Half-Year Report 2021

Unaudited interim results for the six month period ended 30 September 2021

Chairman's Statement

Christopher Deacon
Independent Chairman
25 November 2021

As we mark the mid-point of the second year of AMP 7, I am delighted to present the operating and financial update for the first six months of the year.

The first half of this financial year has again seen us manage the economic effects of both Brexit and Covid. However, it pleases me to say that we have acted in a strategic and collaborative way by using collaborative approaches to mitigate these risks as much as possible. We have achieved this with minimal impact on customers, our network and the environment.

The most obvious effects of Brexit and the Covid-19 pandemic have been the potential shortages of chemicals and fuel. We have overcome these challenges by working closely with the rest of the industry through Water UK, by working alongside our strategic partner Cappagh, as well as effectively managing the supply chain issues by working with stakeholders. More information about Covid and Brexit will be provided later in this document.

I would like to take this opportunity to welcome Chris Milner to Portsmouth Water as our new Chief Financial Officer. Chris has a deeprange of experience within the water sector with a wide range of experience at United Utilities and Severn Trent. I am confident that Chris will guide our Business Planning for PR24 to a new level. I would also like to take this opportunity to thank Helen Orton, Chris' predecessor for her contribution over the last six years and wish her well in her new ventures.

James Rider joins our Executive Team as Chief Operating Officer and I am very pleased to welcome him to the team. Having previously worked in senior operational roles at Wessex Water, James has industry leading experience and knowledge and I am proud to welcome him to the team.

Good progress continues on Havant Thicket, our 'once in a generation' reservoir project, and I am delighted to note that the planning approval has been awarded and the Section 106 documentation signed. Further detailed updates on the reservoir project is provided later in this document.

We continue to work closely alongside the Drinking Water Inspectorate on our Regulatory Collaboration Project, referred to internally as Pure Excellence. This is a major project for Portsmouth Water and our investment of £3.6m which includes a newly created team of industry specialists demonstrates how seriously we consider our regulatory collaboration and it is currently a high priority project that the Company is undertaking.

Additionally, work has already commenced on our PR24 business plan. This gives me immense confidence in the work that is yet to come for Portsmouth Water as we move towards AMP 8.

CEO's Statement

Bob Taylor
Chief Executive Officer
25 November 2021

Operating Results
I am pleased to present an overview of our business performance for the 6 months ended 30 September 2021.

Customer Service

C-MeX
C-Mex is the standard water industry measure of customer service and satisfaction, as measured by independently run customer surveys. With Ofwat's recent publication of the annual C-MeX results, I can happily announce that for the year just gone the Company sits top of the table for the service we provide to our customers. During the challenging times of Covid, we have prospered in our delivery, and continue to provide industry leading customer service.

We further enhanced our customer facing toolset with the introduction of a self-service portal for customers to action day-to-day activities online, rather than having to contact the team. We also worked closely with Hampshire Citizens Advice Bureau on their "Home & Well" initiative. The "Home & Well" initiative provides additional help to patients leaving hospital, developing a rounded, multi organisation care package to support a healthy transition from the ward to more familiar surroundings. We saw great uptake in the delivery of key services to some of our most vulnerable customers including the Priority Services Register, social tariffs and payment holidays.

Whilst we continue to have the lowest bills in the industry, we recognise that customers are facing some of the most challenging times in recent memory with surging costs for services. We continue to assist with payment holidays, flexible payment plans, cross industry collaboration and also engage in pro-active dialogue with our customers.

Following the Q2 2021 results, from a forward looking perspective, we currently sit in second position and acknowledge that we have to focus on continuous improvement to attain top spot. Our future roadmap is focussed on delivering platforms for customers to interact with us, through their preferred channel and at a convenient time for them.

D-MeX
In Q1 2021/22, for the Developers Measure of Experience (D-Mex), the Company was ranked 1st out of 17 water and waste water companies in England and Wales. D-Mex measures the quality of the services we provide to our developer customers, which include large and small property developers, self-lay providers, new appointees and variations (NAV's), and other customers requesting a new water connection. Our aim is to achieve upper quartile D-Mex performance throughout the AMP7 period (2020- 25).

R-MeX
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 strong improvements in both MPS and OPS metrics in 2020/21, and achieved sector leading performance in 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 were not subject to any Initial Performance Rectification plans during the year.

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.

This is also the second year where 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 considered on an equal footing to conventional Health and Safety throughout the business.

2021 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 amongst our highest of priorities even in the most challenging of times.

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

We work hard to ensure that our staff continually demonstrate behaviours which align with our core values - Excellence, Respect and Integrity. We believe this work is key to successfully achieving our vision of "delivering excellence". We continue to invest heavily in our people and have utilised over £350K from the Apprenticeship Levy - this has largely been allocated to our front-line operations staff. This helps ensure that we have highly trained staff delivering the best service to our customers.

PR19 Business Plan - Outcome Delivery Incentives

The Final Determination confirmed 26 ODIs, including 1 for Havant Thicket. Ofwat proposed 10 Common ODIs, which apply equally to all companies. We proposed, and Ofwat confirmed, 15 Bespoke ODIs and Ofwat proposed 1 for Havant Thicket. Of the 26 ODIs - 18 are financial and 8 are reputational (non-financial). Financial ODIs may be penalty only or reward and penalty. All ODIs are listed below by type.

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

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

The following table provides a progress update against each ODI. The data is for half year, ending 30 September 2021. We use a traffic light system to indicate performance and issues.

We are pleased to report that based on overall performance we are forecasting a net ODI reward in respect to the year end. We continue to perform well in areas such as Customer Service (CMex and DMex), Leakage and Interruptions, but are disappointed to report that we are likely to fall short of our stretching targets in relation to seven ODIs. The ODIs are as follows: Compliance Risk Index, Water Quality Contacts, Voids, Per Capita Consumption, Biodiversity, Low Pressure and Severe Drought Index. We have action plans in place to improve in all these areas.

	ODIs	Update
1	**Compliance Risk Index (measured from 1 January 2021)**	We have had 7 water quality failures in calendar year 2021. 4 of these failures are likely to be applied to the whole WQ zone resulting is a higher CRI score. However, we still need to receive the formal DWI assessment of our failures before being able to confirm the result. The score for these failures is currently assessed at 2.99, meaning that we will likely need to pay a penalty as the score is greater than 2.00. The Pure Excellence water quality project has been set up to address our underperformance.
2	**Interruptions to supply**	Interruptions continue to be significantly better than expectation, as a result of good management of both planned and unplanned events. This is despite resources challenges due to the Covid-19 pandemic and 'pingdemic'. Our forecast position for end of year is 3 mins 19 secs, outperforming our target of 6 mins 9 secs. We are forecasting a reward for 2021/22.
3	**Leakage**	Leakage continues to be significantly better than expectation, as a result of further benefit from previous investment into leakage detection equipment. Our forecast position for end of year is 25.4 Ml/d, outperforming our target of 31.9 Ml/d. We are forecasting a reward for 2021/22.
4	**Mains repairs**	There has been a significant improvement in mains repair performance, as a result of a relatively benign summer, combined with improvements to pressure control. Our forecast position for end of year is 69.1 repairs per 1,000km of mains, outperforming our target of 72.4. Therefore, we are forecasting not to have to pay an underperformance payment for 2021/22.
5	**Unplanned outage**	The unplanned outage assessment is completed at the end of the financial year. We anticipate at this stage that end of year performance will continue to outperform our Ofwat target of 2.34%. Therefore, we are forecasting not to have to pay an underperformance payment for 2021/22.
6	**Priority Services Register**	In 2020/21, we significantly increased the number of customers we have on our PSR by writing to more than 32,000 customers over the age of 70 who were on the government shield list for Covid-19. As a result, we have already achieved our end of AMP7 target of 9% and are currently at 10.5%.
7	**Water quality contacts (measured from 1 January 2021)**	We have continued to experience a rise in the number of water quality contacts. It is expected that the increase in contacts is related to more customers working from home, but continue to analyse this theory. We are currently forecasting to marginally fail our target of 0.421 contacts per 1,000 customers and are expecting to have to pay a small penalty in 2021/22.
8	**Household Voids**	We have not been able to reduce the number of household voids during the first half of 2021/22 due to reduced staff availability in the debt recovery team. Recruitment has now taken place and an improvement is expected in the second half of the year. It is, however, likely that we will underperform against our target of 2.0% of households this year and will have to pay a small penalty.

<table>
<tr><td>9</td><td>Affordability</td><td>We now have over 10,000 customers on our social tariff relative to the Ofwat target of 8,500 for 2021/22. We have now achieved our end of AMP7 target of 10,000 customers.</td></tr>
<tr><td>10</td><td>C-Mex – there are two surveys each quarter; each survey has a weight of 50%</td><td>The results for C-Mex for the first two quarters have been published. We are second. The table below shows the two elements of the survey, the satisfaction with our service as a result of recent contact with the Company, and the general service.
<table>
<tr><th>2021/22 Q2</th><th>Customer satisfaction</th><th>Customer experience</th><th>C-Mex</th></tr>
<tr><td>Portsmouth</td><td>84.35 ranked 2nd</td><td>82.88 ranked 9th</td><td>83.62 ranked 2nd</td></tr>
<tr><td>Leading</td><td>87.59 - Wessex</td><td>86.62 - Severn Trent</td><td>85.20 - Wessex</td></tr>
<tr><td>Average</td><td>77.85</td><td>81.76</td><td>79.80</td></tr>
</table></td></tr>
<tr><td>11</td><td>D-Mex – there is one survey and an agreed set of performance measures; each element has a weight of 50%</td><td>The results for D-Mex for the first quarter have been published. We are first. The table below shows the two elements of the survey, the levels of service provided, and the satisfaction survey – which are a result of recent contact with the Company.
<table>
<tr><th>2021/22 Q1</th><th>Quantitative</th><th>Qualitative</th><th>D-Mex</th></tr>
<tr><td>Portsmouth</td><td>98.05 ranked 7th</td><td>86.33 ranked 1st</td><td>92.19 ranked 1st</td></tr>
<tr><td>Leading</td><td>100 - Hafren Dfrdwy</td><td>86.33 - Portsmouth</td><td>92.19 - Portsmouth</td></tr>
<tr><td>Average</td><td>97.94</td><td>72.82</td><td>85.94</td></tr>
</table></td></tr>
<tr><td>12</td><td>Per Capita Consumption</td><td>Changes in water usage habits due to Covid-19 continue to increase PCC. As a result, our forecast end of year position is 162 litres per person per day, compared to a target of 139.5. Increased demand due to Covid is an issue Ofwat have recognised and propose a change to the assessment of this metric. The ODI reward/penalty will now assessed at the end of the AMP, rather than in year. We are working hard to reduce PCC and have a new water efficiency programme in place.</td></tr>
<tr><td>13</td><td>Catchment management; target engage with 10 farmers per annum</td><td>We have actively engaged with a number of farmers in the last quarter as part of our WINEP catchment schemes to secure uptake before this Autumn. In addition, we recognised that the optimum time for soil sampling and analysis is late winter/early spring for nutrient management planning. Now we have entered this period we are actively contacting farmers to recruit them for the ODI and are confident in securing the target 10 farms by the end of Q3 for delivery in Q4. Therefore, we are forecasting not to have to pay an underperformance payment for 2021/22.</td></tr>
<tr><td>14</td><td>Grant Scheme; target £50,000 per annum</td><td>Applications for the 2021/22 grant scheme have closed. Currently our steering group have approved 7 applicants amounting to £39k. Anecdotally a number of organisations have told us they did not make applications as they laid project staff off during Covid and temporarily do not have the resource to deliver projects at present. We are going to reopen our application process in an effort to attract more bids.</td></tr>
<tr><td>15</td><td>Biodiversity – maintain our sites at good status</td><td>Following our failure of this ODI last year, significant improvement has been made in delivering against this ODI. We are currently tracking at 80% compliance against an end of year target of 95%. Mitigation measures are being put in place to deliver the outstanding actions, but the seasonality means we will not fully recover performance this year. We are expecting to pay a small underperformance penalty for 2021/22.</td></tr>
<tr><td>16</td><td>AIM – impact of Northbrook on the River Hamble</td><td>We monitor the river level of the Hamble at Frogmill. The flow has not dropped below the trigger level (of 104 l/sec) in the year and therefore no action has been required by the Company at Northbrook pumping station. Therefore, we are forecasting not to have to pay an underperformance payment for 2021/22.</td></tr>
<tr><td>17</td><td>Low pressure – target to reduce the number of customers on the register by 10.</td><td>We have a performance commitment to reduce the registered number of properties at risk of low pressure to 50 by the end of March 2022. Progress has been hindered by Covid and it is expected that 65 properties will be registered as low pressure at the end of the year. We are therefore expecting a small underperformance penalty for 2021/22. Work is underway to increased pressure where required during the current year to improve 2022/23 performance.</td></tr>
<tr><td>18</td><td>Carbon – a 1% reduction in carbon per Ml of water produced</td><td>We achieved a 25% reduction in this measure in 2020/21, which is significantly above the 2% target for 2021/22. This was impacted favourably by switching to renewable energy sources, and increasing the use of PV generated on site. We are expecting similar great performance in 2021/22.</td></tr>
<tr><td>19</td><td>Havant Thicket</td><td>We continue to see very good progress on Havant Thicket, with project remaining on schedule. Ofwat ODI does not apply until 2026.</td></tr>
<tr><td>20</td><td>Avoidance of restrictions (TUBs)</td><td>Ground water levels are normal relative to the long-term trend. Despite high demands and greater bulk supplies to Southern Water, we did not need to introduce restrictions to customer use this summer.</td></tr>
<tr><td>21</td><td>Severe Drought Index</td><td>This ODI relates to the number of customers at risk of severe restrictions in a 1 in 200 year drought event. It is Ofwat's metric to quantify how companies are delivering against their WRMPs. A number of actions we planned to undertake in 2020/21 and 2021/22 have not been delivered, such as refurbishment of a number of boreholes and our metering programme. Last year our performance on leakage compensated for this issue, but it is unlikely that it will again in 2021/22. We have started an enhanced water efficiency programme to reduce demand.</td></tr>
<tr><td>22</td><td>WINEP delivery</td><td>We have 18 schemes in our agreed WINEP programme for AMP7. The majority are linked to work with landowners and farmers in our priority catchment, and two being investigations linked to the Soberton and Itchen treatment works. All are currently progressing.</td></tr>
<tr><td>23</td><td>WINEP timing</td><td>As above, progress on all schemes is positive, including those being undertaken jointly with Southern Water and South East Water. Therefore, we are forecasting not to have to pay an underperformance payment for 2021/22.</td></tr>
<tr><td>24</td><td>Resilience schemes</td><td>These are three capital schemes which were explicitly recognised in our Business Plan and the Final Determination. They are not scheduled for 2021/22 but are later in AMP7.</td></tr>
<tr><td>25</td><td>RoSPA recognition</td><td>The application for the 2021 RoSPA accreditation will be submitted in February 2022. There are no indications that our current approach to Health, Safety and Wellbeing and our plans for the rest of the year will prevent us from achieving the "order of distinction" next year.</td></tr>
<tr><td>26</td><td>Vulnerability survey</td><td>We will undertake this survey with agencies who support customers at the end of the regulatory year i.e. Jan – March 2022.</td></tr>
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Biodiversity Management
We have been planning and implementing our spring and summer programme of site enhancements including Priority Habitat Management during the first half of this year. Again, this has been challenging due to Covid19 restrictions, a backlog of work and increased vegetation growth on all sites.

We successfully launched the second year of our Biodiversity Grant Scheme as part of our environmental commitments to enhance the habitat network within Portsmouth Water's catchment area. So far this year we have received 7 applications totalling just under £40,000.

The range of activities include:
- South Downs National Park - Dew Pond restoration;
- Fishbourne - Pond Restoration;
- Fareham BC - scrub removal on chalk grassland;
- Eastleigh BC - 2nd year of invasive species removal;
- Hampshire Wildlife Trust - Woodland Management.

Catchment Management
We are currently in the second year of our AMP7 WINEP Catchment Management programme that includes Payment for Ecosystem Service (PES) package of funding to support farmers to reduce pollution across our priority catchments that are at risk of failing due to levels of nitrates. The results have included putting up to 1200 hectares of arable land into schemes to help reduce nitrate leaching, including funding provided to farmers for enhanced soil testing that has enabled better nutrient management plans.

We organised a farmer workshop in the summer, the first for nearly 18 months to an audience of over 30 people, updating them on farm trials and a carbon accounting toolkit that shows practical ways to reduce nitrate leaching while not affecting their overall yields and farm income.

We also organised an Equine workshop with Natural England which focused on "healthy soils, healthy horse"; this was attended by over 50 members of the equine community. This was a fantastic turnout and provided a forum to discuss field trials to grow herbal lays that require less fertilizers and pollution prevention techniques to reduce impacts upon the environment.

Leakage
The Company has maintained leakage levels significantly below our target through the first half of 2021/22. Average leakage from April to September is 25.9 Ml/d, compared to our Ofwat ODI target of 31.9 Ml/d. Our low leakage level helped to maintain supplies to our customers through peak summer demands.

Maintaining leakage at this low level continues to be a challenge. The ongoing Covid-19 pandemic, and associated 'pingdemic' has restricted both the range of operations possible and availability of resource to find and fix leaks. The harsh 2020/21 winter also meant higher leak breakout, which increased leakage throughout the country.

To offset these issues, we have continued to utilise new leak detection technologies and focus on efficiency. Over the past few years, we have deployed smart acoustic noise loggers across our network, which report leaks faster than before. Whilst very successful, a limitation of these loggers used to be communications, with very poor signal in rural locations. New loggers now use the recently installed NB-IoT communications platform, resulting in a more widespread deployment of the best technology available.

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

Pure Excellence
Why was the programme set up? Through 2020 and into 2021 the industry's water quality regulator, the Drinking Water Inspectorate (DWI) have undertaken audits of the Company's water production activities.

The findings from these audits have identified deficiencies not just in how we undertake some water production activities, but also in how other departments deliver several of the support services that the production of wholesome water relies on.

The extent of the findings are of such significance that the audits have resulted in the DWI issuing a set of formal Notices to the Company, the actions included in which must be delivered.

By analysing why these audit failings were occurring, several common themes have been highlighted. These include adequacy of resourcing, understanding of required skills and competencies, deficiencies in documentation and training, an imbalance between planned and reactive maintenance and deficiencies in risk control. The programme is tasked to address all these areas.

The programme will deliver a cultural change that places the Drinking Water Safety Plan at the centre of all investment, operational and management activities delivered by the water production teams and their supporting services.

The key benefits are:

- A revised production operating model based on the Drinking Water Safety Plan approach which sets out the direction and requirements for the production and supply of wholesome water to our customers
- Job descriptions for all in production and support services to capture what they do and what their specific responsibilities and accountabilities are
- Details of the required levels of knowledge, skills and competencies for each role and a programme of training and support to help all existing and new staff achieve and demonstrate the competencies required for their role

- A new induction programme for new starters or staff who have new roles within the business so that they may receive the requisite training
- Transformation of the existing policies and procedures for the production of drinking water to ensure they provide support for the end-to-end process flow for each activity and are up to date and fit for purpose
- Provision of a document control systems to provide access to all policies, procedures and other essential documentation

Capital Investment

Investment Capex Forecast Headlines

The current Capex forecast for the year remains at £13.9m (excluding Havant Thicket). At the end of September the total cash spend was £8.3m.

Mains Renewals (Delivered via Cappagh)

Performance against this target was strong for the first six months. 8.5km of mains were renewed to the end of September at a cost of £247/m. This is set against a target metre rate of £258/m. The no-dig rate remains high at 86% and we remain on target to deliver 15.5km over the year.

New Mains on Developer sites (Mains Growth)

Developer demand has been variable in the first half of the year. However, September saw a significant upturn following the summer holiday period. We are on target to deliver 11km of new mains over the year which is slightly below the 12km average.

Mains Diversions (Rechargeable Works)

There are no RCW projects currently in progress. However, we have completed two projects at Eclipse Busway and Stubbington Bypass in Gosport. Spend to date is £1.2m and it is anticipated that we will spend an additional £0.1m for the remainder of the year on the project initiation phases of several other smaller projects.

Network Reinforcement

We are accelerating several Network Reinforcement projects for the second half of the year and it is anticipated that a total spend for the year to be circa £0.3m.

Havant Thicket Winter Storage Reservoir

The Bulk Supply Agreement (BSA) was signed on 29 January 2021 by Portsmouth Water and Southern Water. A joint governance group with Southern Water has been established to provide oversight of the BSA, with positive, monthly meetings taking place throughout the year.

The project is on-schedule with key milestones completed to maintain the overall project timetable. Procurement of the two most significant elements of the programme is progressing in line with our programme timeline. This relates to two contracts; one for the pipeline works and another for the reservoir, treatment works and pumping stations. We launched the procurement of these two main works contracts in January 2021. The first stage of the tender process has been completed, with commercial terms finalised and subject to legal due diligence. Two shortlisted bidders have been selected for each of the main contracts to enter the second stage of the procurement process during which pricing proposals will be submitted and evaluated. We are expecting to appoint both contracts in Spring 2022. Detailed design will commence once the contracts are awarded, with main activity on site commencing in early 2023. Shortlisted bidders have confirmed that they can meet the project construction schedule, which includes cautious assumptions in relation to the reservoir fill period.

Planning permission was granted in October 2021 following approval by planning committees in June and subsequent signature of Section 106 agreements. European Protected Species Licences were issued immediately after planning permission was granted, enabling tree clearance to start in October. While our baseline schedule allows three seasons over three years for tree removal, the licenses will enable the work to be completed in 2022. This work is being supervised by qualified ecologists, to ensure that we comply with our environmental licenses.

The project remains within budget, subject to application of an agreed cost adjustment mechanism. Independent assurance was undertaken on the cost estimates in Summer 2021 which confirmed that costs were considered to be ±10% level of accuracy. Since then, some additional scope has been introduced as a result of the planning application process and tender prices will be known in December 2021. Ofwat has committed to update the cost allowances for the project once the outcomes of both the planning and procurement processes are known.

Confidence in a successful cost outturn is supported by the use of the NEC standard form target cost contract. Shortlisted bidders have accepted a risk sharing approach that will provide a degree of cost certainty for Portsmouth Water, but also provides the Main Works Contractors with further incentive to realise opportunities and manage risks and deliver below the target price. Contractual mechanics will oblige both Main Works Contractors to work together, collaborate and agree to produce integrated and deliverable solutions for design and delivery.

The construction techniques that will be adopted to deliver the works are not complex, with pipeline and treatment works being normal business as usual activities for water utility companies. Comprehensive ground investigation surveys have been completed for the reservoir site and a ground penetrating radar survey completed for the pipeline route from Bedhampton Springs to the reservoir. Further ground investigations are now underway for the second pipeline which will take water from the reservoir for distribution to the west. These investigations will enable the design and procurement of this section of the pipeline to be accelerated and even greater cost certainty achieved for the programme.

Development of Non-Regulated Business

New solar arrays at ten sites across the Company's estate are in the final stages of planning and development, with physical construction expected to begin very soon. These ten sites will deliver a total of 2,800MWh of renewable energy per year, which represents 12% of our total energy demand. We are also working hard to find further sites that can be developed for 'on-site' solar generation, as well assessing the feasibility of using some of our boreholes as a heat source for district heating for a nearby housing development. We are working with a number of non-household retailers to further develop commercial services to them, which will be enabled by some new meter reading software that is coming on stream early next year. More established commercial ventures such as Property Searches and HomeServe have both continued to grow this year and are starting to make more material contributions to the overall profitability of the non-regulated business.

Brexit and Covid

We have successfully transitioned to the new regulations (including Procurement regulations), and operating environment, following the end of the transition period of UK departure from the EU on the 31st December 2021.

In conjunction with the rest of the water sector, significant mitigation measures including enhanced stock holding, vendor contingency plans and transport options were put in place. As a result, little immediate impact was felt by Portsmouth Water, but residual impacts continue to be monitored and mitigated as they develop (such as availability of ADR and HGV drivers and spot price increases for specialist components). However, this is considered in conjunction with COVID impacts and mitigations.

As we do not routinely import products direct from the EU, there has been minimal regulatory burden from the additional cross-border paperwork required.

We continue work alongside Water UK and Local Resilience Forums to monitor key risks.

Financial Results

Chris Milner
Chief Financial Officer
25 November 2021

The results for the period have been prepared in compliance with UK Accounting Standards and reflect the provisions of Financial Reporting Standard 102 (FRS102) and on a Going Concern basis. A summary of the financial performance for the 6 months to 30 September 2021 is set out below.

	6 months to 30 September 2021 £m	6 months to 30 September 2020 £m
Turnover	21.8	20.5
Operating costs (excluding depreciation)	(15.7)	(12.6)
Depreciation and amortisation	(3.0)	(3.1)
Profit before exceptional items and loss on disposal of fixed assets	3.1	4.8
Exceptional item - Covid-19 bad debt provision	-	(0.5)
Loss on disposal of Fixed Asset	(0.1)	-
Operating profit	3.0	4.3

Revenue
Revenue has increased by £1.3m in the current year compared to the comparative period of the previous year (£21.8m against £20.5m in September 2020). £0.7m of this increase is due to our Non Household market, where consumption has increased significantly from the comparative period last year when Covid was severely restricting Non Household business operations. A further £1m of Chargeable Work revenue has been earned in the six months to 30 September 2021 compared to last year, reflected in higher Chargeable Work costs. Customer revenue has fallen £0.4m in the current year, reflecting the latest tariff structure and demand impact.

Operating Profit
Operating profit at £3.0m represents a £1.3m decline from the comparative period in the prior year. This is due to increased activity in this year now that Covid restrictions have been largely relaxed. Most notably our Mains Renewals programme (£0.5m) and Chargeable Works (£1.1m) have increased significantly year on year.

Covid-19 Bad Debt
We have seen upward pressure on our debt collection process and have utilised £0.3m of the provision for the impact of Covid first established in 2020.

Operating costs
Operating costs of £15.7m have increased £3.1m since last year. This has been driven by increased Mains Renewal £0.5m and Chargeable Works £1.1m activity in the year following a relaxation of Covid restrictions. This is coupled with a £0.5m increase in staff costs resulting from the comparative period including reimbursement to government of furlough benefits, and the exceptionally high levels of unused holiday in the current year giving rise to a large £0.3m vacation accrual. Cost of sales has increased £0.4m year on year driven by inflation on key inputs including chemicals. The remaining £0.3m increase has resulted from a number of minor movements.

Capital Investments
Cash capital investment in the half year period was £8.6m (prior period - £6.6m).

Cash and Cash Flow
Operating cash flow in the half year of £5.8m inflow is higher than that in the prior year (£2.0m outflow). This is largely due to an £8.8m cash outflow in April 2020 in relation to the final tranche of share payments.

During the period a further £6.5m of the revolving credit facility was utilised. The half year end balance was £8.5m. This debt facility is currently being renegotiated in line with the SONIA interest rate transition.

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

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

Interest and other finance income
Interest payable between the two periods has been negatively impacted by the level of RPI movement. Other finance income remains constant for the two periods at £0.1m.

Financing
On the 29 May 2020 the Company extended the revolving credit facility by £5.0m to a total of £25.0m. In total the Company has a £25.0m working capital facility and a £0.5m overdraft facility. As at 30 September, the utilised working capital facility was £8.5m (30 September 2020 - £2.0m utilised).

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 being effectively hedged against regulated revenues which are also currently linked to the Retail Prices Index (RPI). Interest is charged at a fixed rate of 3.635% on the indexed amount of the loan. The indexed carrying value of the loan at 30 September 2021 was £119.9m (30 September 2020 - £110.3m).

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, assessed at half and full year end.

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 £24,6m. 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.

Ownership structure
In 2017/18 the Group was acquired using funds managed by Ancala Partners LLP ("Ancala"). This was effected through Ancala Fornia Holdco Limited, the Group's then ultimate controlling party. Ancala is an independent mid-market infrastructure investment manager. Ancala is committed to supporting the Company purpose of "delivering excellence for our customers, our employees, the environment and the communities which we serve".

During 2019, the Company's shareholders incorporated Southern Region Water Holding Limited in Hong Kong on the 13 September 2019 and transferred 100% of the investment held in Ancala Fornia Holdco Limited to Southern Region Water Holding Limited. Accordingly, Southern Region Water Holding Limited is the ultimate parent undertaking at the year end date. There was no change in the composition of the ultimate investors as a result of this. Further information on the group structure can be found in the Portsmouth Water Annual Report & Accounts 2021.

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

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

Gearing
Net debt to regulatory capital value is a key covenant by the Company's index linked loan documents. Gearing at 71.5% (30 September 2020 – 68.5%) has remained broadly consistent from the prior year. Gearing remained comfortably within the 86% ceiling imposed by the bond covenants and below the OFWAT gearing outperformance level of 73%.

Artesian Interest Cover
The interest cover ratio of 1.77 times (September 2019 – 1.74 times) remain well above the 1.4 times covenant required.

Pensions
The Company is the principal employer of the Brockhampton Pension Scheme, a defined benefit scheme. The latest valuation as at 31 March 2021 based on FRS102 assumptions and market movements was calculated and estimates a net pension asset (after deferred tax) of £17.609m (March 2020 value after deferred tax £15.546m). A full FRS102 actuarial valuation will be undertaken at the year end in line with UK GAAP requirements.

Credit Rating
As at the period end the Company had a credit rating with Moody's which remained at Baa1 on negative watch.

Outlook

As we move into the second year of the regulatory review period we will continue our operational focus on delivering exceptional customer service and providing high quality water. We will work to implement our action plans in relation to meeting the 26 stretching regulatory ODIs and to deal with any ongoing impact from the Covid-19 pandemic. This will include catching up on elements of the capital programme that were delayed and developing relevant business responses as the “new norm” Post Covid-19 continues to emerge. Significant programmes of work in the forthcoming year will include the ongoing development of the Havant Thicket programme together with a number of actions relating to notices issued by the Drinking Water Inspectorate. We will continue to see a focus on cost reduction and efficiency savings to offset both the impact of a tough PR19 regulatory settlement and wider emerging cost pressures.

Liquidity

We have considered liquidity as most essential, in the first instance, as we must have sufficient cash resources to be able to continue to reliably deliver our core service. We successfully raised additional financing in March 2021 and we believe we have sufficient liquidity to meet our needs but we will continue to monitor the outlook on a continuous basis and review any emerging risk associated with Covid.

Key financial ratios

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

Income Statement

	Unaudited 6 months ended 30 September 2021 £000	Unaudited 6 months ended 30 September 2020 £000	Audited 12 months ended 31 March 2021 £000
Turnover	**21,763**	20,534	41,957
Cost of sales	**(13,029)**	(11,072)	(23,214)
Gross profit	**8,734**	9,462	18,743
Net operating expenses	**(5,600)**	(4,648)	(10,866)
Operating profit before loss on disposal of fixed assets and exceptional items	**3,134**	4,814	7,877
(Loss)/gain on sale of fixed assets	**(41)**	3	(13)
Covid-19 related bad debt provision	**-**	(500)	(91)
Operating profit after loss on disposal of fixed assets and exceptional items and before interest	**3,093**	4,317	7,773
Investment income	**303**	479	803
Other finance income	**100**	100	479
	3,496	4,896	9,055
Interest payable and similar charges	**(5,048)**	(3,074)	(6,308)
(Loss)/profit on ordinary activities before taxation	**(1,552)**	1,822	2,747
Taxation of profit/(loss) on ordinary activities	**-**	(35)	(717)
(Loss)/profit for the financial period	**(1,552)**	1,787	2,030

Statement of Other Comprehensive Income

As at 30 September 2021

	Unaudited as at 30 September 2021 £000	Unaudited as at 30 September 2020 £000	Audited as at 31 March 2021 £000
(Loss)/profit for the financial period	**(1,552)**	1,787	2,030
Remeasurement of net defined benefit asset	**-**	-	1,976
Movement in deferred tax relating to pension asset	**-**	-	(376)
Total comprehensive income for the period	**(1,552)**	1,787	3,630

Summarised Statement of Financial Position

	Unaudited as at 30 September 2021 £000	Unaudited as at 30 September 2020 £000	Audited as at 31 March 2021 £000
Non current assets	**223,325**	212,271	218,403
Current assets	**38,648**	30,745	37,861
Creditors: Amounts falling due within one year	**(27,152)**	(41,651)	(22,082)
Net current assets/ (liability)	**11,496**	(10,905)	15,779
Total assets less current liabilities	**234,821**	201,366	234,182
Creditors: Amounts falling due after more than one year	**(179,147)**	(143,299)	(176,954)
Provisions for liabilities	**(8,527)**	(8,094)	(8,529)
Net assets excluding pension asset	**47,147**	49,972	48,699
Pension asset	**17,609**	15,596	17,609
Net assets including pension asset	**64,756**	65,568	66,308
Capital and reserves			
Called up share capital	**1,078**	1,078	1,078
Reserves	**63,678**	64,490	65,230
Shareholders' funds	**64,756**	65,568	66,308

Summarised Statement of Changes in Equity

As at 30 September 2021

	Unaudited 6 months ended 30 September 2021 £000	Unaudited 6 months ended 30 September 2020 £000	Audited 12 months ended 31 March 2021 £000
Called up share capital	**1,078**	1,078	1,078
Share premium account	**9,382**	6,949	9,382
Capital redemption reserve	**3,250**	3,250	3,250
Retained earnings brought forwards	**52,598**	52,504	50,071
Opening balance	**66,308**	63,781	63,781
(Loss)/profit for the period	**(1,552)**	1,787	2,030
Remeasurement of defined benefit asset	**-**	-	1,976
Movement of deferred tax relating to pension scheme	**-**	-	(376)
Total comprehensive income for the period	**(1,552)**	1,787	3,630
Dividends	**-**	-	(1,103)
Closing balance	**64,756**	65,568	66,308

Summarised Statement of Cash Flows

	Unaudited 6 months ended 30 September 2021 £000	Unaudited 6 months ended 30 September 2020 £000	Audited 12 months ended 31 March 2021 £000
Cash generated/(used) from operations	**5,792**	(2,034)	7,764
Investing activities			
Sale of tangible fixed assets	**1**	10	8
Purchase of tangible fixed assets net of contributions	**(8,313)**	(6,111)	(18,295)
Purchase of intangible fixed assets	**(270)**	(531)	705)
Infrastructure charges received	**410**	1,045	1,016
Interest received	**-**	-	1,103
Net cash used in investing activities	**(8,172)**	(5,587)	(16,873)
Cash flows from financing activities			
Net drawdown/(repayment) working capital facility	**6,500**	3,000	(18,000)
Receipts from borrowing	**-**	-	7,500
Net inter-company loan	**-**	500	24,123
Dividend payments	**-**	-	(1,103)
Interest paid	**(2,261)**	(2,207)	(4,371)
Net cash generated/(used in) financing activities	**4,239**	1,293	8,149
Net increase/(decrease) in cash and cash equivalents	**1,859**	(6,328)	(960)
Cash at beginning of year	**28,377**	29,337	29,337
Cash and equivalents at end of year	**30,236**	23,009	28,377
Comprising			
Debt service account	**2,124**	2,046	2,049
Other cash accounts	**28,112**	20,963	26,328
Cash and equivalents at end of year	**30,236**	23,009	28,377

Appendix 1 KPI Calculations

a) Gearing - Net Debt: RCV

	Unaudited as at September 2021 £000	Unaudited as at September 2020 £000	Audited as at March 2021 £000
(i) Debt			
Bank loan	**113,776**	111,348	112,245
Intra-group subordinated creditor	**24,623**	-	24,623
Bank facility	**7,500**	-	7,500
Revolving credit facility	**8,500**	23,000	2,000
Debenture stock	**284**	284	284
Cash at bank and in hand	**(30,236)**	(23,009)	(28,377)
Net debt	**124,447**	111,624	118,275
(ii) Regulatory capital value indexed to 31 March	**174,156**	162,864	168,169
(iii) Gearing - Debt: RCV ratio (i) ÷ (ii)	**71.5%**	68.54%	70.3%

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

	Unaudited as at September 2021 £000	Unaudited as at September 2020 £000	Audited as at March 2021 £000
(i) Debt			
Bank loan	**113,776**	111,348	112,245
Bank facility	**7,500**	-	7,500
Revolving credit facility	**8,500**	23,000	2,000
Debenture stock	**284**	284	284
Cash at bank and in hand	**(30,236)**	(23,009)	(28,377)
Net debt	**99,824**	111,624	93,652
(ii) Regulatory capital value	**174,156**	162,864	168,169
(iii) Gearing - Debt: RCV ratio (i) ÷ (ii)	**57.3%**	68.5%	55.7%

c) Cash interest cover	**Unaudited as at September 2021 £000**	Unaudited as at September 2020 £000	Audited as at March 2021 £000
Operating profit	**3,134**	4,814	7,877
Less exceptional Covid-19 bad debt provision (below operating profit)	**-**	(500)	(91)
Gain/(loss) on disposal of fixed assets (below operating profit)	**(41)**	3	(13)
Notional pension costs	**-**	-	91
Depreciation and amortisation charges	**3,026**	3,105	6,240
Capital expenditure (net of contributions)	**(8,172)**	(6,642)	(17,913)
Amortisation of deferred capital contributions	**(369)**	(356)	(723)
Amortised meter reading	**(77)**	(78)	(157)
Loan draw-down	**8,500**	23,000	9,500
Repayment of loan draw-down	**(2,000)**	(20,000)	(20,500)
Receipt of intercompany loan	**-**	500	24,623
	4,001	3,845	8,934
(ii) Interest paid	**2,261**	2,207	4,371
(iii) Cash interest cover ratio (i) ÷ (ii)	**1.77**	1.74	2.04

Notes

1. The interim results for the six months to 30 September 2021 have been prepared under FRS102 and on the basis of accounting policies consistent with those adopted for the year ended 31 March 2021.

   The interim financial information is unaudited and does not constitute statutory accounts as defined in s.434 of the Companies Act 2006. The results for the year to 31 March 2021 have been extracted from the latest published accounts, which have been filed with the Registrar of Companies and on which the report of the auditors was unqualified.

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

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