019/20. Having carefully considered the Company's response to Covid and the financial position the Directors have proposed a final dividend in respect of the year ended 31 March 2020 of £1.676m and a final dividend in respect of the year ended 31 March 2021 of £3.454m.

Fixed Assets
Capital expenditure on tangible fixed assets was £17.0m (2020 - £19.7m). 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.

Finance Restructuring
During the year the group raised additional debt facilities for up to £105m in order to finance the development of Havant Thicket Winter Storage Reservoir and other capital investments. This was raised under two debt facilities with up to £55m available to Portsmouth Water Limited and £50m of wider Group financing, including shareholder capital. The new loans are repayable in March 2025 by which time the group plans to refinance. Of the new Loan facilities a total of £55m is sustainability linked. Further information on the group structure is set out on page 49.

Share Capital
There were no new issues of Share Capital during the year and the details of the current issued capital can be found in Note 23 on page 92.

Board of Directors
The Directors who held office at 27th May 2021 are shown on pages 50 and 51.

Mr. C. Deacon was appointed to the Board as a Non-Executive Director on 1 May 2020.

Mrs. A. Wilson was appointed to the Board on 1 July 2020.

Mrs. C. Loughlin was appointed to the Board on 1 April 2021.

Mr. M. P. Kirk retired as a Director on 11 June 2020.

Mr. M. P. Johnson retired as a Director on 30 June 2020.

Mr. D. W. Owens retired as a Director on 5 March 2021.

Mr. C. Deacon, Mr. M. R. Coffin, Mr. C. R. Taylor and Mrs. H. M. G. Orton, who retire by rotation, offer themselves for re-election. Mrs. A. Wilson and Mr. C. Loughlin offer themselves for election.

No Directors have any interest in the share capital of the Company or Parent Group.

The Company maintains appropriate Directors' indemnity insurance.

Substantial Shareholder
At 31 March 2021, Portsmouth Water Holdings Limited owned the entire voting capital of the Company.

Directors' Report

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 executive Directors review the minutes from the meetings.

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 sixteen years, been awarded sixteen 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 RoSPA Order of Distinction. We await the decision of RoSPA in relation to the next year's award – which has sadly been deferred due to Covid.

The Company's policy regarding the employment of disabled persons is included on page 45.

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 8 to 47. The total amount of gross Greenhouse Gas Emissions that resulted from the Company's operations in the financial year is estimated to be 5,430 tCO^2e (2020 - 5,813 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 'P' of that Instrument.

Auditors
KPMG LLP were appointed as Auditors of the Group during 2017 in respect of the year ended 31 March 2018. In 2020 they were re-appointed following a tender review.

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's 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 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.

By order of the Board

C. Hardyman ACIS
Secretary
PO Box 8
West Street
Havant
Hampshire
27 May 2021

Company Information

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Company Number: 2536455

Company Secretary: Christopher Hardyman ACIS

Registered Address of the Ultimate Holding Company

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34 Bridge Street
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Independent Auditors' 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 2021 which comprise the Income Statement, Statement of Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2021 and of its profit 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.

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").

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading board and audit committee minutes.
- Considering any remuneration incentive schemes and performance targets for management and directors.
- Using analytical procedures to identify any unusual or unexpected relationships. We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.
- As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because of the regulated nature of the revenues recognised and limited opportunity or incentive for management to manipulate these revenues.
  We did not identify any additional fraud risks.
- We performed procedures including:
  - Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included fixed asset, and cash entries made to unexpected accounts.
  - Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including relating companies legislation), distributable profits legislation, taxation legislation, pension legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: compliance with OFWAT regulatory legislation, environmental legislation, water quality, health and safety, anti-bribery, employment law, GDPR compliance and certain aspects of company legislation recognising the nature of the Company's activities and its legal form.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The directors are responsible for the other information, which comprises the strategic report, the directors' report and the governance report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 other information;
- in our opinion the information given in the strategic report and the directors' report 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 68, 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

27 May 2021

Income Statement

For the year ended 31 March 2021

	notes	2021 £000	2020 £000
Turnover	3	**41,957**	43,147
Cost of sales		**(23,214)**	(24,354)
Gross profit		**18,743**	18,793
Net operating expenses	4,5	**(10,866)**	(10,714)
Operating profit before loss on disposal of fixed assets and exceptional items		**7,877**	8,079
(Loss)/gain on disposal of fixed assets	6	**(13)**	103
Exceptional items - Incremental ER's NI related to share proceeds	5	**-**	(2,433)
- Covid related bad debt provision	16	**(91)**	(1,489)
Operating profit after loss on disposal of fixed assets and exceptional items and before interest		**7,773**	4,260
Investment income	7	**803**	1,062
Other finance income	25	**479**	672
Interest payable and similar charges	8	**(6,308)**	(7,296)
Profit/(loss) on ordinary activities before tax	6	**2,747**	(1,302)
Taxation of loss on ordinary activities	9	**(717)**	(2,024)
Profit/(loss) for the financial year		**2,030**	(3,326)

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 2021

	notes	2021 £000	2020 £000
Profit/(loss) for the financial year		**2,030**	(3,326)
Remeasurement of net defined benefit asset	25	**1,976**	(9,269)
Gain/(loss) on deferred tax relating to pension asset	21	**(376)**	1,760
Total comprehensive profit/(loss) for the year		**3,630**	(10,835)

Statement of Financial Position

For the year ended 31 March 2021

	notes	2021 £000	2021 £000	2020 £000	2020 £000
Fixed assets					
Intangible fixed assets	11	**1,212**		936	
Investment properties	12	**325**		325	
Tangible fixed assets	13	**161,382**		150,185	
Investments	14	**55,484**		55,484	
			218,403		206,930
Current assets					
Investments	15	**2**		2	
Stock		**446**		537	
Debtors	16	**9,036**		7,552	
Cash at bank and in hand	17	**28,377**		29,337	
		37,861		37,428	
Creditors: Amounts falling due within one year	18	**(22,082)**		(50,244)	
Net current assets/(liabilities)			**15,779**		(12,816)
Total assets less current liabilities			**234,182**		194,114
Creditors: Amounts falling due after more than one year	19		**(142,409)**		(109,742)
Accruals and deferred income: Capital contributions	20		**(34,545)**		(28,043)
Provisions for liabilities	21		**(8,529)**		(8,094)
Net assets excluding pension asset			**48,699**		48,235
Pension asset	25		**17,609**		15,546
Net assets including pension asset			**66,308**		63,781
Capital and reserves					
Called up share capital	23		**1,078**		1,078
Share premium account	23		**9,382**		9,382
Capital redemption reserve			**3,250**		3,250
Profit and loss account			**52,598**		50,071
Shareholder' funds			**66,308**		63,781

The accompanying notes form an integral part of these accounts.

The accounts were authorised for issue and approved by the Board on 27 May 2021 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 2021

	Called up share capital £000	Share Premium account £000	Capital redemption reserve £000	Retained earnings £000	Total £000
Balance as at 1 April 2019	1,078	6,949	3,250	64,591	75,868
Loss for the year	-	-	-	(3,326)	(3,326)
Remeasurement of net defined benefit asset	-	-	-	(9,269)	(9,269)
Movement on deferred tax relating to pension scheme	-	-	-	1,188	1,188
Effect of change to corporation tax rate on pension asset	-	-	-	572	572
Total comprehensive income for the year	-	-	-	(10,835)	(10,835)
New share capital/share premium issued	-	2,433	-	-	2,433
Dividends	-	-	-	(3,685)	(3,685)
Balance at 31 March 2020	1,078	9,382	3,250	50,071	63,781
Profit for the year	-	-	-	2,030	2,030
Remeasurement of net defined benefit asset	-	-	-	1,976	1,976
Movement on deferred tax relating to pension scheme	-	-	-	(376)	(376)
Total comprehensive profit for the year	-	-	-	3,630	3,630
Dividends	-	-	-	(1,103)	(1,103)
Balance at 31 March 2021	1,078	9,382	3,250	52,598	66,308

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 2021 £66.178m (2020 - £63.651m) was distributable in accordance with company law and £0.130m (2020 - £0.130m) 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 2021

	notes	**2021 £000**	**2021 £000**	2020 £000	2020 £000
Cash generated from operations	24		**7,764**		10,775
UK corporation tax refund		**-**		271	
Net cash inflow from operating activities			**7,764**		11,046
Cash flows from investing activities					
Purchase of tangible assets		**(18,295)**		(16,497)	
Purchase of intangible fixed assets		**(705)**		(326)	
Capital contributions received		**1,016**		1,612	
Sale of tangible fixed assets		**8**		172	
Interest received		**1,103**		1,135	
Net cash used in investing activities			**(16,873)**		(13,904)
Cash flows from financing activities					
Receipts from borrowings		**9,500**		20,000	
Receipt from intercompany borrowing		**-**		500	
Repayment of borrowings		**(20,500)**		(10,000)	
Drawdown on subordinated liabilities		**24,623**		-	
Equity dividends paid		**(1,103)**		(3,685)	
Proceeds from issue of share capital		**-**		2,433	
Interest paid		**(4,371)**		(4,263)	
Net cash generated/(used in) financing activities			**8,149**		4,985
Net (decrease)/increase in cash and cash equivalents			**(960)**		2,127
Cash and cash equivalents at beginning of year			**29,337**		27,210
Cash and cash equivalents at end of year	17		**28,377**		29,337

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 March 2021

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 apply 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

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 through cash balances, operating cash flow, loan facilities and its' RCF facility to meet its' liabilities as they fall due for that period. The forecasts prepared also demonstrate that after reasonable, controllable management mitigating actions the Company continues to meet all banking covenants and key ratings metrics.

In considering a "severe but plausible" down-side scenario for the purpose of assessing Going Concern the Directors have prepared a combined scenario - including the impact of a further 12 months of severe Covid-19 restrictions together with a failure to secure planning consents for the HTWSR therefore incurring additional costs. The further elements of this combined downside scenario are explained below.

Covid-19 - Whilst recognising generally positive outcomes from recent lock-downs and progress with national vaccination, the ongoing impact of the Covid-19 pandemic remains uncertain and our key priorities are the continued supply of our essential services and the health of our employees, customers and other business partners. Accordingly, the Directors have reviewed the current Covid-19 situation and have modelled a down side scenario reflecting a further full 12 months of significant business disruption. This includes assumptions relating to the impact of: reduced revenue from non-household customers and reduced cash flow from both non-household and household customers together with the ongoing operational impacts on both operating costs and capital spend. Further information relating to our business response to Covid-19 is included on page 35.

Havant Thicket – In combination the Directors have also considered the potential impact of the development of the Havant Thicket Winter Storage Reservoir (HTWSR) upon the business. A comprehensive programme plan and risk register are in place and the Directors have considered the activities arising within the next 12 months of the programme which could have a severe down side impact on the business. In this respect the most critical up-coming activity relates to the completion of the necessary planning approvals. Accordingly we have modelled a down side scenario reflecting the additional costs that could be incurred if initial planning consents are not received in line with the programme plan.

In the Directors' opinions these combined scenarios reflect a "severe but plausible" down side scenario for the purpose of assessing the Company's ability to continue as a Going Concern. Further longer term scenarios have also been set out in the Viability Statement. In this severe but plausible downside scenario the Company remains financially viable following mitigating actions which include; draw down on the Company's RCF, reduction in infrastructure renewals, leakage detection and repair activities and a recruitment freeze to 1 September 2021. The Directors consider that these mitigating actions are all within the control of the business.

In conclusion, the Directors, after reviewing the Company's operating budgets, investment plans and financing arrangements, consider that the Company will have sufficient funds available, to allow the Company to continue to meet its liabilities as they fall due, for a period of at least 12 months from the date of approval of the financial statements. Accordingly, the Directors are satisfied that it is appropriate to prepare 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 and some non regulated activities. Revenue is recognised at the fair value of the consideration received or receivable at the point of service delivery.

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. The only investment property held by the Company is expected to be sold during the next financial year.

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.

Notes to the Financial Statements

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.

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 probable 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. More information about the types of tax that Portsmouth Water pays recovers can be found on page 28 'Tax Strategy'.

1.12 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. In accordance with the provisions of FRS 102, the level of defined benefit asset recognised is restricted to the extent which future benefits can be recovered by the Company. Of the total pension scheme assets £84.76m (2020 - £81.57m) are classified as 'level 3' assets and their valuation requires more judgement (note 25).

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.

1.13 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)
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. Management will also consider the experienced outturn and any further expected impact of the Covid pandemic upon the recoverability of amounts of income accrued but not yet invoiced.

If the volumetric element of the Measured Income Accrual were to vary by 10% this would impact the accrual by £183k.

Notes to the Financial Statements

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 & 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.

If the useful economic life of mains were to be extended by a further 10 years, this would generate a £312k saving on depreciation within the year. If the useful economic life of mains were to be reduced by 10 years, the impact on the 2020/21 depreciation would have been an additional charge of £2,556k.

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 disclosed in note 25. The present value of the pension obligations is dependent on the actuarial calculation, which includes a number of assumptions. These assumptions include the discount rate, inflation price and mortality rates which are used to calculate the present value of the estimated future cash outflows that will be required to meet the pension obligations. In determining the discount rate to use, the Company considers market yields of high quality corporate bonds, denominated in sterling, that have times to maturity approximating the terms of the pension liability.

- A decrease in the discount rate of 0.1% pa would increase the defined benefit obligation by around £2.4m (part of this increase would be offset by an increase in the FRS102 value of the buy-in policy such that the net effect would be a reduction in the balance sheet asset of £1.5m).
- A 5% fall in performance asset values (i.e. equities, absolute return bonds and property) would reduce the balance sheet asset by around £4m.
- Sensitivity in the mortality assumption: - A one year increase in life expectancies would increase the defined benefit obligation by around £6m (part of this increase would be offset by an increase in the FRS102 value of the buy-in policy such that the net effect would be a reduction in the asset of £2m).

Level 3 financial assets, these are considered to be the least liquid and hardest to value, and are therefore subject to a higher degree of estimation uncertainity.

Bad debt provision

The Company makes an estimate of the recoverable value of trade receivables. In a "normal year" when assessing impairment of trade receivables, management considers factors including aging profile of the receivables, stage of credit control and historical experience. Accordingly bad debt provisions are made in respect of the recovery of water charges from both household and non-household customers.

During 2019/20, following an exercise to develop the Company's understanding about the relationship between bad debt and certain customer segmentation information, the bad debt provision policy was revised based on the historically observed linkage between collection history and debt ageing. Subject to the overlay of additional bad debt provision to reflect the impact of Covid-19 our provisioning methodology remains consistent.

At the end of 2019/20 the emergence of the Covid-19 pandemic was just commencing and at that time there was a high degree of uncertainty as to the resulting economic impact. Accordingly at the 2019/20 year end an additional provision was made to reflect the impact of the economic downturn on debt recovery levels. As we could not wholly rely upon historic experience of bad debt, judgements were overlaid to account for other economic indicators – particularly forecast unemployment levels.

Since the emergence of the pandemic we have also carefully tracked trends in our bad debt experience have reflected this in both bad debt write offs and levels of provision. To this extent the 2020/21 bad debt position takes a more holistic view – with the benefit of an improved observable experience of the impact of Covid-19 on debt recovery. To this extent, in relation to the provisioning of older debts (over one year), where we have observed adverse outturn variance against normal historic collection trends, the resultant bad debt provision charge of £495k has been presented as an exceptional item by virtue of its size and atypical nature. In addition we have also identified new debt (<1 year) written off during the period where this has been directly identified as Covid related. This has also been presented as an exceptional charge of £85k. These charges are classified, by nature, as an operating expense. Finally, the £489k gross reduction in the 2020 Covid bad debt provision (credit to the income statement) has also been classified as exceptional by nature consistent with the 2020 accounts classification. This has a resulted in an overall net charge of £91k classified as exceptional.

As a "new norm" emerges we would expect to further review the current provisioning approach during 2021/22 – this will include the extent to which variances from long term historic trends are disclosed as exceptional by virtue of their nature and size.

The Bad Debt Provision currently assumes a 52% recovery rate for debts between one and four years old. If this was increased to 57% (a 5% increase) or reduced to 49% (a 5% decrease), this would decrease/increase the provision by £31k. For every 1% increase in unemployment the bad debt provision would increase by £124,000.

Recovery of amounts under long term contract arrangements

As a result of the programme to begin development of the Havant Thicket Winter Storage Reservoir, the Company has currently incurred £14.3m of expenditure, which has been capitalised as a tangible fixed asset (work in progress). These costs will ultimately be recovered through a long-term third party contractual arrangement and in line with an allowed separate price control.

Whilst the related commercial bulk supply agreement has now been signed, there remains judgement as to whether the project can be delivered within the regulatory allowance that has been set for the separate Havant Thicket price control. We have concluded that amounts under this long term contract will be recovered in full and within the allowance set out in the price control due to the following factors;

The project is progressing in line with the plan set out in the regulatory determination and no material issues have been identified that are likely to have an adverse impact on deliverability or cost.
Indications from the early stages of the procurement programme have not suggested any matters that are likely to have an adverse impact on deliverability or cost.

A cost adjustment mechanism has been included as part of the regulatory determination, which will mitigate adverse cost implications arising as a result of the planning and procurement process.

3. Turnover	**2021**	2020
	£000	£000
Unmeasured household supplies	**20,185**	21,446
Measured household supplies	**11,000**	10,226
Non-household supplies	**7,173**	9,116
Bulk supply	**453**	401
Amortisation of developer contributions (note 20)	**723**	709
Chargeable work	**2,263**	1,102
Deferred meter reading revenue	**160**	147
	41,957	43,147

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	**2021**	2020
	£000	£000
Administrative expenses	**11,303**	11,123
Other operating income	**(437)**	(409)
	10,866	10,714

In addition the items included in exceptional items would ordinarily be classified, by type, as operating expenses.

5. Directors and employees	**2021**	2020
	£000	£000
Employment costs:		
Wages and salaries	**8,186**	8,016
Social security costs	**913**	900
Defined benefit pension costs (note 25)	**1,351**	1,944
Defined contribution pension costs (note 25)	**372**	335
	10,822	11,195
Costs transferred to capital schemes	**(667)**	(902)
Ordinary net employment costs charged to the income statement	**10,155**	10,293
Exceptional National Insurance costs	**-**	2,348
Total employment costs	**10,155**	12,641

The total incremental amount of social security costs payable in relation to a transaction in the prior year, whereby the share in South Downs Capital Ltd which Portsmouth Water Limited is the primary trading company) were sold to Ancala, totalled £nil (2020 – £2,347,883). A further £nil (2020 - £85,158) related to additional apprenticeships levy arising. This is explained further in note 31 where it also states that the share payments have now ceased.

Notes to the Financial Statements

Average numbers employed during year:	**2021 Number**	2020 Number	2019 Number
Operations	**138**	149	153
Administration	**113**	115	106
	251	264	259

	Highest Paid Director 2021 £000	Highest Paid Director 2020 £000	**Total 2021 £000**	Total 2020 £000
Total remuneration	**275**	240	**488**	477
Pension scheme benefit	**17**	17	**32**	31
	292	257	**520**	508

2 Directors (2020 - 2) are accruing benefits under a defined contribution pension scheme. No benefits are accruing to Directors under defined benefit pension schemes. 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 60 to 66. The information set out in that Report which is subject to audit forms part of these financial statements.

6. Profit/(loss) on ordinary activities before taxation	**2021 £000**	2020 £000
Profit on ordinary activities is stated after charging:		
Depreciation - infrastructure assets	**1,153**	1,130
- non infrastructure assets	**4,658**	4,485
Amortisation of intangible assets	**429**	506
Loss/(gain) on disposal of fixed assets	**13**	(103)
Rates	**2,422**	2,384
Water abstraction charges	**1,322**	1,322
Hire of plant and machinery	**1**	4
Operating lease charges	**-**	-
Auditors' remuneration:		
Fees payable to the Company's current auditor for the audit of the Company's annual accounts	**79**	50
Fees payable to the Company's current auditor for other services:		
Audit related assurance services - Annual Performance Review	**52**	30
Taxation compliance services	**22**	32
R&D tax fees	**-**	43
Other non-audit services (including advice for refinancing)	**-**	7
Fees in respect of Portsmouth Water Holdings Limited - Audit and Tax	**8**	7
Fees in respect of the Brockhampton Pension Scheme: Audit*	**11**	8
Fees relating to previous audit	**33**	20

*Not paid by the Company

7. Investment income	**2021 £000**	2020 £000
On loan from group company	**803**	1,054
Interest on short term deposit	**-**	8
	803	1,062

No funds were placed on short term deposit during the year.

8. Interest payable and similar charges	**2021 £000**	2020 £000
£66.5m loan:		
Interest	**4,051**	3,970
Indexation	**1,793**	2,976
Amortisation of fees	**57**	57
Administration fees	**111**	212
£7.5m loan:		
Amortisation of fees	**27**	-
Intercompany loan:		
Interest	**61**	-
Revolving credit facility and other	**194**	67
Debenture stock	**14**	14
	6,308	7,296

For information, the indexation is based on RPI. (July 2020 - 294.2 and July 2019 - 289.5).

9. Taxation	**2021 £000**	2020 £000
Current tax		
United Kingdom corporation tax at 19% (2020 - 19%)	**175**	-
Adjustment in respect of prior periods	**-**	313
	175	313
Deferred tax		
Origination and reversal of timing differences	**535**	346
Adjustment in respect of prior periods	**7**	(20)
Effect of tax rate change on opening balance	**-**	1,385
	542	1,711
Tax on profit on ordinary activities	**717**	2,024
Factors affecting the tax charge for the year		
Profit/(loss) on ordinary activities before tax	**2,747**	(1,302)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020 - 19%)	**522**	(247)
Effect of:		
Depreciation on assets not qualifying for capital allowances	**188**	236
Effect of change in tax rate	**-**	1,385
Other tax adjustments	**-**	357
Prior year adjustment - current tax	**-**	313
Prior year adjustment - deferred tax	**7**	(20)
Total tax charge for year	**717**	2,024

Current Tax - United Kingdom corporation tax at 19% (2020 - 19%)
Current tax charges have been incurred for the period of £175k (2020 - £313k). There were no adjustment in respect of prior periods.

Deferred Tax
Total deferred tax charged to the income statement was £542k (2020 - £1,711k) reflecting the origination and reversal of timing differences together with a small prior year adjustment of £7k (2020 - £20k credit). With corporation tax remaining at 19%, there was no impact upon opening deferred tax balances as a result of the change in corporation tax rate (2020 - £1,385k).

Deferred taxes have been recognised on the temporary difference between the carrying amount of the fixed assets in the accounts and the amounts that will be deductible for tax purposes (capital allowances) in future years, in accordance with relevant tax legislation resulting in a gross liability of £9.6m (2020 - £9.3m). Offset against this is the deferred tax benefit of other timing differences – these primarily relate to unutilised tax losses. A deferred tax asset of £1.1m (2020 - £1.2m) has been recognised in respect of tax losses because it is probable that these assets will be recovered in future periods. Under the current tax regime, trading tax losses carried forward will be available to offset trading profits in future years. This results in a net overall deferred tax liability of £8.5m (2020 - £8.1m).

A deferred tax liability of £4.1m (2020 - £3.6m) has also been recognised in relation to the pension scheme asset (referred to in note 25), based on the tax deductions taken for contributions paid.

No deferred tax balances are expected to reverse during the year to March 2022 (2020 - £nil).

In the 3 March 2021 Budget it was announced that the UK tax rate will increase from 19% to 25% from 1 April 2023. This will have a consequential effect on the company's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax liability, which is currently calculated at 19%, would have increased by approximately £4.0m.

Notes to the Financial Statements

Explanation of factors effecting tax charge for the year

Tax on profit on ordinary activities of £717k has been incurred for the year when taking the Corporation Tax and deferred tax into account. The profit on ordinary activities before tax is £2.7m – when multiplied by the standard rate of corporation tax in the UK of 19% this would have generated a current year Corporation Tax charge of £522k if other factors had not been applied. There were no expenses not deductible for tax purposes and the corporation tax charge is increased by the effect of depreciation on assets not qualifying for tax relief of £188k (2020 - £236k). With Corporation Tax remaining at 19% between 2020/21 and 2019/20, there was no impact as a result of change in the Corporation Tax rate. Finally a small prior year adjustment of £7k to deferred tax charges occurred.

10. Dividends	**2021** **£000**	2020 £000
Equity: Ordinary		
Interim paid	**559**	1,710
Final paid	**544**	1,975
	1,103	3,685

Dividend payments are consistently calculated based upon two elements – a return on the equity component of the Regulatory Capital Value (RCV) and a "recirculating" element which permits interest on certain intercompany loans receivable to be serviced. This second element is received by the Company in the form of interest payments and does not result in any net cash outflow.

Following the emergence of the Covid-19 global pandemic in early 2020, the Board confirmed its intention to suspend dividend payments until the full effect was better understood and there was greater clarity as to the potential Covid financial impact upon the business. As a consequence no further dividend was declared in respect of the year ended 31 March 2020 when those accounts were approved. Interim dividends declared & paid during the period ended 31 March 2021 related solely to the recirculating amounts explained above totaling £1.103m.

The Board has kept the business impact of Covid-19 under close review together with the performance of the business – including mitigating actions available. Based upon national progress in relation to managing the pandemic, the Company's ongoing business performance & Covid response, financial & cash flow headroom and the availability of mitigating actions, the Board has concluded that dividend payments can be resumed. In reaching this decision the Board also concluded that it was appropriate to first repay amounts received by the Company under furlough arrangements, totaling £220,000, before dividend payments were resumed.

Accordingly the Board has approved dividend payments in relation to the remaining (final) dividend in respect of financial year 2019/20 and a final dividend in respect of the financial year 2020/21. These dividends were approved on 27 May 2021 and are expected to be paid during July 2021.

In relation to the year ended 31 March 2020 the Company set a dividend policy based upon a 5% return on equity regulatory capital value and has consistently applied this policy in declaring a final shareholder dividend of £1.676m.

As part of the Company's PR19 business plan submission a revised Dividend policy was adopted. This is centered upon a base dividend reflecting a 5% return on the average equity RCV for the year. This is then further adjusted (upwards or downwards) depending upon the following factors which reflect financial resilience and overall Company performance;

1. Overall financial performance of the appointed and non-appointed business supporting a dividend.
2. Reflecting the Company's commitments to customers and stakeholders including;
    - Customer Service:- C-Mex, D-Mex, Written Complaints
    - Performance Commitments:- Leakage, Interruptions to supply, Water Quality (CRI)
    - Commitments to customers:- Vulnerable customers, Sustainable abstraction, Community commitments
    - Employees:- Health & Safety, pensions.
3. Demonstrating financeability tests to ensure sufficient liquidity for the medium term and testing the financial viability of the company.
4. Recognising Regulatory requirements in particular Licence Condition F.

In making a recommendation of a final dividend payment in respect of the year ended 31 March 2021 the Company has applied this policy and the Directors have carefully considered the factors set out above. Further detail in relation to these considerations have been included in the Company's Annual Performance Report. As this is the first year in the new regulatory cycle, although in overall terms the company has met all of the above tests and has shown strong performance in commitments to customers and stakeholders, the Directors have not chosen to make any enhancement above the base dividend. Accordingly, the directors have proposed a core dividend for the period of £3.210m. The final dividend proposed in relation to the 2020/21 financial period also includes a further £0.244m of recirculating dividend in relation to the servicing of intercompany debt and this will be made as a distribution in specie with the related asset being the cancellation if inter-company interest receivable.. This results in a total final dividend proposed for the period ended 31 March 2021 of £3.454m.

11. Intangible fixed assets

	Software, consultancy and internal staff costs £000
Cost	
At 1 April 2020	3,340
Additions	705
Disposals	-
At 31 March 2021	4,045
Amortisation	
At 1 April 2020	2,404
Charge for year	429
Disposals	-
At 31 March 2021	2,833
Net book value	
At 31 March 2021	1,212
At 31 March 2020	936

Intangibles in the course of completion as at the 31 March 2021

Included in the above are assets in the course of construction as follows:	
At 1 April 2020 (cost and net book value)	290
Additions in to WIP during the year	630
Transferred into completed intangible assets	(77)
At 31 March 2021 (cost and net book value)	843

12. Investment properties

	Investment properties £000
Valuation	
At 31 March 2020	325
At 31 March 2021	325

The historic cost of the investment properties at 31 March 2021 was £0.195m (2020 - £0.195m).

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 2020	64,097	67,864	63,906	25,729	221,596
Additions	7,371	3,444	3,813	2,401	17,029
Disposals	-	(41)	-	(43)	(84)
At 31 March 2021	71,468	71,267	67,719	28,087	238,541
Depreciation					
At 1 April 2020	14,588	7,000	32,249	17,574	71,411
Charge for year	540	1,155	2,201	1,915	5,811
Disposals during year	-	(21)	-	(42)	(63)
At 31 March 2021	15,128	8,134	34,450	19,447	77,159
Net book value					
At 31 March 2021	56,340	63,133	33,269	8,640	161,382
At 31 March 2020	49,509	60,864	31,657	8,155	150,185

Notes to the Financial Statements

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 2020	8,848	3,403	3,005	284	15,540
Transferred into completed fixed assets	(975)	(1,653)	(4,713)	(1,347)	(8,688)
Additions in to WIP during the year	7,411	3,649	4,583	1,343	16,986
At 31 March 2021	15,284	5,399	2,875	280	23,838
Depreciation					
At 1 April 2020	-	-	-	-	-
At 31 March 2021	-	-	-	-	-
Net book value					
At 31 March 2021	15,284	5,399	2,875	280	23,838
At 31 March 2020	8,848	3,403	3,005	284	15,540

Of the balance of assets in the course of construction, £14.3m relates to Havant Thicket Winter Storage Reservoir.

14. Fixed asset investments

	Loans to Group undertakings £000
As at 31 March 2020 and 31 March 2021	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%. We note that before 31 December 2021 LIBOR will be replaced by a SONIA related measure. 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 2020 and 31 March 2021	2

16. Debtors

	2021 £000	2020 £000
Trade debtors	**2,822**	2,111
Amount owed by Group companies	**1,934**	1,286
Prepayments	**622**	557
Accrued income	**3,308**	2,904
Other debtors	**350**	694
	9,036	7,552

All of the above amounts fall due within one year. As at 31 March 2021, trade debtors had a carrying value of £7.262m (2020 - £6.934m) 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 £4.440m as at 31 March 2021 (2020 - £4.823m) as noted further below.

The ageing of these debtors was as follows:	**2021 £000**	2020 £000
Up to 12 Months	**4,705**	4,497
Over 12 Months	**2,557**	2,437
	7,262	6,934

Debtors provided for relate, to water charges for household and non-household customers - where experience in the water industry has shown, over time, it is likely that there will be difficulties in recovering the water charges for the periods concerned. Of the total £4,440k provision (2020: £4,823k) £145k (2020: £220k) relates to non-household debtors and £4,295k (2020: £4,603k) relates to household debtors.

At the end of 2019/20 the emergence of the Covid-19 pandemic was just commencing and at that time there was a high degree of uncertainty as to the resulting economic impact. Accordingly at the 2019/20 year end an additional "Covid" provision was made to reflect the impact of the economic downturn on debt recovery levels. As we could not wholly rely upon historic experience of bad debt, judgements were overlaid to account for other economic indicators – particularly forecast unemployment levels.

Since the emergence of the pandemic we have also carefully tracked trends in our bad debt experience and have reflected this in both bad debt write offs and levels of provision. To this extent the 2020/21 bad debt position takes a more holistic view – with the benefit of an improved observable experience of the impact of Covid-19 on debt recovery. To this extent, in relation to the provisioning of older debts (over one year), where we have observed adverse outturn variance against normal historic collection trends, the resultant bad debt provision charge of £495k has been presented as an exceptional item by virtue of its size and atypical nature. In addition we have also identified new debt (<1 year) written off during the period where this has been directly identified as Covid related. This has also been presented as an exceptional charge of £85k. These charges are classified, by nature, as an operating expense. Finally, the £489k gross reduction in the 2020 Covid bad debt provision (credit to the income statement) has also been classified as exceptional by nature consistent with the 2020 accounts classification. This has a resulted in an overall net charge of £91k classified as exceptional. An additional charge of £137k has been made as a non-exceptional bad debt charge in the year to reflect the underlying bad debt experience.

As a "new norm" emerges we would expect to further review the current provisioning approach during 2021/22 – this will include the extent to which variances from long term historic trends are disclosed as exceptional by virtue of their nature and size.

	2021	2020
	£000	£000
At 1 April 2020	**4,823**	4,636
Provision for bad debt required in the year - charged to income statement	**228**	1,517
Debt written off in the year as uncollectable includes fully provided debt over 6 years old	**(611)**	(1,330)
At 31 March 2021	**4,440**	4,823

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. Except in relation to non-household debt he Company does not hold any collateral as security for debt. However, according to the non-household market Terms of Business, collateral is held in the form of cash and guarantees to cover an element of non-household risk.

17. Cash at bank and in hand

Of the total amount shown of £28.377m (2020 - £29.337m), £2.049m (2020 - £2.021m) is held specifically for the payment of the next half yearly loan interest charges. Nil (2020 - £8.749m) of the increase in cash is due to proceeds of sale and share options being transferred from Ancala. This was to settle future incremental employment related social security liabilities bought about by the transaction (note 31).

	2021	2020
	£000	£000
Cash at bank and in hand	**28,377**	29,337

18. Creditors: amounts falling due within one year	**2021**	2020
	£000	£000
3% Perpetual debenture stock	**60**	60
3½% Perpetual debenture stock	**185**	185
4% Perpetual debenture stock	**39**	39
Payments received on account	**1,697**	1,399
Trade creditors	**6,929**	7,557
Short term intercompany loan[1]	**-**	500
Amounts owed to group companies	**2,100**	1,925
Social security and other taxation	**327**	9,101
Other creditors	**460**	420
Balance outstanding on revolving credit facility (refer to note 22)	**2,000**	20,000
Accruals	**1,029**	997
Water rates paid by customers in advance	**7,257**	8,141
	22,082	50,244

[1]An intercompany short term loan carrying interest charged at 3 months LIBOR + 1%, no short term loan occurred in FY21.

19. Creditors: amounts falling due after more than one year	**2021**	2020
	£000	£000
In five years or more:		
Bank loan	**112,245**	110,452
Bank facility	**7,500**	-
Less: deferred arrangement costs	**(1,958)**	(710)
Intra-group subordinated creditor	**24,622**	-
	142,409	109,742

The thirty year £66.5m index-linked bank 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 £0.653m (2020 - £0.710m).

Notes to the Financial Statements

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.

On 2 March 2021 Portsmouth Water Limited entered into a £55m Bank Facility, with £7.5m drawn immediately. This facility matures in March 2025, with interest payable six monthly at floating rate of LIBOR + 1.25%. This margin is subject to an assessment of sustainability, with an adjustment of up to +/- 1.75 basis points depending on the Company's performance.

Fees associated with the loan amount to £1.305m and are amortised over the duration of the facility. On 2 March 2021 Portsmouth Water Limited entered into an intercompany loan agreement with Portsmouth Water Holdings Limited permitting borrowing to a total facility value of £50m, initially drawing down £24,622m. Interest accrues daily at 3% p.a. on the total amount drawn, payable six monthly in arrears. This loan has a five year term, maturing in 31 March 2025.

The Company manages its working capital requirements primarily through the use of its £0.5m overdraft facility and revolving credit facility (RCF). The RCF limit was extended from £20m to £25m on 29th May 2020 as part of the mitigating actions in relation to Covid-19. The RCF is available at its current level until 25th May 2022. At the Company’s option amounts may be drawn under the RCF for fixed periods of 1 or 3 months.

20. Deferred income - capital contributions	**2021 £000**	2020 £000
Capital contributions	**35,268**	28,752
Release to turnover (note 3)	**(723)**	(709)
	34,545	28,043

21. Provisions for liabilities	**2021 £000**	2020 £000
Deferred taxation:		
At 1 April	**8,094**	6,919
Charged during the year in income statement	**435**	1,175
At 31 March	**8,529**	8,094

The amount provided for deferred taxation represents timing differences caused by the excess of tax allowances over depreciation, net of the benefit of deferred tax assets in respect of unutilised tax losses.

	2021 £000	2020 £000
Total deferred taxation including deferred tax on pension asset:		
Accelerated capital allowances	**9,614**	9,265
Other timing differences	**(1,086)**	(1,171)
	8,528	8,094
Pension asset (note 25)	**4,131**	3,647
Total provision for deferred tax	**12,659**	11,741

	2021 £000	2020 £000
At 1 April	**11,741**	11,790
Deferred tax charged in income statement (note 9)	**542**	1,711
Deferred tax charged/(credited) to the statement of comprehensive income	**376**	(1,760)
At 31 March	**12,659**	11,741

In the 3 March 2021 Budget it was announced that the UK tax rate will increase from 19% to 25% from 1 April 2023. This will have a consequential effect on the company’s future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax liability, which is calculated at 19%, would have increased by approximately £4.0m.

A deferred tax asset of £0.6m (2020 - £0.6m) relating to the Corporate Interest Restriction rules on interest charges has not been recognised as there is insufficient evidence that this asset would be recovered in future periods.

22. Financial instruments

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

	2021 £000	2020 £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)	**28,377**	29,337
	83,863	84,823

	2021 £000	2020 £000
Financial liabilities		
Bank loans and overdrafts	**111,592**	109,742
Intercompany loans	**-**	500
Intra-group subordinated creditor	**24,623**	-
Bank facility	**6,195**	-
Revolving credit facility	**2,000**	20,000
Debenture stock	**284**	284
	144,694	130,526

Sterling	Fixed Rate 2021 £000	Fixed Rate 2020 £000	Floating Rate 2021 £000	Floating Rate 2020 £000	Total 2021 £000	Total 2020 £000
Liabilities						
Bank loans and overdraft	**111,592**	109,742	**2,000**	20,000	**113,592**	129,742
Intercompany loans	**-**	500	**-**	-	**-**	500
Intra-group subordinated creditor	**24,623**	-	**-**	-	**24,623**	-
Bank facility	**-**	-	**6,195**	-	**6,195**	-
Debenture stock	**284**	284	**-**	-	**284**	284
	136,499	110,526	**8,195**	20,000	**144,694**	130,526

Fixed Rate	Weighted average interest rate % 2021	Weighted average interest rate % 2020	Weighted average period for which rate is fixed Years 2021	Weighted average period for which rate is fixed Years 2020
Sterling				
Artesian	**3.6**	3.6	**11**	12
Intra-group subordinated creditor	**3**	-	**4**	-
	3.5	3.6	**10**	12

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 2021 is detailed below:

	2021 £000	2020 £000
In one year or less	**2,284**	20,784
In more than five years	**142,694**	109,742
	144,694	130,526

The Company had undrawn borrowing facilities at 31 March 2021, in respect of which all conditions precedent had been met, as follows:

	2021 £000	2020 £000
Expiring within one year	**23,000**	500
Expiring between two and three years	**72,877**	-
	95,877	500

Notes to the Financial Statements

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

The Company overdraft remains at £0.5m based on projected working capital requirements.

During the year the Group raised additional financing of for up to £105m in order to finance the development of Havant Thicket Winter Storage Reservoir (HTWSR) and other capital investments in the Company. This was raised under two debt facilities with up to £55m available to Portsmouth Water Limited and £50m of wider Group financing. This is detailed in note 19.

23. Called up share capital	**2021 £000**	2020 £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:		
4,265,197 Ordinary Shares of 10p each (2020 - 4,265,197)	**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.

No new shares were issued during the year. However, on 27 March 2020 ten new Ordinary Shares at 10p each were issued at a premium of £243,303.80 per share which was fully paid in cash for £2,433,039. This resulted in an increase in share capital of £1 and created a share premium of £2,433,038. This additional capital in the prior year related to funding for exceptional National Insurance contributions relating to the distribution of sales proceeds to employees as set out in note 31.

24. Cash generated from operations	**2021 £000**	2020 £000
Profit/(loss) for the year before taxation	**2,747**	(1,302)
Adjustments for:		
Finance costs recognised in income statement	**6,308**	7,296
Notional pension costs	**(91)**	864
Investment income recognised in income statement	**(803)**	(1,062)
Other finance income	**(479)**	(672)
Loss/(profit) on disposal of asset	**13**	(103)
Depreciation and amortisation of tangible and intangible fixed assets	**6,240**	6,121
Amortisation of capital contributions	**(723)**	(709)
Amortisation of deferred meter reading revenue	**(157)**	(147)
Movements in working capital:		
Decrease/(increase) in stocks	**91**	(118)
(Increase)/decrease in debtors	**(3,411)**	224
(Decrease)/increase in creditors	**(1,971)**	383
Cash generated from operations	**7,764**	10,775

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. During the prior year the Brockhampton Pension Scheme Trustees entered into a 'Buy-In' arrangement with Just Retirement Limited. This asset will cover all the current pensioner liabilities and significantly reduces the risk within the Scheme. The Company supported this decision.

The formal actuarial valuation as at 31 March 2018 was updated to 31 March 2021 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 2022 year, commencing 1 April 2021 is £1.2m (2021 actual - £1.4m). Of this amount, £1.0m is contributed directly by that Company and £0.2m is contributed by employees by salary sacrifice under the SMART arrangement.

Employer contributions for the remainder of the AMP are projected to be FY22 - £1.0m, FY23 - £1.0m, FY24 - £1.0m.

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

	2021 % per annum	2020 % per annum	2019 % per annum
RPI inflation	**3.2**	2.5	3.3
CPI inflation	**2.7**	1.9	2.4
Discount Rate	**2.0**	2.4	2.3
Pension increases	**2.7**	2.0	2.4
Salary growth	**2.8**	2.0	4.4

Assumption	31 March 2021	31 March 2020	Comments on assumptions
RPI inflation	3.2% pa	2.5% pa	• The assumption for future RPI inflation is based upon index-linked and fixed-interest gilts, as published by the Bank of England and extrapolated for later durations. The single equivalent inflation rate is then calculated as the 'average' rate that produces the same present value of the liabilities as using the inflation rates for each term. • Consistent with the approach taken last year, a deduction of 0.3% pa has been applied to allow for an assumed inflation risk premium.
CPI inflation	2.7% pa	1.9% pa	• The CPI inflation used previously was set as RPI inflation less a gap of 0.6% pa. In light of the proposed changes to the RPI inflation index, the gap has now been updated to the to reflect the weighted average adjustment for the Scheme. • As an approximation to reflect the differences pre/post 2030 a rate reduction of 0.5% pa, reflecting the average expected reduction in RPI-CPI gap, has been applied. This gives broadly equivalent results to 1% / 0.1% pa pre/post 2030 for the Scheme.

Life expectancy of a male aged 65 at the accounting date is 22.0 years and for a female is 24.5 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 23.7 years and for a female is 26.2 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 £4m.
- A one year increase in life expectancies would increase the defined benefit obligation by around £6m.

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:

	%	**2021 Fair Value £000**	%	2020 Fair Value £000	%	2019 Fair Value £000
Equities	**24**	**38,643**	17	23,783	34	56,452
Absolute Return Fund	**11**	**18,875**	13	18,158	24	40,922
LDI	**9**	**14,106**	10	13,957	22	37,610
Property	**8**	**12,892**	12	17,404	10	17,312
Cash	**4**	**5,938**	3	4,565	10	15,851
Buy-in policy	**44**	**71,867**	45	64,162	-	-
	100	**162,321**	100	142,029	100	168,147

With the exception of cash, assets consist of pooled investment funds which are not quoted on an active market, shown by category in the table above. The above include assets amounting to £84.759m (2020 - £81.566m) classified as level 3 financial assets, these are considered to be the least liquid and hardest to value, and are therefore subject to a higher degree of estimation. See also the critical accounting estimates in note 1. Experienced gains and losses are differences between the actual events as they have turned out and the assumptions that they were made as at the date of the earlier actuarial valuation and changes in the actuarial assumption during the year. Experience gains and losses are differences between the actual events as they have turned out and the assumptions that they were made as at the date of the earlier actuarial valuation and changes in the actuarial assumptions during the year.

Notes to the Financial Statements

Method of valuation

The benefits are valued using the projected unit method at the trustees' funding valuation date of 31 March 2018. In line with industry practice and the approach taken in previous years, the liabilities are then estimated by rolling forward the 31 March 2018 results to the current year-end. This roll-forward allows for changes in market conditions, changes in demographic assumptions and certain experience adjustments – including inflation and benefits paid out.

	2021 £000	2020 £000
Total fair value of scheme assets	**162,321**	142,029
FRS 102 value of scheme defined benefit obligation	**(138,348)**	(113,826)
Impact of asset ceiling	**(2,233)**	(9,010)
Pension asset	**21,740**	19,193
Related deferred tax liability	**(4,131)**	(3,647)
Net pension asset	**17,609**	15,546

Under FRS 102, the scheme is represented on the statement of financial position at 31 March 2021 by an asset of £21.740m (2020 - £19.193m), which amounts to £17.609m net of deferred tax (2020 - £15.546m).

Portsmouth Water Limited paid contributions at a rate of 30.0% 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 £372,033 (2020 - £334,876).

Movement in the net balance sheet position

The FRS 102 value of scheme assets moved over the period as follows:	2021 £000	2020 £000
Opening asset	**19,193**	28,653
Expense charged to profit and loss	**(872)**	(1,271)
Gain/(loss) recognised outside of profit and loss	**1,976**	(9,269)
Employer contributions	**1,443**	1,080
Closing asset	**21,740**	19,193

Movement in present value of defined benefit obligation

The FRS 102 value of scheme defined benefit obligation moved over the period as follows:	2021 £000	2020 £000
Opening scheme liabilities	**113,826**	133,273
Employer's part of current service cost	**1,351**	1,944
Interest on scheme liabilities	**2,666**	2,996
Benefits paid and running costs	**(5,504)**	(6,071)
Actuarial loss/(gain)	**26,009**	(18,316)
Closing scheme defined benefit obligation	**138,348**	113,826

Movement in fair value of scheme assets

The FRS 102 value of scheme assets moved over the period as follows:	2021 £000	2020 £000
Opening fair value of scheme assets	**142,029**	168,147
Interest on scheme assets	**3,360**	3,811
Contributions by Portsmouth Water Limited, including employee contributions under the SMART arrangement	**1,443**	1,080
Benefits paid and running costs	**(5,504)**	(6,071)
Actuarial gain/(loss)	**20,993**	(24,938)
Closing fair value of scheme assets	**162,321**	142,029

Expense recognised in income statement

The following amounts have been included within operating profit:	2021 £000	2020 £000
Current service cost (employer's part only)	**(1,351)**	(1,944)
Total operating charge	**(1,351)**	(1,944)
The following amounts have been included as other finance income under FRS 102:		
Interest on pension scheme assets	**3,361**	3,811
Interest on asset limit	**(216)**	(143)
Interest on pension scheme defined benefit obligation	**(2,666)**	(2,996)
Net return	**479**	672
Total expense recognised in the income statement	**872**	1,272

Amounts recognised outside income statement

The following amounts have been recognised within the statement of changes in equity:	**2021 £000**	2020 £000
Actual return less interest	**(20,993)**	24,938
Experience gains arising on scheme defined benefit obligation	**(593)**	(603)
Loss/(gain) due to changes in assumptions	**26,601**	(17,713)
Change in asset limit other than interest	**(6,993)**	2,647
Remeasurement loss of net defined benefit asset	**(1,976)**	9,269

Changes in accounting estimates
The applicable discount rate is based upon a AA corporate bond yield curve. This was adjusted to take account of longer-dated corporate bonds as this was judged to be the most appropriate approach. The impact of this change in methodology is to reduce the balance sheet liabilities by £2.4m at 31 March 2021.

In relation to the long term estimate CPI, the Company has reduced the long term gap between RPI and CPI by 10 basis points (from 0.6% to 0.5%) compared with the prior year to reflect increased clarity on the future of the RPI index. The impact of the change in estimate resulted in an increase in the balance sheet liabilities of £2.2m.

The actual return on plan assets was £24.354m in the year to 31 March 2021 (2020 - £21.127m loss).

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

27. Ultimate controlling party
During the previous financial year, the Company's shareholders incorporated Southern Region Water Holding Limited in Hong Kong on 13 September 2019 and transferred 100% of the investment held in Ancala Fornia Holdco Limited to Southern Region Water Holding Limited.

The group structure is set out on page 49.

We consider SRWHL to be the ultimate holding company and ultimate controlling entity. Consolidated group financial statement for the year ended 31 March 2021 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.

28. Capital commitments

	2021 £000	2020 £000
Relating to fixed assets	**8,969**	4,122

Capital commitments of £9.0m reflect the fact that we are at the beginning of the AMP with a significant capital programme ahead of us. The most significant of the capital commitments relates to the contact time chlorination project at £4.6m.

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 49 and have the same Registered Office as stated on page 70.

30. Post Balance Sheet Event
No events occurred post the 31st March 2021.

31. Disposal of the South Downs Capital Group
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 partially by an Employee Benefit Trust (EBT).

As a result of this transaction, share options relating to the 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. The 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, 2019 and 2020. This resulted in a beneficial cash flow position of £8.749m in 2020 (2019 - £9.02m) due to the timing of the receipt of proceeds for distribution and the settlement of PAYE and NIC liabilities. Such payments have now ceased and are presented in the comparative numbers only.

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 £2,433,039 in 2020 (2019 - £2,422,000) 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 costs in the prior period. However, this has been compensated for by the injection of additional share capital and share premium of £2,433,039 in 2020 (2019 - £2,422,000) (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 29th day of July 2021, on the following business:

1. To receive and consider the Directors' Report and Accounts for the year ended 31 March 2021 and the Auditors' Report thereon.

2. To approve the Report on Remuneration.

3. To re-elect Mr. C. Deacon a Director of the Company.

4. To re-elect Mr. C. R. Taylor a Director of the Company.

5. To re-elect Mrs. H. M. G. Orton a Director of the Company.

6. To re-elect Mr. M. R. Coffin a Director of the Company.

7. To elect Mrs. A. Wilson a Director of the Company.

8. To elect Mr. C. Loughlin 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
27 May 2021

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 - As defined by Ofwat.

	2021 £000	2020 adjusted* £000	2020 £000
(i) Debt			
Bank loan (note 19)	**112,245**	110,452	110,452
Intra-group subordinated creditor	**24,623**	500	500
Bank facility	**7,500**	-	-
Revolving credit facility (note 18)	**2,000**	20,000	20,000
Debenture stock (note 18)	**284**	284	284
Cash at bank and in hand	**(28,377)**	(20,588)	(29,337)
Net debt	**118,275**	110,648	101,899
(ii) Regulatory capital value indexed to 31 March	**168,169**	154,826	154,826
(iii) Gearing - Debt: RCV ratio (i) ÷ (ii)	**70.3%**	71.5%	65.8%

b) Gearing - Net Debt: RCV - As defined for banking covenant purposes.

	2021 £000	2020 adjusted* £000	2020 £000
(i) Debt			
Bank loan (note 19)	**112,245**	110,452	110,452
Bank facility	**7,500**	-	-
Revolving credit facility (note 18)	**2,000**	20,000	20,000
Debenture stock (note 18)	**284**	284	284
Cash at bank and in hand	**(28,377)**	(20,588)	(29,337)
Net debt	**93,652**	110,148	101,399
(ii) Regulatory capital value indexed to 31 March	**168,169**	154,826	154,826
(iii) Gearing - Debt: RCV ratio (i) ÷ (ii)	**55.7%**	71.1%	65.5%

Deferred arrangement costs of £1.958m (2020 - £0.710m). £1.305m relates to the new financing and £0.653 relates to the existing artesian loan). Current asset investment of £0.002m (2020 - £0.002m) are also excluded from the total value of debt in this ratio.

Note, Gearing as defined for banking covenant purposes has been restated in 2020 to treat intercompany loan as a subordinated liability, excluded from gearing.

*Included within the cash at bank and in hand value at the 2020 year end is amounts due of £8.749m to be paid to HMRC relating to social security taxes. At year end 2021 this balance is £nil as the final tranche payment has been made. 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.

(ii) Regulatory capital value as published by Ofwat.

Further analysis of OFWAT Gearing is published in our Regulatory Annual Performance Review.

c) Cash interest cover	**2021 £000**	2020 £000
Operating profit	**7,877**	8,079
Less exceptional National Insurance costs (below operating profit)	**-**	(2,433)
Less exceptional Covid-19 bad debt provision (below operating profit)	**(91)**	(1,489)
Gain/(loss) on disposal of fixed assets (below operating profit)	**(13)**	103
Notional pension costs (note 24)	**91**	864
Depreciation and amortisation charges (notes 12 and 13)	**6,240**	6,120
Interest received, excluding amounts for inter-company loan (note 7)	**-**	8
Taxation refund excluding payments for group relief	**-**	271
Capital expenditure (net of contributions)	**(17,913)**	(16,823)
Amortisation of deferred capital contributions	**(723)**	(709)
Amortised meter reading	**(157)**	(147)
Cash received from investing activities	**-**	2,433
Loan draw-down	**9,500**	20,000
Repayment of loan draw-down	**(20,500)**	(10,000)
Receipt of intercompany loan	**24,623**	500
	8,934	6,777
(ii) Interest paid	**4,371**	4,263
(iii) Cash interest cover ratio (i) ÷ (ii)	**2.04**	1.59

d) Return on regulatory equity	**2021 £000**	2020 £000
Revenue	**41,957**	43,147
HTWSR capacity charges earned	**233**	-
ODI reward/(penalty) earned	**733**	-
Operating costs, excluding Employee Benefit Trust payments depreciation and amortisation and exceptional items	**(27,839)**	(28,948)
Regulatory depreciation (run off rate)	**(6,077)**	(6,240)
Infrastructure depreciation	**(1,153)**	(1,130)
Earnings before interest and tax	**7,843**	6,829
Current tax credit/(charge)	**(175)**	313
Interest payable, excluding indexation and amortisation	**(4,371)**	(4,263)
(i) Return	**3,297**	2,879
(ii) Average Regulatory Capital Value, equity element only (adjusted gearing)	**46,086**	43,503
(iii) Return on regulatory equity (i) ÷ (ii)	**7.15%**	6.62%

*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.

Calculation has been updated in 2021 to reflect the PR19 methodology. Please see Portsmouth Water Annual Performance Report 2021, Table 4H for full calculation.

Appendix 2 Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)

	2021 £000	2020 £000
Operating profit before loss on disposal of fixed assets and exceptional items	**7,877**	8,079
Depreciation	**6,240**	6,120
EBITDA	**14,117**	14,199