Portsmouth Water Limited
Annual Report and Accounts 2022

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


Portsmouth
Water

At A Glance

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

165 years

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

£103

On average our domestic customers paid £103 during 2021/22 for their water supply.

747,000

Over 747,000 people use our clean drinking water every day.

178m litres

We serve the cities and towns of Portsmouth, Chichester, Fareham, Gosport, Havant and Bognor Regis. On average, each day we supply approximately 178 million litres of water.

324,000

We provide clean drinking water to 324,000 homes and businesses in our area.

3,380km

Our area of supply has a network of over 3,380 kilometres of underground pipes.

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

Highlights

Secured planning permission for Havant Thicket, the first new reservoir to be built since the 1980's

Continued strong overall ODI performance with industry leading performance on leakage, interruptions and customer service measures

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

Maintained high standards of service while adapting to changing environment as the UK recovered from the COVID-19 pandemic

Site preparation began on Havant Thicket as programme moves towards construction phase

2022 RoSPA Order of Distinction

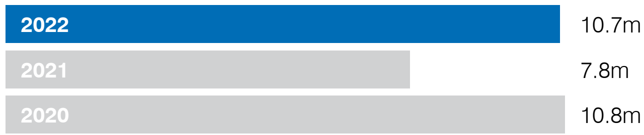
ServiceMark Accredited from May '21 to May '24 The Institute of Customer Service

Turnover

£42.7m

Cash generated from operations

£10.7m



Capital expenditure (additions)

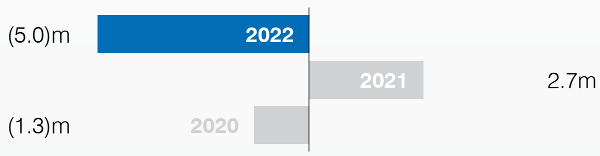
£16.8m

EBITDA[1]

£14.5m

Profit/(loss) before tax

£(5.0)m



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

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Company Number
2536455

Chair’s Statement

Christopher Deacon
Independent Chair

30 May 2022

I have great pleasure in presenting the Annual Report and Accounts for the second year of the PR19 regulatory cycle. We were pleased to be highlighted as one of the top three companies for service performance for 2020/21 by Ofwat in their Service and Delivery 2020/21 report. We have worked hard to continue our strong performance on leakage, supply interruptions and customer service measures in 2021/22 where we continue to lead the industry. This can only be achieved through the dedication and skill of our staff. I would like to thank them all for their commitment; especially given the additional challenges presented by COVID-19.

Through the development of the Havant Thicket Winter Storage Reservoir (HTWSR) project, we are making a significant long-term investment in the resilience and security of water supply for the South East region as a whole. In the last year we reached a major milestone in securing planning permission and we have commenced tree clearance and enabling works on site. We are now considering the outcomes of procurement of main works contracts in conjunction with Ofwat and Southern Water. Investment in the project in 2021/22 was £5.8m, with total costs to date of £20.2m.

I would like to thank Helen Orton and Mike Coffin for their significant contribution to the success of the business after they stepped down from their roles of Finance and Regulation Director and Chair of Audit Committee in 2021. The Board are pleased to welcome Chris Milner as our new Chief Financial Officer and Dr Lara Stoimenova as our new Non- Executive Director and Chair of the Audit and Risk Committee. In addition to new members of the Board, our CEO, Bob Taylor has strengthened the management team with the recruitment of James Rider as Chief Operating Officer, Matt Hamilton as Chief Customer Officer and Guy Dulake as Chief Information Officer. I believe Portsmouth Water are now well placed to meet the challenges of PR19 and beyond as we look forward to the next periodic review PR24.

Facing the challenges of COVID-19

We have had to adapt our working practices throughout the pandemic to ensure services were delivered for our customers while ensuring the wellbeing of our employees. As we emerge from the pandemic and return to the office it is important that we learn the lessons and ensure we build resilience to cope with future challenges.

We are still witnessing continued impacts of the pandemic on our per capita consumption (PCC). We have continued to observe a 5-10% increase in household consumption as people continue to work from home. While many people are returning to the office we expect to see a permanent shift in working patterns and recognising this Ofwat have deferred assessment of PCC performance commitment to the 2025 while the impacts of the pandemic are considered.

Water resources for the region

We continue to prepare for our key role in supporting the South East Regional Water Resource Plan by progressing the development of the first new reservoir in the UK for over 40 years at Havant Thicket. Working with our customers and stakeholders we have succeeded in gaining planning permission for the reservoir, which is also a stand out asset for wildlife and leisure. In 2021 we commenced enabling work on the site in preparation for the construction phase of the reservoir.

We are in the final stages of procuring major delivery partners for the construction of the reservoir and the associated pipelines and connections necessary to integrate the new asset into our network. Our PR19 determination includes provision for a Cost Adjustment Mechanism to reflect the cost uncertainty associated with planning and procurement. We are seeing upward pressures on costs due to the unprecedented inflation and resource pressures on the construction market and we are in dialogue with Ofwat and Southern Water.

Delivering for our Customers and 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.

We were ranked 3rd overall in the industry Customer Measure of Experience (C-MeX) for 2021/22, a pleasing result with most our staff working from home during lockdown. Ofwat introduced a new industry measure of developer satisfaction (D-MeX) in the current regulatory period. We continued our strong performance against this measure. At the time of writing, the final D-MeX performance is still to be published but throughout the

Chair's Statement

year we have achieved sector leading performance in the D-MeX satisfaction survey.

We independently assess our customer service through the Institute of Customer Service, and hold the prestigious 'ServiceMark' accreditation. Their annual Business Benchmarking survey gave Portsmouth Water a score of 79.8 compared to utilities average of 74.5 and all sector average of 78.4. This 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 our 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 10,254.

Throughout the year we have continued to work collaboratively with other utilities and support agencies to promote assistance for those with vulnerabilities. We currently have 31,529 customers on our Priority Services Register which represents over 10% of our customer base.

We have beaten our target for mains repairs to our network in 2021/22 having missed our target last year. Our performance was supported by relatively benign weather which results in fewer mains failures, and management of this activity did again not adversely impact our customers, as shown by the interruptions to supply ODI.

We have failed to meet our household usage target for per capita consumption (PCC). As the pandemic has continued to impact our daily lives, so it has continued to affect our household usage patterns. Whilst commercial use has almost returned to pre-pandemic levels, household use remains between 5 and 10% higher – driven by increased working from home.

We have seen a rise in leakage in 2021/22, increasing from 23.6 Ml/d in 2020/21 to 26.9 Ml/d. However we still remain significantly below our target of 31.9 Ml/d and expect to have upper quartile performance within the UK water industry.

Supporting the local communities has been a long-term commitment for Portsmouth Water. We have an established social contract which we call the Community Partnership to outline how we will work in partnership with our local communities. In particular, the whole process of developing and building the HTWSR project will have a community focus – 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 all.

Meeting Our Water Quality Regulatory Requirements - "Pure Excellence"
The quality of the water we deliver to our customers is measured by the Drinking Water Inspectorate, using the Compliance Risk Index (CRI) score. We had 9 water quality failures in the calendar year (2020 - 7 failures), which has impacted the CRI score. Unfortunately, this means we are likely to fail our CRI target. The score has mainly been impacted by an issue with Aluminium in our network which we are actively investigating, and control measures have been put in place to ensure the water quality for our customers is not impacted.

Portsmouth Water is blessed with very good raw water quality and relatively simple and robust treatment processes, enabling us to have carried out the same work tasks and process for many years. However, the industry, led by the DWI, have moved on significantly, requiring a detailed risk-based approach to maintaining water quality. DWI audits have identified a need to make improvements in this area and they have issued a Management and Training Legal Notice. The "Water Quality 2020 & Beyond" programme was already established to deliver improvements in this area, but in recognising the importance, we have enhanced our response by creating a company wide change programme called "Pure Excellence".

The Pure Excellence programme responds to the areas of improvement required by the Management and Training Notice including:

- a review of all water supply policies and procedures, document reviews and changes;
- evaluation of roles and responsibilities and competence assessment procedures;
- a review of company training procedures, training records and training programmes to ensure they are up to date; and
- a structured review of the Company's operating standards and implementation of improvements.

Chair's Statement

The programme focusses on delivering cultural change throughout the business to ensure that future processes are in line with DWI expectations.

Our Infrastructure
A high degree of interconnectivity allows us to move water across the area of supply. Multiple water sources further increase resilience to enable the effective management of risks related to the outage of any treatment works or failures to infrastructure. We are never complacent about the importance of resilience and continue to invest in above and below ground assets. This has reduced the impact of variations in household consumption including periods of increased demand over normal averages during and after 'lockdown' periods associated with the COVID-19 pandemic.

During the year we renewed 17km of mains at a cost of £4.0m with a very efficient cost per metre due continued innovation in "no-dig" technology. 84% of all mains were renewed using trenchless techniques, reducing the impact of working in public areas and on the environment. Although outputs were lower than anticipated, two large disinfection projects were delivered totalling £2.0m alongside a £0.8m Reservoir maintenance programme.

Mains Growth (Development Sites) added a further 12km of network mains. 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 £5.8m during the year with total costs to date of £20.2m.

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

We have been careful in ensuring that we have changed working practices to follow Government guidelines and keep everyone; employees, customers and contractors, safe. 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
Our performance for the year is in line with budget expectations. The results for the year show Earnings Before Interest Tax and Depreciation (before exceptional items) of £14.5m (2021 - £14.1m).

Turnover
Turnover is showing a £0.7m increase from last year at £42.7m (2021 - £42.0m). This year on year increase is a result of the reopening of the Non Household market post COVID-19, with this market accounting for £0.9m of revenue growth. Household customer revenue and Chargeable Work both account for a £0.1m fall in revenue year on year.

Operating Costs
Operating costs for the year totalled £34.2m compared to £34.1m in the previous year. This £0.1m increase is the result of a £2.7m increase in cost of sales, largely attributable to increased activity following the pandemic, offset by a reduction in administrative expenses due to tight cost control.

Interest Payable and Other Finance Income
Total interest payable for the period is £10.1m (2021 - £6.3m) and showed a significant increase, largely relating to the movement in RPI year on year. Other finance income is driven by the net return on the pension scheme asset of £0.448m (2021 - £0.479m).

Capital Expenditure
Capital additions totalled £16.8m in the year (2021 - £17.0m). The capital programme in year has shown slow year on year growth as the impact of COVID-19 has delayed some schemes and caused some resource constraints. The full capital programme for the five year investment cycle to 2025 is still forecast for delivery as planned.

Cash Flow
Cash generated from operations of £10.7m (2021 - £7.8m) is reflective of improved customer cash collections year on year partially offset by prepaid legal fees relating to the refinancing.

Gearing
Gearing is calculated as a ratio of net debt to regulatory capital value.

Gearing for banking covenant purposes is 60.0% (2021 - 55.7%). Gearing as defined by the Ofwat methodology is 73.0% (2021 - 70.3%).

Chair’s Statement

Ratios
The Cash Interest Cover Ratio at 2.17 times cover (2021 - 2.04) sits comfortably above the 1.40 covenant level.

Exceptional items
There is one exceptional item has been charged to the Income Statement during the year. During the year we have restructured the terms of the index linked loan with Assured Guaranty. The changes included removal of a sinking fund clause which reduces the costs and risk around refinancing at the end of the term of the loan. An exceptional item of £4.5m has been recognised for the fees associated with the restructuring of the index linked funding.

Our Company Purpose

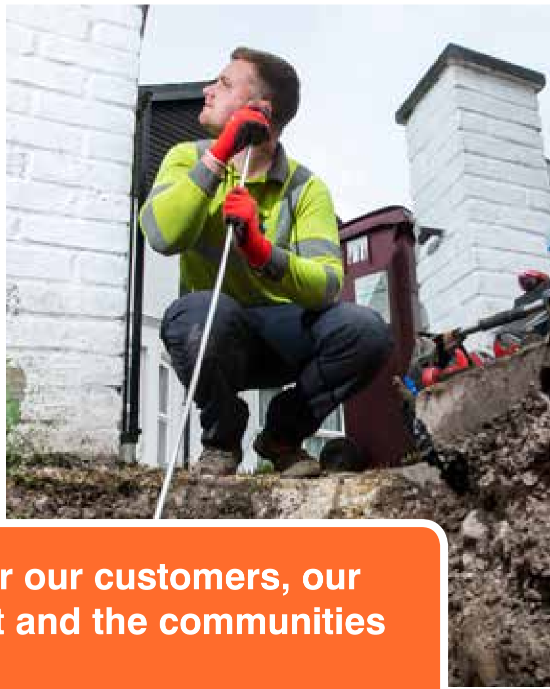
Our Board takes overall responsibility for developing the Company Purpose - including the strategy, objectives, values and culture that the business needs to deliver this successfully.

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'.



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

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 and Safety through all of our activities**

What We Do

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 37. 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 308,000 homes and 16,000 businesses in an area of 868km^2 extending from Fareham in the east of Hampshire to Littlehampton in West Sussex. Our area of supply covers the major conurbations of Portsmouth, Fareham, Gosport, Bognor Regis, Havant and Chichester. A map showing the area of distribution is set out on page 3.

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 24 to 29 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 second year of the current five year regulatory period of 2020 - 2025.

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.

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;

OUR CUSTOMERS

Outcomes 2020-2025

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.

How we are delivering

- A comprehensive water quality testing programme in accordance with Drinking Water Inspectorate requirements. Clear programmes of remediation where any DWI audit 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.

Key Performance Indicators (pages 14 to 15)

- Water quality standards
- Water quality contacts
- Burst pipes
- Interruptions to supply
- Ofwat service measures - C-MeX and D-MeX

Risks (pages 44 to 45)

- Operational
- Water Quality
- Business Continuity

OUR PEOPLE

Outcomes 2020-2025

Recognised by stakeholders as having a culture of Health, Safety and Wellbeing through all our activities.

How we are delivering

- 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.

Key Performance Indicators (pages 14 to 15)

- RoSPA accreditation
- Health and Safety “reportable accidents”
- Health and Safety “total accidents”
- Employee absence

Risks (pages 44 to 45)

- Human Resources
- Health and Safety

Our Strategy

OUR ENVIRONMENT

Outcomes 2020-2025

Low leakage.

An improved environment supporting biodiversity.

How we are delivering

- 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.

Key Performance Indicators (pages 14 to 15)

- Leakage
- Per capita consumption
- Temporary water usage bans
- Biodiversity Action Plan

Risks (pages 44 to 45)

- Environmental

OUR BUSINESS

Outcomes 2020-2025

A business which is financeable, provides a stable return to Shareholders and has financial resilience.

How we are delivering

- 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 14 to 15)

- EBITDA
- Cash Interest Cover
- Gearing (Net Debt: Regulatory Capital Value ("RCV"))
- Regulatory Rewards and Penalties (ODIs)

Risks (pages 44 to 45)

- 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 (ODIs').

OUR CUSTOMERS (pages 16 to 17)

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 (pages 18 to 21)

RoSPA accreditation *
The Company will apply for its Health and Safety accreditation annually.

Health and 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 and 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 (pages 24 to 29)

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 (pages 30 to 31)

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 1.

Ofwat Gearing (Net debt: RCV)
The ratio of Net Debt (loans and debentures less cash) to RCV. A detailed calculation is included in Appendix 1 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 1.

How We Measure Success

2021/22 target (financial year)	2021/22 performance	2020/21 performance	2019/20 performance	2018/19 performance	2021/22 target met?
< 2.0 units *(Calendar year)*	3.74	0.58	0.03	1.78	✗
< 0.430 contacts per 1,000 population *(Calendar year)*	0.405	0.432	0.395	0.437	✓
< 72.4 per 1,000km	47.3	76.3	50.0	71.8	✓
< 6 mins 08 secs per property	2 mins 21 secs	2 mins 48 secs	3 mins 22 secs	3 mins 54 secs	✓
n/a (Ranking)	3rd	1st	1st	n/a	✓
n/a (Ranking)	Upper quartile**	3rd	1st	n/a	✓

2021/22 target (calendar year)	2021 performance	2020 performance	2019 performance	2018 performance	2021/22 target met?
RoSPA awarded	Awarded	Awarded	Awarded	Awarded	✓
0 accidents	0	0	1	3	✓
< 12 accidents	5	3	5	8	✓
< 2.5 days	✓	✓	✓	✓	✓

2021/22 target (financial year)	2021/22 performance	2020/21 performance	2019/20 performance	2018/19 performance	2021/22 target met?
< 31.9 Ml/d	26.9 Ml/d	23.6 Ml/d	24.4 Ml/d	28.3 Ml/d	✓
< 140 l/h/d	160 l/h/d	171 l/h/d	150 l/h/d	151 l/h/d	✗
0 bans	0	0	0	0	✓

2021/22 target (financial year)	2021/22 performance	2020/21 performance	2019/20 performance	2018/19 performance	2021/22 target met?
On budget	£14.5m	£14.1m	£14.4m	£13.8m	✓
> 1.40	2.17	2.04	1.59	1.54	✓
< 74%	73.0%	70.3%	71.5%	66.3%	✓
> 6.0%	6.05%	7.18%	6.62%	6.06%	✓

* 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

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.

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). 2021/22 has been a challenging year with further lockdowns and COVID-19 outbreaks stretching operations. Despite these challenges we are very proud to report we have been ranked 3rd in the industry.

The number of written complaints per 10,000 connection is 9.43, a reduction on last year and expected to be upper quartile performance 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 2021, we continued to receive great feedback from our customers and employees as we look 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.

ServiceMark
Accredited from May '21 to May '24
The Institute of Customer Service

Affordability and Vulnerability

We have the most affordable bill in the industry, with our average bill in 2021/22 being £103, against an industry average of £189 and the next lowest to ours being £142. Our Helping Hand Social Tariff helps those on low incomes and caps our bill at £77.76 for the 2021/22 billing year. Numbers supported have grown from 9,327 in March 2021 to 10,254 in March 2022.

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.

We once again 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 70% which is a drop in performance compared to the previous year. Whilst most organisations were satisfied with the service we provide to date, some have asked whether we can do more to assist during the current cost-of-living crisis.

KPI Performance

Set out on pages 14 and 15 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 - water quality and per capita consumption.

Mains repairs

Contrary to 2021, we saw a significant reduction in mains repairs. For the reporting period of 2022 we recorded 160 mains failures compared to 257 for 2021. Whilst 2021 was an outlier in terms of a high number of recorded mains failures; conversely, 2022 was a lower than the forecast number of mains repairs, this we believe as a result of a benign winter. As with the previous reported period, our management of this activity again did not adversely impact our customers, as shown by the interruptions to supply ODI. Again, we have reduced the overall impact to our customers in the year and expect to be industry leading on this measure when comparisons are available.

Per Capita Consumption

As the pandemic has continued to impact our daily lives, so it has continued to affect our household usage patterns. Whilst commercial use has almost returned to pre-pandemic levels, household use remains between 5 and 10% higher - driven by increased working from home. There remains uncertainty in the future level of household demand we should expect as we 'learn to live with COVID-19' but we are well placed to accommodate any continuation of this step change.

We remain committed to promoting ways our customers can be more efficient in their use of water, to the benefit of the environment and possibly their own water and waste water bills.

Compliance Risk Index

The measure of water quality used by the Drinking Water Inspectorate (DWI) is the Compliance Risk Index (CRI). This is a composite measure which considers the nature of the failure and the scale of the risk to customers. We had 9 water quality failures in the calendar year which has impacted the CRI score. Unfortunately, this means we have failed our CRI target. The score has mainly been impacted by an issue with Aluminium in our network which we are actively investigating. Control measures have been put in place to ensure the Water Quality for to customers is not impacted.

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 and 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

Our Customers

appointment. In the year we made a total of 98 payments with 35 related specifically to one event in November 2021 where we accidentally omitted to notify customers in advance of a planned interruption.

Non Household Retail Market
Performance of trading parties in the business retail market is measured against 19 Market Performance Standards (MPS) and 22 Operational Performance Standards (OPS). We have continued to perform well in both MPS and OPS metrics in 2021/22, and achieved sector leading performance is both metrics. Our MPS performance was 98.86%, and our OPS performance was 99.49%.

We have also continued to collaborate with retailers by offering a meter reading service, and an ad-hoc service to reduce long unread meters, which has been well received in the non-household retail market. September 2021 saw the first OPS process go live in the MOSL bilaterals Hub with an additional 11 OPS processes set to be implemented by November 2022, supporting the effective functioning of the market and providing a central location for bilateral requests.

We have continued our strong R-MeX performance throughout 2021/22 and achieved upper quartile performance. We are proactively engaging with retailers to see how we can improve our service offering, and some areas for improvement include changes to financial policies, offering additional services and complying with the good practice guides in areas where we are not entirely aligned.

Developer Services
We have continued our strong D-MeX performance throughout 2021/22. At the time of writing, year-end D-MeX performance was still to be published. Year to date we have achieved upper quartile 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 2021/22 included the introduction of more applications to our online bilateral Portal. Alongside our Portal we are also redesigning the Developer section of our website to make it easier to navigate and to locate desired information.

During 2021/22 applications from Self-Lay providers has remained steady, whilst there has been an increase in the number of applications from New Appointments and Variations (NAVs).

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 (DWI). We have achieved our second-year target for AMP7 of 0.430 contacts per 1,000 population served. Our performance was industry leading for the last two years, 2019 and 2020, and we expect this to be the case again this year, 2021.

Leakage
We continue to maintain low leakage with a three-year average leakage figure of 25.0 Ml/d. This is 1.6 Ml/d below our regulatory target of 26.6 Ml/d and is expected to be upper quartile performance within the UK water industry.

We have seen a small rise in leakage in 2021/22, increasing from 23.6 Ml/d in 2020/21 to 26.9 Ml/d. This is a result of a harsh 2020/21 winter which significantly increased the number of leaks on our network going in to the current year. We have focused 2021/22 reduction activities on the development of a Digital Twin that will lead to more cost-effective leakage reduction in the long term, but we also understand the need to reduce leakage in the short term. We have put in place a Spring 2022 recovery programme that has been signed off by the Pressure and Leakage Steering Group and have already started to see a leakage reduction.

Around 50% of our network is now covered by the latest fixed acoustic noise logger technology, which allows us to find and fix leaks very quickly on metallic pipes. The remaining 50% of the network is made up of plastic pipes where traditional methods of leak detection are inefficient. The development of a Digital Twin, alongside the other areas of innovation, will result in a step change in performance as we continue to strive to reduce leakage.

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 21 seconds per property, compared to a target of 6 minutes 8 seconds, this is our best performance on record. 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 and techniques to make repairs to our network, so that customers are not impacted by any failure. 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” on pages 14 and 15. During the year, the Company has achieved 18 of 26 ODIs in total. We are very disappointed about the eight failures to meet these challenging standards and have action plans in place to address those not achieved.

The challenging void target of 2% was not achieved this year and was adversely impacted by recruitment challenges during the first quarter of the year. We have subsequently put in place an action plan and have made good progress on this measure more recently.

We narrowly missed our targets on Water Industry National Environment Programme (WINEP) delivery and the biodiversity grant scheme. We completed three out of four required WINEP schemes within the year. The fourth scheme was completed in April 2022 and we are on target for 2022/23. We have provided a total of £99k of biodiversity grants against a target of £100k, a strong performance given that a number of organisations have had to temporarily reduce staff available for projects due to rising costs and COVID-19.

We also narrowly missed our resilience against severe restrictions during a drought target. Greater household usage has resulted in increased customer demand for water, and whilst we have worked hard to mitigate against this through the reduction in leakage, we have experienced an overall increase in the water needed. We are in the process of developing a new water resources model to provide greater understanding of water available, as well as continuing to be committed to reduced water usage and leakage.

Our People

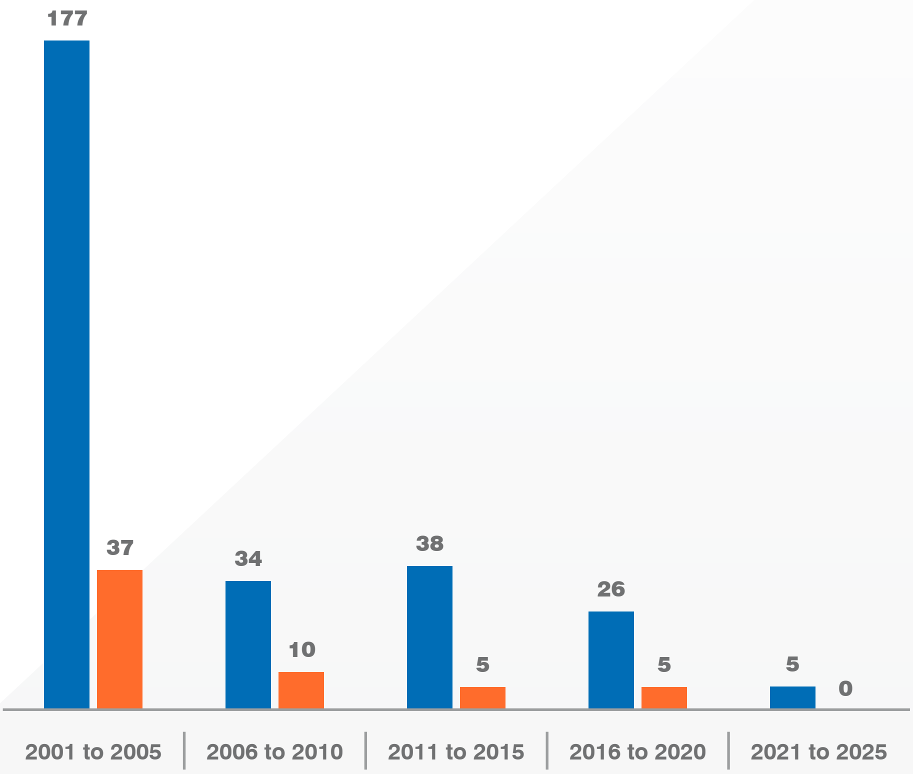
Health, Safety and Wellbeing

Health and Safety continues to be our top priority within Portsmouth Water and our focus on this area is maintained by openly sharing information on accidents and near misses inside and outside the company. We also have in place an ongoing programme of company wide campaigns and initiatives which form part of our extensive staff training and development plans. These actions 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 at Portsmouth Water.

We were awarded RoSPA's "Order of Distinction" for the third 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 was despite nearly all of our operational activities being affected by the COVID-19 pandemic.

Once again our people have more than risen to the challenge of COVID-19, never forgetting that Health, Safety and Wellbeing will always be our number one priority even in the most challenging of times.

Total and Reportable Accidents



Number of Accidents in 2021

We measure the number of accidents through a calendar year. 2021 saw no reportable accidents for the year. A reportable accident means someone has been injured to an extent they are off work for over 7 days.

The Company recognises that the Health and Safety performance in the past was not acceptable. A sustained focus on Health and Safety over the last 20 years has significantly reduced the number of accidents. This is the second consecutive year we have not had a reportable accident.

Our People

RoSPA 2022 ORDER OF DISTINCTION AWARD

We were awarded the RoSPA Order of Distinction Award for the third time. This Award is part of the prestigious RoSPA awards scheme and is given to organisations that have demonstrated excellence in the area of Health and Safety 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 to the efforts that everyone in the Company has put in making us a safer place to work.

2022 RoSPA Order of Distinction

Dealing with the Pandemic
COVID-19 saw us fundamentally change the way we work to deliver our core service of high quality water to our customers. A high-level working group was set up advising the business as we understood the guidance and regulations related to working with the pandemic.

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 COVID-19 pandemic have remained very low.

Throughout the year our staff have been exemplary in their commitment to delivering our key services whilst making sure that they protect themselves, their families and each other.

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.

Our Approach to Wellbeing
In 2020 our annual Health and Safety policy was amended to include wellbeing. Wellbeing is now as important to the business as Health and Safety.

In 2021, 15% of all absence at Portsmouth Water could be attributed to mental health – further evidence of the need to raise awareness within the business.

The Pandemic Effect
With the added pressures of lockdown, working from home etc. we understood the need to promote and support as much as we can in areas of wellbeing. Our Mental Health and Wellbeing Champions – created in 2021 - and our "good to talk" initiatives played a huge part in promoting and supporting where necessary staff with wellbeing issues.

During the year we produced a monthly 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 email to staff. Wellbeing stayed at the top of the agenda throughout 2021.

We also started to deliver Mental Health Awareness Training to all staff. Not having the ability to do this interactively within a classroom environment made the delivery challenging. But we really wanted to roll this training out and even more so in the midst of the pandemic. We worked with Mind to deliver the sessions via zoom. We have had some positive feedback from those attending despite having to adapt and change the delivery method.

Flu Jab
During the year we also decided with the risk of a twindemic – impact of COVID-19 with potential flu outbreak – to offer all staff the opportunity of a flu jab. This was positively received with over 100 staff taking up the offer.

Employee Staff Engagement Survey 2021
The results of our company-wide staff engagement survey were very positive.

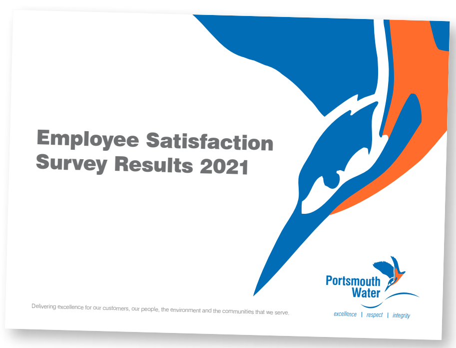
The last few years have seen many changes for Portsmouth Water with the new owners settled in, new leadership at both Board and Exec level, and the new beginnings of our reservoir at Havant Thicket. This is all against the background of the COVID-19 pandemic. With this in the background, we were expecting a fall away from the positive results of previous surveys. Pleasingly, however, the results are, in the main, positive but as ever we will look to analyse the results of the survey and work with everyone on areas where we can improve. The results have been discussed with the Trade Unions at the JICC and shared across the business via workplace.

Positive highlights included:

- 86% of staff are happy at Portsmouth Water - 96% are proud to work for Portsmouth Water
- 95% say they are encouraged to deliver the best customer service possible
- 91% are happy with COVID-19 communication from the Company
- 91% agree the Company is committed to protecting the environment by the way it operates

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

- 91% said they were happy with the communication received from the Company
- 91% said they were continued to be valued by Portsmouth Water during the pandemic



Our People

Investing in Our Future

We are firmly committed to the development of our staff and that they all have the opportunity to reach their full potential and 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.
2021 saw 14 of our people undertake further education fully funded and supported by the Company.

Apprentices

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

Supervisor Development

All new supervisors appointed either externally or internally are required to undertake a formal further education qualification in the management field. There is a minimum requirement of a level 3 qualification for all supervisor posts. This requirement is part of the contract of employment. Many have decided to take the Level 5 Management Diploma to further enhance their skills in this area.

Our People

Long Term Investment

Utilising the Apprenticeship Levy, we have undertaken a £1.5 million training program bringing all operational staff up to a minimum national level 3 standard. This will take 5 years to complete and will cover all Network and Production areas of the business. This is a significant investment in our people ensuring we have the best people with the best skills delivering the best service for our customers. So far, we have invested over £400K from the Apprenticeship Levy for the development of our staff.

Non-regulated Business

This year the commercial team has prioritised focus on two major new initiatives:

REPLACEMENT OF AGEING TECHNOLOGY

We are replacing the ageing technology for meter reading with new 'Temetra' software and corresponding hand held devices.

This has enabled a range of new benefits:
- Driving efficiencies in Portsmouth Water's meter reading activity, specifically reducing driving distances and therefore carbon emissions
- Increased control and visibility of current resources
- New commercial opportunities for Non-Household ("NHH") customers / retailers and other new customer groups in the Portsmouth Water region and beyond

Portsmouth Water has undertaken to read the NHH meters for Castle Water Services (representing 12,500 individual Supply Points or SPIDs). Portsmouth Water will also look to provide the same service to other NHH retailers (representing 3,550 SPIDs) with a view to improving the quality of data and informing the water balance for leakage calculation, as well as ultimately creating a commercial proposition for all retailers within Portsmouth Water's area of supply.

ON-SITE SOLAR GENERATION

The procurement and deployment of on-site solar generation

In total, investment for 10 separate sites has been approved – generating 2,300KWp of energy, 12% of Portsmouth Water's total demand. Four sites are completed or under construction with six others scheduled for completion by end of September 2022.

The investment in solar delivers;
- Stable, long term energy provision for Portsmouth Water (agreement linked to CPIH rather than the more volatile wholesale energy market)
- Reduced carbon emission and support for net zero objectives
- A long term revenue stream into the non-regulated business (Brockhampton Solutions) with a guaranteed off take agreement (PPA) signed with Portsmouth Water

Non-regulated Business

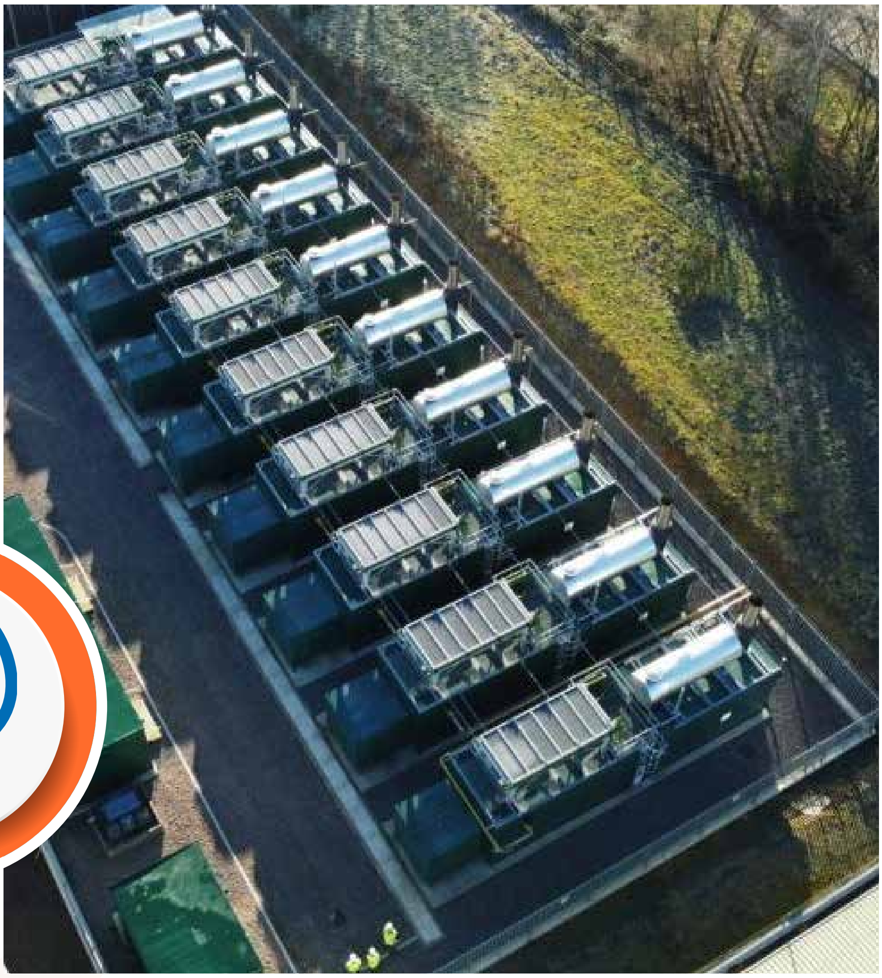
The existing commercial initiatives have continued to develop, despite a challenging trading environment:

HomeServe

HomeServe has grown from 3,500 to over 5,500 policyholders in the last year, driven by ongoing, regular mailings, bill inserts and online marketing. This year has also seen a marked improvement in the 'Value Added Service' (VAS) activity (where inbound callers into our call centre are offered the opportunity to take out discounted insurance) with over 11% of all inbound phone calls offered the opportunity of a discounted HomeServe policy. This activity supported by a number of staff promotions and incentives has performed very well and generated almost half of all new policies signed up this year.

ENERGY REGENERATION

Significant focus this year has been placed on additional energy generation that is both sustainable and delivers a material commercial benefit for Portsmouth. In particular, a number of new schemes are currently being investigated that use heat from ground water to provide heat and hot water for domestic homes or commercial premises. Additionally, a number of sites are being considered for large-scale battery storage and localised power generation to support peak demand supply for the wider network as well as resilience and lower cost energy for our sites.



Our Environment

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 and 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.

The following conservation activities have been completed in 2021/22:

- Employed an experienced botanist to carry out detailed vegetation monitoring on a number of sites and produce survey reports;
- Employed a specialist Riparian Mammal consultant to re survey the river system at Havant and Itchen Water Treatment Works (WTW) to see if water voles were still present;
- The new hedgerows at Walderton WTW were planted to ensure that they become an improved environment supporting biodiversity. This project has increased the connectivity of the habitats on site for the benefit of wildlife;
- We checked one of our bat roosts that we put in an old reservoir that was converted in the last AMP. Unfortunately bats haven't take over this roost as yet;
- Woodland thinning, coppicing, reed removal and scrub management was carried out at Lovedean Reservoir, Maindell WTW, Hoads Hill Reservoir, Itchen WTW, Fishbourne and Bedhampton WTW. This will allow remaining trees to have the space to mature, and increase the biodiversity at the sites;
- Pond maintenance was completed at Westergate WTW;
- Himalayan Balsam (Invasive Non Native species) was removed at Itchen WTW;
- Japanese Knotweed (Invasive Non Native species) was controlled at numerous Havant and Bedhampton sites.

CASE STUDY

CAPITAL GRANT

Whitewool Farm £8,532.50 for dribble bar and flow meter for slurry applications – Bedhampton and Havant Springs

- Existing system to spread slurry was via a splash plate system. This causes over application and therefore greater risk of Nitrogen leaching into groundwater.
- New system of a dribble bar and flow meter will allow more precise application of slurry.
- The addition of a flow meter allows the flow rate to be monitored and adjusted to allow for more consistent application to reduce over application.

Supporting farmers to invest in more precision farming equipment reduces risk of Nitrogen leaching into groundwater.

Our Environment

CASE STUDY

RESTORING WEST MARDEN DEW POND

The restoration of West Marden dew pond, a key stepping stone in a local network of ponds close to Kingley Vale nature, reserve is being undertaken. This will provide connectivity with a further 26 planned ponds and create habitat for Great Crested Newts, Barbastelle and Bechstein's bats.

Dew Ponds in the South Downs
Historically ponds were common in the South Downs and provided water for grazing animals and seed-eating birds like Turtle Doves. With Climate Change increasing the frequency of hotter drier summers these ponds are becoming increasingly important habitats and water sources. Yet 70% are in poor condition including West Marden.

Scrub Clearance and Pond Improvements
West Marden Pond is overgrown with bullrushes and scrub. This inhibits its ability to hold water and has made it inaccessible. This overgrowth will therefore be cleared, and the pond then clay lined, improving its ability to hold water and facilitating improved biodiversity. The outcome will be improved water quality in the pond and the creation of a biological corridor for the local ecology.

Our Environment

WATER RESOURCES IN 2021/22

Following a wet start to 2021, 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.

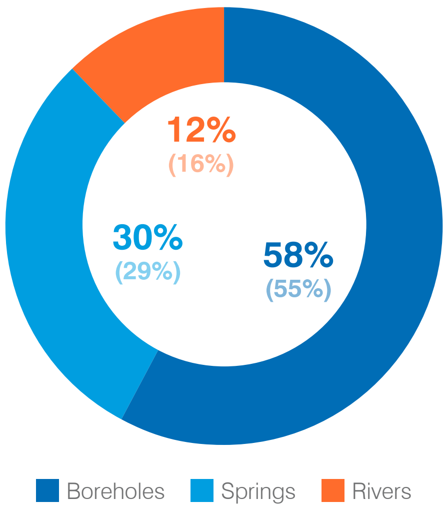
The Spring of 2021 was notably dry and the levels of water in the ground fell rapidly, passing below the long term average levels by early May. However, following an unseasonably wet July, groundwater levels rose to above long term average levels over the end of the Summer and into Autumn. Groundwater recharge in the Summer is a very unusual weather pattern, last seen in 2012, but it meant there was plentiful water available throughout our region.

During 2020/21, during the height of COVID-19 restrictions, we experienced very high levels of demand from household sources, caused by a large percentage of the population working from or being confined at home. This was partially offset by a reciprocal reduction in some workplace and non-household consumption. Through 2021/22, as the country emerged from COVID-19 restrictions and re-established some form of normality, we saw the profile of demand start to resemble pre-COVID-19 patterns, but with a slight residual uplift in household demand. We suspect that this uplift is a result of a change in working patterns, where more customers are routinely spending a larger percentage of their time working from home.

We continue to reflect on our experiences through COVID-19 and into post-COVID-19 worlds. We are actively working on producing our next Water Resource Management Plan and are undertaking more work with customers to understand new behavioural patterns to ensure we are using the best available data to anticipate the demand needs of the future.

The graphs that follow on page 27 demonstrate the trends mentioned above.

Abstraction Sources 2021/22 (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.

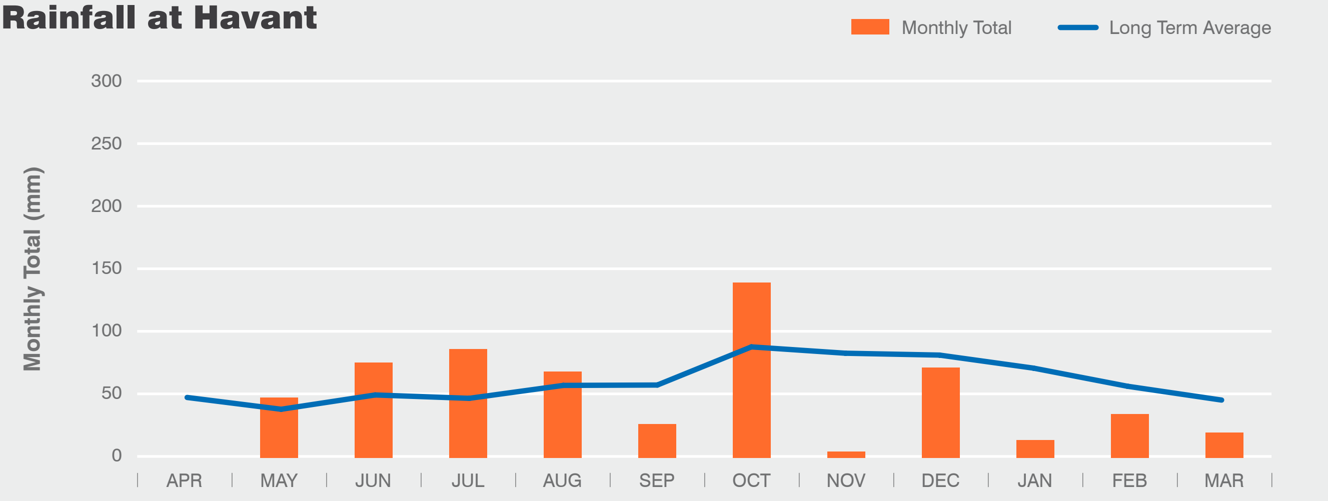
Regional Planning
The Water Resources national framework published by the Environment Agency in March 2020 has introduced the requirement for water companies to co-operate their water resource planning activity around 5 Regional groups. Portsmouth Water is a member of the Water Resources in the South East (WRSE). This group has recently held a public consultation on its first draft of a Regional least cost plan. Following feedback work is now continuing to develop a ‘best value’ 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.

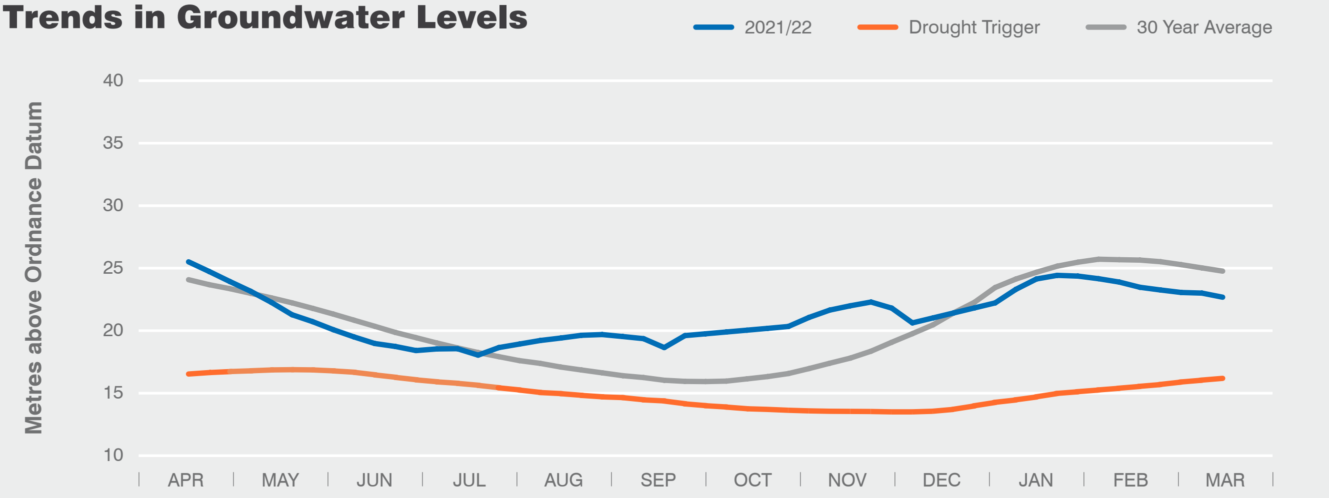
Planning horizon
Previous WRMPs were required to plan for the provision of a resilient supply for a minimum of 25 years. The Water Resources national framework now introduces the need for Regional and Company Plans to plan for a resilient supply out to the year 2100. There is obviously uncertainty in planning over such long time frames and so we are taking an adaptive approach to our plan, looking to understand the need for water for a large number of possible future scenarios and identifying points in time where significant investment or changes in policy may be required.

Our Environment

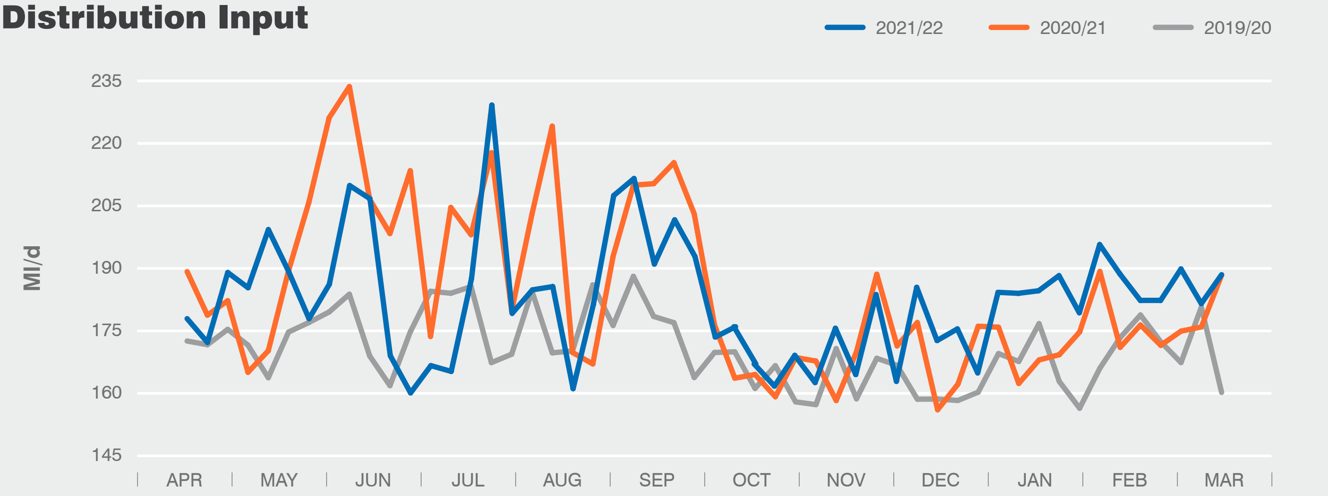
Rainfall at Havant



Trends in Groundwater Levels



Distribution Input



Our Environment

Biodiversity Management

We have been planning and carrying out our winter programme of site enhancements including Priority Habitat management. We are in to our second year of our Biodiversity Grant Scheme. This is part of our environmental commitments to enhance the habitat network within Portsmouth Water's catchment area. We received 9 applications this year totalling to just under £50,000. The range of activities include:

- Hampshire and Isle of Wight Wildlife trust – coppice management
- Eastleigh Borough Council - River Itchen Himalayan Balsam and Mink eradication year 2
- South Downs National Park Trust – 2 dew pond restoration schemes
- Fareham Borough Council – restoration of chalk grassland
- Fishbourne playing field association – pond restoration
- Newtown and Soberton Community association – water quality monitoring equipment
- Friends of Portsdown Hill – battery powered equipment for scrub clearance
- Acorn community centre Waterlooville – pond oxygenator

Catchment Management

Our AMP7 WINEP Catchment Management programme has just finished its second year of a 5 year programme that includes the 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 over 2000 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.

Successful outcomes this year

- Started an under-sowing of maize trial on a farm with rye grass. This will help to reduce soil erosion and reduce nitrate impacts on groundwater. We also produced a successful webinar of this with other agricultural speakers and delivered this to farmers within our catchments.
- After COVID-19 restrictions eased, convened a successful on farm workshop providing updates on our trials for soil carbon toolkit, cover crops trials and nitrate reduction trials.
- Responded to over 100 planning applications for development within our groundwater Source Protection Zones to ensure the protection of groundwater quality.
- Joint oil care campaign with DEFRA and EA continuing with our grant scheme and OFTEC Inspection; uptake has been successful in replacing 45 poor and potentially polluting tanks since the start of the campaign.

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 ended in April 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.

Our Environment

HAVANT THICKET RESERVOIR

The Havant Thicket reservoir is an environmentally-led project. We will create the first new reservoir since the 1980s. Its purpose is to protect world-renowned chalk streams in Hampshire by supporting Southern Water to reduce their abstraction from the aquifer.

The reservoir will be built on the grassland site next to Havant Thicket, which sits in between Rowlands Castle, Leigh Park and Staunton Country Park in Havant.

Formal planning permission for Havant Thicket Reservoir was granted in October 2021 and work has now started on site.

What has happened so far?
We have been monitoring the site and surrounding areas since 2005 and have a detailed understanding of the wildlife on site. We have taken significant measures to ensure that wildlife is not harmed, that animals will not be present during construction works and that they have safe and attractive habitats to move into. This includes sending specialist climbers up individual trees to ensure they are free of wildlife before any tree removal work begins.

We have worked with specialist ecologists to create new habitats in Havant Thicket and the surrounding woodland. So far, we have installed 200 bat boxes and more than 300 dormice boxes, relocating nearly 200 dormice boxes from the Avenue.

200 BAT BOXES HAVE BEEN INSTALLED

The first stage of tree removal works started in October 2021. Due to the seasonal and environmental sensitivities of the work, this first phase of work finished in November 2021. The work was timed so that we could carry out tasks in an environmentally sensitive way – for example, avoiding bird nesting season.

We are planting and improving more than 200 hectares of woodland and wood pasture. More than 6,000 new trees have already been planted, and we are working with local groups and volunteers to relocate around 250 saplings from the site and to grow a further 200 oak saplings from acorns gathered on site.

As part of the project's award-winning stakeholder engagement work, members of a local protest group were invited to Portsmouth Water's Head Office to explore opportunities to enhance environmental protection works associated with the Havant Thicket Reservoir. They are now working with Portsmouth Water to relocate 80 trees to other areas of the site.

OVER 250 SAPLINGS HAVE BEEN RELOCATED

As part of the Havant Thicket Reservoir project, Forestry England have been carrying out work in areas of Havant Thicket to restore and create new habitats. This involves opening up areas to make them lighter and give more space for native trees to grow, providing greater diversity in tree species.

This will increase biodiversity in the woodland, improving the habitat for local wildlife, including reptiles, bats, dormice and birds. Forestry England have delivered the works in accordance with the UK Forestry Standard, which addresses all aspects of biodiversity and environmental protection, as well as sustainable forest management.

What happens next?
In April 2022, tree removal and ecological mitigation took place along the proposed Northern Access Route and on the new junction of the B2149.

This work will enables construction of a new Northern route to access the reservoir site. This route will be used by construction traffic during the main works and will minimise disruption for residents in Warren Park and Rowlands Castle.

Further enabling works will include building a trial embankment, carrying out surveys and archaeological studies. This work is scheduled to begin in Spring 2022.

As part of these works, we are taking measures to ensure that reptiles are not harmed. This will include creating new environments in Havant Thicket woodland for reptiles to disperse into. Ecologists will support translocation of reptiles in their active season which runs from April to October.

Our Business

The year ended 31 March 2022 was the second year of the current Ofwat regulatory review period. We have made positive progress in delivering against challenging ODI targets while adapting to the continuing 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 40 of the Annual Report and Accounts. As the provider of a key public service our overarching objective has remained the provision of high-quality water supplies to our customers whilst closely adhering to Government guidance. We have successfully adapted our ways of working with the vast majority of employees working remotely for the first half of 2021/22. Staff started to gradually return to the office from September 2021 and have adapted to a new hybrid way of working with some staff splitting time between the office and working from home. We have continued to work hard to support customers through this difficult time. We have 31,259 customers on our Priority Service Register which represents 10% of our customer base. We have continued to monitor the financial impacts of COVID-19 but as we emerge from the pandemic we are returning back to our normal levels of activity as our confidence in the recovery increases.

Havant Thicket (HTWSR)
We have made significant progress in the development of the HTWSR and discuss this further on page 29 of the Annual Report and Accounts. In the last year we have been granted planning permission and commenced enabling works on site. We are at the final stages of the procurement process for the main works contract and related pipeline and in detailed discussion with Ofwat and Southern Water.

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 midmarket 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 55 of the Annual Report and Accounts.

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 2022 was £116.0m (2021 - £111.6m).

During the year we have restructured the terms of the index linked loan with Assured Guaranty. The changes included removal of a sinking fund clause which reduces the costs and risk around refinancing at the end of the term of the loan. The changes also enable us to manage commodity and interest rate risk in the future. An exceptional item of £4.5m has been declared in the accounts for the fees associated with the transaction.

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 was 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 ("RCV"). Following the 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.

Gearing as defined for banking covenant purposes is 60.0% (2021 - 55.7%). Gearing as defined by the Ofwat methodology is 73.0% (2021 - 70.3%). Gearing has been impacted by the growth in RCV of £21m as a result of inflation plus Havant Thicket Winter Storage Reservoir additions. The Group has raised additional financing of up to £105m, primarily to support the development of the new reservoir project. At the year end, £47.1m of this financing had been utilised. The Company also had a revolving credit facility available of £25m, £nil of which was drawn down at the year end. The cash balance at the year end was £25.7m.

Interest Cover
At 31 March 2022 the interest cover ratio, defined by the covenants associated with Company's index linked loan, of 2.17 times (2021 – 2.04 times) remains comfortably above the 1.40 times (at Portsmouth Water level) covenant requirement.

Return on regulatory equity (RoRE)
RoRE, of 6.05% is reflective of the growth in RCV of £21m between FY21 and FY22 (7.18%).

Review of Trading Performance
Operating Profit
Operating profit after exceptional items, at £3.9m, shows a decrease on the prior year of £3.9m. This is as a result of a £4.5m exceptional charge associated with restructuring of index linked debt financing. Operating profit before exceptional items is £8.5m, an increase of £0.6m on the prior year.

Revenue
Turnover of £42.7m (2021 - £42.0m) shows a £0.7m increase from 2021. This increase is due to recovery of 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 £0.2m from 2021 to 2022 as a result of meter optants. Offsetting this is an increase of £0.1m in household measured customer revenue. Chargeable Works – most notably Mains Diversions are broadly in line with 2021.

Operating costs
Operating costs for the year totalled £34.2m compared to £34.1m in the previous year. This £0.1m increase is the result of a £2.7m increase in cost of sales, largely attributable to increased activity following the pandemic, offset by a reduction in administrative expenses due to tight cost control (largely around staff cost saving initiatives and a rigorous capitalisation review).

Exceptional items
There is one exceptional item has been charged to the Income Statement during

Our Business

the year. An exceptional item of £4.5m has been declared for the fees associated with the restructuring of the index linked funding. We included an exceptional item of £91k for COVID-19 related bad debt in 2021. Following the recovery from COVID-19 the assessment of risk has now become part of our standard provision policy and is no longer classified as exceptional.

Interest payable and other finance income

Total interest payable for the period is £10.1m (2021 - £6.3m) and showed a significant increase, largely relating to the movement in RPI year on year. Other finance income is driven by the net return on the pension scheme asset of £0.448m (2021 - £0.479m).

Taxation

The tax charge in the period of £1.2m is split between Corporation Tax on the profits of the Company (£0.1m credit) and deferred tax charges (£1.3m). There is no current tax charge relating to 2022 due to the significant loss before tax, the current tax credit relates to restatement of group loss relief. The deferred tax charge includes an increase in the provision relating to the change in corporation tax rate for years commencing 1 April 2022 from 19% to 25%.

Dividends

Dividends are 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 in 2021. This centred upon a base dividend reflecting a 5% return on the average equity RCV for the year. The dividend this year has been updated to reflect a 4% return on the average equity for the RCV to reflect the updated guidance provided with the PR19 Final Determination.

The Board then considers adjustment (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;
- 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. 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 financial year ended 31 March 2021 of £3.4m, have now been paid in February 2022.

The Board has proposed a dividend of £3.4m for the financial year 2022 which includes £0.5m adjustment for strong performance against the 2021 ODI's.

Capital investments

Capital investments in the year were £16.8m (2021 - £17.0m). Output was lower than originally forecast due to the impact of COVID-19 on the wider business and some Capital schemes did not progress as a result. However, a catch up programme is in place for the remainder of the AMP period.

Of the £16.8m additions, £5.8m related to the HTWSR project, £1.0m was spent on meter replacement, £0.7m on technological leakage prevention measures and £0.6m on service reservoir inspection and maintenance. 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 pages 34 and 35 of the Annual Report and Accounts.

Mains activity

	2021/22 £m	2020/21 £m
Renewals charged in the income statement	2.4	1.2
Mains capitalised	1.9	1.3
Total mains investments	4.2	2.5

17.5km of mains were renewed, exceeding the target of 15.5km, whilst expenditure remained within target. Good performance in this area was due to innovation in lower and cost and less disruptive "no-dig" technology which made up 84% of all mains renewed for the year. New Mains activity has been lower than average for the year with 10.5km of mains laid on developer sites. This was largely due to reduced developer demand following COVID-19 restrictions and Furlough. At the same time, we have also seen a similar decrease in New Appointments and Variations ("NAV") activity as well as a decrease in the number of developers choosing to install new mains via 'self-lay' organisations.

Capital contributions

The Company receives capital contributions, primarily in connection with new mains for housing developments, which amounted to £0.9m (2021 - £0.8m). 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 2022 was carried out in accordance with FRS 102 and shows a net pension asset (after asset ceiling restrictions and deferred tax) of £11.0m (2021 - £17.6m).

Cash and cash flow

Cash generated from operations of £10.7m is more than the prior year of £7.8m. This is driven through recovery of collections via continued management of working capital. We resumed dividend payments in the year following deferral due to COVID-19 and paid dividends of £5.1m in the year.

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 55. 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 Chief Financial Officer 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 Chief Financial Officer
- 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 related to 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 Research and Development Tax Credits scheme to reduce our corporation tax charge and therefore continue to maintain one of the lowest total operating costs in the UK water industry.

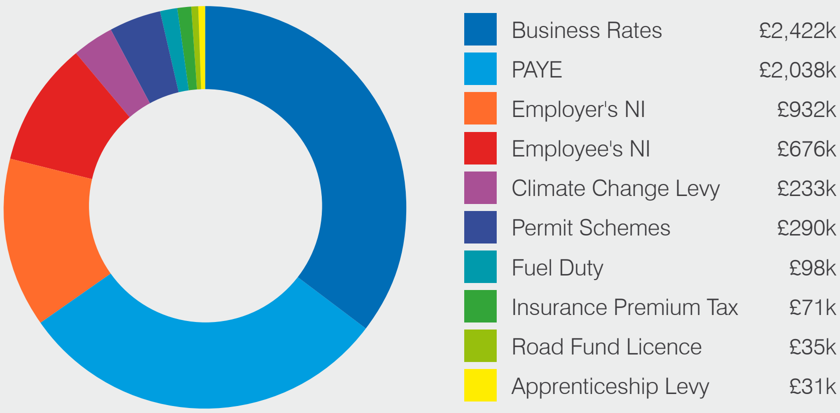
Capital Allowances
As with all large infrastructure companies, we manage our application of Capital Allowances carefully. This ensures we maximise legitimate taxation opportunities where possible.

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 occasionally 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.

Tax Strategy

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



Our approach during COVID-19

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.

Chris Milner
Chief Financial Officer

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 and 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 Chief Financial Officer 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 suspect tax evasion may be taking place;
- We will not do business with others who do not also hold themselves 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.

Engineering Report

Highwood raw water storage tank

Capital Investment
Capital investment was above the revised target at £11.0m (31 March 2022, including mains renewals). This does not include £5.8m relating to the development of Havant Thicket Winter Storage Reservoir. Output was lower than originally forecast due to the impact of COVID-19 on the wider business and some Capital schemes did not progress as a result.

The Company has continued to invest in order to improve the resilience of the network. A high degree of interconnectivity continues to allow us to move water across our area of supply when needed and multiple water sources further increase resilience and 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. This has helped us manage the changing patterns of household consumption during the COVID-19 lockdowns and subsequent periods of increased demand above normal seasonal averages. During the year we also progressed work on projects that supported and enhanced resilience despite the multiple unprecedented challenges as a result of the Pandemic.

Capital Programme
17.5km of mains were renewed, exceeding the target of 15.5km, whilst expenditure remained within target. Good performance in this area was due to innovation in “no-dig” technology which made up 84% of all mains renewed for the year. This helped to bring down the unit cost per metre laid, supported by the need for fewer mains being identified for replacement in the more densely populated and costly areas of Portsmouth City.

New Mains activity has been lower than average for the year with 10.5km of mains laid on developer sites. This was largely due to reduced developer demand following COVID-19 restrictions and Furlough. At the same time, we have also seen a similar decreases in NAV activity as well as a decrease in the number of developers choosing to install new mains via ‘self lay’ organisations.

This year, we have awarded and implemented a collaborative Non Infrastructure framework contract with Trant Engineering Ltd worth £11m over the AMP period. The partnership will provide an integrated ‘start to finish’ Civil, Mechanical, Electrical and software delivery service, which supports the successful implementation of the investment portfolio over the next 9 years.

Other successful programmes delivered in the year included the meter replacement programme including meter optants and the replacement of meters over 12 years at a cost £1.0m as well as the installation and development of technological Leakage Prevention measures at a cost of £700k. The £550k service reservoir inspection and maintenance programme has accelerated since September 2021, with several sites having reached their 10-year scheduled inspections. No major structural issues have been reported in the year.

Engineering Report

New West Street WTW UV Plant pipework

Major Capital Schemes
We continued to invest in our £7.1m programme of works to ensure adequate disinfection ‘contact time’ at all sites. This work includes the construction of a new booster station between Farlington and Racton reservoirs, and the rebuilding of Lavant WTW and UV treatment. Contract procurement is underway for both of these schemes which are expected to begin construction in 2022.

Phase 1 of our SEMD project to upgrade equipment, security doors, hatches and kiosks on numerous operational sites was completed in 2021 at a cost of £744k to comply with the SEMD security requirements defined by Defra.

This year we completed the £2.2m River Itchen WTW Eel screen replacement, when we installed a boom in the river to prevent debris from fouling the screens.

We are continuing with the planning phase of the Hoads Hill to Nelson resilience scheme, involving duplicating the pipeline crossing at the River Wallington which will significantly improve our resilience at this critical point. We anticipate that construction will start in late 2022.

The £1.0m West Street WTW project was completed and returned the site to its full 9 Ml/d operation following a number of years offline due to a cryptosporidium risk identified in the raw water. Trant Engineering were commissioned to return the site to service to enable us to cope with the increased demand from our Hampshire bulk supply to Southern Water in late summer. The project was undertaken on a ‘fast track’ basis with barely three months from concept to completion. A containerised UV plant was utilised to minimise timescales.

The installation of Volatile Organic Compound (VOC) monitors across all abstraction sites has commenced and is due for completion late 2022 at a cost of £780k. The online monitors provide live online VOC analysis of the abstracted water and will detect heating oil or diesel in the water supply, shutting the works down and protecting our equipment, water quality and customer’s water supplies.

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 long term 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-19 response on page 40.

Regulation
The water industry is highly regulated (see page 37 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 (“DWI”) regulates the quality of water that we supply to our customers and sets the standards required.

Brexit
Following the introduction of full customs declarations for imports from the EU on 1 January 2022, this has not had any material impact on the availability of materials and chemicals required by Portsmouth Water.

However, the full impacts on the borders have not yet been encountered as the associated border checks have not yet been fully implemented by the government.

In general, Portsmouth Water’s preparations for Brexit have now been embedded as part of “business-as-usual” operations and continue to be leveraged to mitigate the more significant global supply chain impacts due to COVID-19, the war in Ukraine and consequent sanctions on Russia.

Labour constraints, and in particular the availability of HGV drivers, is now the most pressing consequence of Brexit, but effective mitigations are in place through collaboration with our supply chain and government agencies.

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 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 have been succesful in lobbying for our water stress status to be re-designated in order to allow us to compulsory meter customers. This change of status took place within the reporting year. We recognise metering as being the fairest way to charge for water consumption and as an important tool in managing water consumption. Whilst we are stepping up our metering activity over the next three years of this AMP period, we do not anticipate compulsory metering until 2025 at the earliest.

With 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 project 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.

The Issues That Affect Us

OUR REGULATORS

Department for Environment Food & Rural Affairs

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.

Ofwat

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.

dwi

The Drinking Water Inspectorate regulates the public water supply companies in England and 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.

Environment Agency

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

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.

CCW

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.

MOSL
MARKET OPERATOR SERVICES LTD

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.

The Issues That Affect Us

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 308,000 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 30,000 children have visited the centre
- We are actively involved in schools and attend and sponsor local science fairs

We remain committed to the communities that we serve through our Community Partnership.

Customer Scrutiny Panel

As we face conflicting challenges of increased investment due to climate change and customer affordability, difficult decisions will need to be made. The development of high-quality research to inform balanced future decision making is extremely important. It needs to be robustly scrutinised to ensure we provide the best value services to all our customers, based on their needs and preferences.

It is for this reason that our Customer Challenge Group has been renamed as our Customer Scrutiny Panel ('CSP'). The independent CSP, includes a range of stakeholders and customers and on top of scrutinising the development of our Business Plan, also includes independent oversight of the nature and breadth of Customer Engagement activity. In addition, the CSP reviews our performance against the Business Plan promises. It is a key part of the Company's assurance in respect of our performance against the regulatory Business Plan and overall service to customers.

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 and 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 and Wellbeing perspective
- A focus on both physical and mental health and 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 55 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 and 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 and forms a key part of our organisational resilience. With the additional challenges of COVID-19, a post-Brexit environment and global supply chain disruption resulting from conflicts and other political events, developing a strong relationship with a resilient supply chain has been critical in ensuring that we continue to deliver for our customers and minimise any potential disruption.

We use strategic business partnering arrangements to ensure high quality services are delivered efficiently. Our suppliers range from manufacturers of the pipe and fittings to deliver the water to our Customers, to the pumps and the electricity that power them, and the chemicals that are used to treat the water.

In addition we work with over 600 suppliers to enable the overall functioning of the wider business, seeking opportunities to work with local Small and Medium Enterprises (SMEs) where appropriate. We deal with all 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 and behaviours. As set out in our Modern Slavery statement, we take proactive measures to assure the prevention of modern slavery in our supply chain and expect our suppliers to take similar measures.

CUSTOMER SCRUTINY PANEL REPORT ON ODI PERFORMANCE

The Customer Scrutiny Panel (CSP) 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 2021/22

The Company met 18 of the 26 Outcome Delivery Incentive (ODI) measures. In particular the CSP are very pleased to note the improvements in a number of the ODIs - particularly Interruptions to Supply, Mains Repairs, and Biodiversity. It is disappointing to note that the Company failed to meet 8 ODIs:

- *Compliance Risk Index*
  This metric was adversely impacted by 2 aluminium failures. The CSP is pleased to understand that the Company has programmed significant improvement changes in the near future.

- *Per Capita Consumption and Risk of Severe Restrictions in a Drought*
  There continues to be clear evidence that the volume of water delivered to households has seen a step change, as a result of new behavioural patterns from customers since the start of COVID-19 pandemic. This not only affects the Company's PCC target, but also the number of customers who are at risk of severe restrictions during a drought. The CSP accept this position but re-iterate its challenge that the Company continue to promote water efficiency and encourage metering.

- *Household Voids*
  The Company has not hit its void target for the second year running, as in continues to recover from the need to change operations to address COVID-19 when it ceased meter reading and visits to properties. The CSP are pleased to understand that the Company has put in place additional interventions to reduce voids in 2022/23.

- *Vulnerability*
  The Company has missed its satisfaction rating for the second year in succession. Whilst the CSP understand the challenges in reaching this target, we are pleased to understand that additional measures are being considered to help vulnerable customers, especially during the cost-of-living crisis.

- *Grant Scheme*
  The purpose of this commitment is to award grants to third parties for projects and activities that promote and enhance biodiversity. Due to the impact of Covid, a number of third parties have had reduced resource availability. This has impacted the uptake of the Company's grant scheme and resulted in marginally missing the ODI target.

- *WINEP Schemes Delivery and Timescales*
  The Company has only completed 3 out of 4 Water Industry National Environment Programme (WINEP) schemes required by end of 2021/22. The CSP are pleased to report that the outstanding scheme was completed in April 2022.

The Company has been transparent in explaining performance and the CSP considers that we have a good understanding for the reasons for failure and mitigations the Company has put in place to improve in these areas. The Company has agreed to provide the CSP with project plans and timelines against which improvements will be tracked.

Lakh Jemmett
Chair of Customer Scrutiny Panel
30 May 2022

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.

Now in the second year of the regulatory period, the business has continued to implement its plans to meet the stretching performance commitments that we agreed. We have continued to work hard to reduce any adverse impact on this performance as a result of the COVID-19 pandemic. However we note there have been continued 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 have started the process with regulators, stakeholders, customers and our Board to develop a strategic approach to the challenges of the next price review - PR24. Most notably significant work streams have started in delivering resilient water resources, carbon reduction and environmental mitigation, all whilst considering affordability. The PR24 process is overseen by a formal sub-group of our Board.

WATER RESOURCES MANAGEMENT PLAN

Our current Water Resource Management plan is live from 2020 - 2025 and describes how we will meet the ever increasing demands for water resulting from population growth, climate change and tightening environmental requirements, including in a drought, between now and the year 2045.

The key component of our plan is the construction of the Havant Thicket Winter Storage Reservoir which allows us to provide greater bulk supplies to our neighbour, Southern Water, into their Hampshire zone. However, in order to have sufficient water available for our customers in extreme conditions, the plan also requires us to deliver an ambitious programme to work with our customers to help them reduce their household usage as well as reducing the water lost through leakage from the supply network. There are a number of elements to this programme - including a greater use of metering from 2025.

The Issues That Affect Us

RESPONSE TO COVID-19

COVID-19 has seen us fundamentally change the way we work, but still deliver our high quality core service to our customers. A working group was set up in early 2020 to provide support and advice to the business in the light of frequent government guidance updates and changing regulatory arrangements.

Throughout 2021, we maintained our approach to COVID-19, following five key principles:

- Home working where possible
- Social distancing
- Face coverings
- Sanitisation
- Testing

In the second half of 2021, we started a staged return to the office. From March 2022, restrictions were lifted in line with government guidelines, but we continued provision of testing kits to employees.

Key workers

As key workers we still maintained our operational activities and we reviewed all our risk assessments to make them in line with COVID-19 guidance. Some of the measures included:

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

Communication

During 2021 through a weekly virtual briefing to all staff (around 50% attendance) we updated the business on the current COVID-19 situation – this included new guidance. All through the year we communicated with staff, for example about how we are dealing with the pandemic and how we can help staff adjust. It has been a challenge but with the support of staff we have still delivered the first class service our customers expected.

The pandemic effect

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

With the added pressures of lockdown and working from home we understood the need to promote and support staff as much as we could in areas of wellbeing. We had in 2020 established our Mental Health and Wellbeing Champions and our “good to talk” initiatives. But we wanted to go further. During 2021/22 we produced a fortnightly wellbeing message promoting tips and advice to support staff and their families and this was supported by our CEO during his weekly email to staff.

Continued changes in patterns of usage, compared to pre-COVID-19, have resulted in a significant increase in household “per capita” consumption (PCC) levels. This has been driven by customers working from home more frequently than before, and has dramatically increased PCC. There is potential, if not rebased, for additional financial penalties and whilst recognising this effect, Ofwat is still to consult and conclude on the approach that will be taken in this matter. In the interim Ofwat has confirmed that any ODI penalties will be deferred until the end of the regulatory cycle. We have mitigated against potential end of regulatory cycle penalties by deferring some ODI reward achieved in 2020/21 when we set our charges for 2022/23.

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 2022. 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 and 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 monitored a strategy to respond to the effects of the pandemic. Further information on the COVID-19 response is included on page 44.

- 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 and vulnerable customers, working effectively with and supporting suppliers and consulting regulators. For example we added all customers over 70 years of age (other than opt-outs) 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 delivery of Havant Thicket Winter Storage Reservoir:
Key decisions during the year have included:

- 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. These were reflected in our Planning submissions in the previous year.
- Public and stakeholder consultation associated with the planning application for the reservoir project resulted in amendments to the biodiversity compensation and mitigation plans, reducing the impact of the project on ancient woodland and increasing the scope of compensation provided in order to ensure that the project delivers an environmental net gain. Further details of environmental mitigation measures are included on page 29.
- The completion of Section 106 Agreements with the local planning authorities for the reservoir project and associated supplementary agreement with Forestry England enabled planning permission to be granted in October 2022.
- The procurement of two main contracts, one for the design and construction of the reservoir and a second for the pipeline which will supply water to the reservoir from Bedhampton springs has been subject to a two-stage tender process.
- The Board of directors has been closely involved in the project, including a non-executive presence on key programme governance committees and Board approval of key decisions. This has included monitoring the procurement process and in considering our commercial strategy as we have worked to deliver best value for money.
- The Board of Directors has been closely involved in the process of maintaining the financing strategy including engagement with relevant stakeholders.
- Portsmouth Water was a consultee to the Southern Water led study into the feasibility of a future investment to enhance the impact of the reservoir, by linking it to a Hampshire Water Recycling and Water Transfer project. Following an independent assurance process, the Board of Directors provided a letter of support to Southern Water's gate 2 submission to the Ofwat Regulators' Alliance for Progressing Infrastructure Development (RAPID).

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

Portsmouth Water maintains sector leading standards and performance on our payment practices. We recognise that ensuring a collaborative and strong working relationship with all of our suppliers is key to the operational success of Portsmouth Water.

We are aware of the importance of the certainty of being paid on time and the detrimental impact of elongated payment terms on the suppliers that we partner with. As such we operate with fair payment terms that exceed the standards of the government backed Prompt Payment Code. This is demonstrated by our payment practices set out here, which we have reported for the year to 31 March 2022.

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 Head of 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 financial systems managed on a daily basis. We are developing our internal process and data to be able to demonstrate alignment with the Prompt Payment Code with a view to future adoption.

Portsmouth Water publish payment practices reporting every six months under statutory obligations.

Our standard terms are payment in 30 days from date of invoice. Changes to these terms would be through a collaborative process, aimed at supporting the needs of smaller businesses (those with less than 50 employees).

The maximum contractual payment term is 60 days but terms over 30 days are only implemented to align with supplier preferences.

Where appropriate, we will utilise procurement cards for smaller transactions - removing the need for supplier credit.

Suppliers are encouraged to follow paper-less invoicing and send their invoices to us digitally. We work with our larger partners to implement electronic invoice processing and reconciliation.

Supply chain finance is not utilised.

Portsmouth Water aims to exceed the criteria of the Prompt Payment Code but are not currently signatories.

Portsmouth Water continues to meet the requirements for government contracts (PPN 08/21).

Report On Payment Practices and Performance

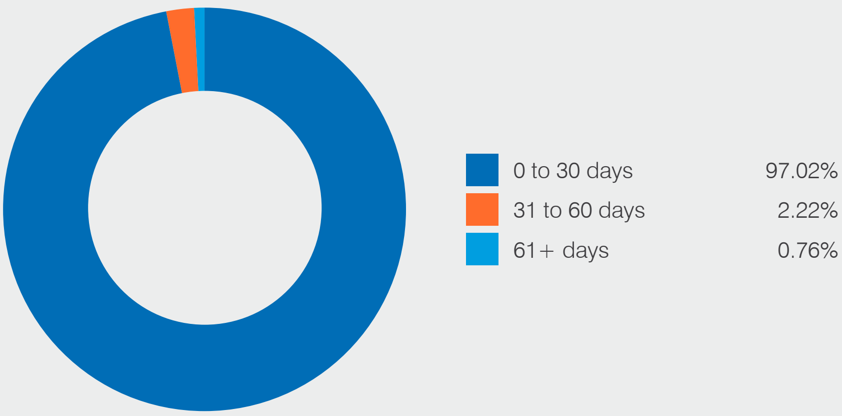
Supplier Payment Terms

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

Invoices with a receipt date between 1 October 2021 and 31 March 2022*

Total number of those invoices paid	6,675
Total number of those invoices unpaid	1,557
Total number of invoices processed during period	8,232
Total number of those invoices unpaid but due	131

Breakdown of Percentage Paid



Average number of days taken to make payments within the dates above from receipt of invoice*	16.89 days

Invoices paid outside of terms in the period:*

	Number of invoices	% of total invoices processed in period
Not paid	131	1.59%
Not paid within terms	889	10.80%
Not paid within 30 days of receipt	199	2.42%
Total	1,219	14.81%

**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 continue to revise the assessment of the 'Operational and Financial' risk categories in terms of both likelihood and trend to reflect the impact of the ongoing conflict in Ukraine.

OUR CUSTOMERS	Potential impacts	Nature	Likelihood	Impact
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	Potential impacts		Likelihood	Impact
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 and Safety Failure to maintain appropriate Health and Safety standards.	Serious injury or death of employee or contractor. Prosecution by HSE.	Reputational Financial	🟢	⚫

OUR ENVIRONMENT	Potential impacts		Likelihood	Impact
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	Potential impacts		Likelihood	Impact
Financial 1 Liquidity, solvency, capital risk and credit risk including the impact of COVID-19, increasing inflation and other economic factors.	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	🟠	🔴
Financial 2 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. Recent increases in energy prices, coupled with the Ukraine conflict have increased the likelihood.	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 and 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. This risk increased further after the start of the Russia and Ukraine conflict.	Operational Reputational Financial	🟠	⚫

KEY TO OCCURRENCE

KEY TO OCCURRENCE	**Likelihood of occurrence** ● Low ● Medium ● High	**Impact of occurrence** ● Negligible ● Moderate ● Serious ● Catastrophic

The table on pages 12 and 13 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 54.

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 and oil alarms (POC) now being installed at all treatment works and 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. • Supply chain assessments. Water sector working group headed by DEFRA to increase resilience. Emergency planning scenarios tested regularly.

Trend	Mitigation/control
↔	• 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. Full People Strategy review also launched by the Board. • 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.

Trend	Mitigation/control
↑	• 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.

Trend	Mitigation/control
↑	• 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. • 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 and changes made to current Artesian Finance to remove sinking fund obligations. • 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 in the current challenging market. • 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. Planning permission achieved and work commenced. • 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. • Internal and external penetration testing completed by independent third party. • Increase employee communications to reflect the increased threat identified during the year.

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 10 to 13. 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 page 37.

The Company has just completed the second 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.

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.

The budget prepared included;

- Detailed budget analysis by department for the forthcoming (2022/23) 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 CFO, 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 February 2022.

The key business assumptions in the budget related to;

- The extent and duration of ongoing effects of the recovery from the COVID-19 pandemic
- Increase in CPIH (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 2022. 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 44 and 45) reflects this consideration of "resilience in the round". Details of the Board risk assessment process are set out on page 61. 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 summarised in section 2 below.

The period of assessment

The Board conducted the assessment for a period of 10 years to 31 March 2032. The Board considers that this period of 10 years to be most appropriate given the

Viability Statement

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 3 years remaining of the regulatory period and an assessment of the results for the successive 7 years; and for the Havant Thicket price control the 8 years to the end of the price control and the successive 2 years. 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 and 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 2032.

2. Assessment of viability

The Assessment of Viability therefore uses; for the "core business" a period of 3 years of regulatory business plan to 2025 and a further 7 years of projection to 2032; and for the Havant Thicket price control a period of 8 years of the regulatory business plan together with a further 2 years to 2032. 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 ("Artesian") and the retention of an investment grade credit rating with Moody's (such as covenant and regulatory gearing, and interest cover ("ICR"). These scenarios (which are summarised on pages 48 and 49), have been driven from the Boards assessment of "resilience in the round" (and are reflected in the principal risks and uncertainties set out in pages 44 and 45). 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. Credit facilities include the Revolving Credit Facility ("RCF") together with both external debt facilities available to Portsmouth Water ("Opco debt") and external debt passed down as Intercompany loans from Brockhampton Holdings ("Holdco debt").

It has also been assumed that adverse impacts, which may have an adverse but short lived (one 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 deferral 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 2032.

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
30 May 2022

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	Borrowing	Capital
Cost of living	Assumption that cost of living crisis leads to inflation being 5% higher than currently forecasted in FY23 and FY24 with a specific increase in input costs at a further £0.5m in FY23, representing pressures on electricity and chemicals. This is coupled with an increase of £0.5m in bad debt costs in FY24. This leads to failure on our Moodys ICR in FY23 (1.37x vs 1.50x Target), FY25 sees a failure on the Artesian ICR (0.07x vs 1.45x Target).	In line with the Company's response to COVID-19 in FY21, the infrastructure renewals programme could be reduced in year. A £0.7m reduction in FY23 ensures that the Moody's ICR is achieved. This can be fully recovered in FY26. Additional drawdown on the RCF in FY25 (£15m) ensures compliance with the Artesian ICR.	✓	✓	
SONIA + 150bps	Assumption that interest rates are 150bps higher than baseline assumptions. This reduces cash by £6.4m by the end of FY32 and causes the Moody's ICR to be failed in FY24 (1.44x), all of AMP8 (averaging at 1.32x) and FY30, FY31 and FY32 (averaging at 1.47x). The Artesian ICR is failed in FY27 (1.17x) and FY28 (1.39x).	Cost savings of £1.1m (AMP7), £12.3m (AMP8), £0.6m (AMP9), together with a combination of restricting dividends and additional Holdco debt amounting to £13m.	✓	✓	
Multiple ODI failures equal to 3% RoRE ODI penalty per annum	Based upon FY21 RoRE, a 3% penalty equates to £2m. This is assumed to apply from the middle of the next AMP (AMP8) and is assumed to continue in AMP9. The penalty is assumed to increase annually with CPIH. Such penalty every year causes Moody's ICR failures in FY29 and FY30 (1.43x and 1.39x respectively).	Cost reprofiling within years in AMP8, together with £5m of additional capital, arising from a combination of restricting dividends and additional Holdco debt.	✓	✓	
50bps reduction in WACC	Assumption that the WACC for AMP8/9 is 50bps lower than anticipated in the current model. This reduces EBITDA £2m-£3m per year from FY26 to FY32. The Artesian ICR is 1.24x in FY27, while the Moody's ICR is 1.41x, 1.48x, 1.40x and 1.36x in FY26, FY28, FY29 and FY30 respectively.	Cost reprofiling within AMP7, £3.45m cost saving over AMP8, of which £2m can be reprofiled to AMP9. £18.5m of additional capital, arising from a combination of restricting dividends and additional Holdco debt over AMP8.	✓	✓	
£5m pension deficit - caught up in increased annual contributions of £0.5m	Assumed pension deficit of £5m at the end of FY22, recovered through increased contributions of £0.5m (17/18 prices) per annum from FY23 to FY32. This causes the Artesian (1.43x) and Moody's (1.35x) ICRs to fail in FY27 and FY23 respectively.	Compliance with the ratios can be achieved through reprofiling £750k of cost from FY23 to FY25. A drawdown on the RCF of £2m in FY27 is required to deliver the Artesian ICR.	✓	✓	
2 Year Delay in HTWSR and 20% cost overruns	This scenario assumes that the HTWSR project is overspent by 20% (although risk sharing agreements with contractors mitigate this to 15% net impact to Portsmouth Water), together with a 2 year delay causing both dry and wet commissioning ODIs to be missed. This causes ODI penalties in 17/18 prices of £1.9m (in FY26) and £7.7m (FY30). In this scenario, the Moody's ICR is failed in FY26 and FY30 (1,25x and 0.72x respectively) due to the ODI penalty. The Artesian ICR is failed in FY23 (1.26x) and averages at 1.27x in AMP8.	Additional capital in the form of £24m of shareholder investment in AMP7, together with additional debt drawdown of £6m in AMP8 (Opco debt) and £13.7m capital, arising from a combination of restricting dividends and additional Holdco debt.		✓	✓
£1.5m cost shock in FY23	Assumed increase in costs of £1.5m in FY23 only. This causes the Artesian ICR to fail (1.21x) in the year. No impact in any other year.	A reduction in the infrastructure renewals programme of £1.5m in FY23, which can be recovered over the remainder of the AMP period (£0.5m in FY24, £1m in FY25).	✓		

Viability Statement

Individual Scenario	Impact (pre mitigation)	Mitigation	Opex	Borrowing	Capital
Combined scenario - Pension deficit, WACC reduction and loss of company premium	Assumed pension deficit of £5m at the end of FY22, recovered through increased contributions of £0.5m (17/18 prices) per annum from FY23 to FY32, together with a reduction in allowed Ofwat returns. This causes numerous instances of key ratios being failed- Moody's ICR in FY23 (1.29x) , FY24 (1.47x), FY26 (1.35x), FY28-FY30 (between 1.30x and 1.42x), Artesian in FY27 (1.17x).	This can be managed by cost reprofiling in AMP7 (allows for a net £0.9m increase in spend, bringing forward some AMP8 spend. £5m of cost saving over AMP8 of which £1.5m can be deferred into FY31 and FY32).	✓		
Combined scenario - Sonia plus ODI penalty	This scenario assumes that interest rates are 150bps higher than baseline assumptions together with ODI penalties at 3% of RoRE. This increase to interest charges puts strain on the key metrics, exacerbated by reduced EBITDA of £7.6m in AMP8, and a further £5.3m in FY31 and FY32. In this scenario the Artesian ICR is failed in FY27 (1.17x), FY28 (1.24x), 1.32x (FY29) and 1.38x (FY31). Moody's averages at 1.50x in AMP7, 1.23x in AMP8 and 1.33x in FY31 and FY32.	Cost savings of £1.5m in AMP7 and £6.7m in AMP8. Headroom in FY31 and FY32 means that an additional £2m of cost can be incurred, which could be deferred from AMP8. £8m of additional debt funding is also required.	✓	✓	

Corporate Responsibility Statement

Affordability
In recent years the UK has seen increasing levels of household debt and as we come through the pandemic, we see the rising cost of living presenting a major challenge in the coming years. Accordingly the Company pays close attention to how we support domestic customers who may be struggling to pay their water bill. Whilst at £103 our average bill is the lowest in the country, we 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 £77.76, for those customers whose household income, excluding certain benefits, is less than the Government's low income threshold of £17,005.

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 506 customers on this scheme with over 650 having completed it. We have found the Arrears Assist Scheme has been successful in encouraging customers to engage with us about payment of their water accounts. It also enables us to better understand our customers' financial situation and the hardships they are facing.

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

We also operate a scheme called Water Direct. 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 and 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

The Portsmouth Water Customer Charter has been enhanced beyond the regulatory GSS standards. This includes an increase in the compensation payment amounts.

Streamlined Energy and Carbon Reporting (SECR)
We as a business are still committed to managing our energy and carbon effectively not only because of the cost of the energy but also the impact we have on the environment.

We have already produced our high-level Net Zero plan and are constantly reviewing different ways we can reduce our impact on the environment as a business. Some of the steps include increasing our solar arrays on our operational sites and the move away from combustion engine transport. Our current 6 arrays produced over 287,193 kWh's of renewable energy which can be enough to power over 100 homes. We have also planned an additional 10 arrays which are in various stages of planning and construction. This is going to help us reach a self-supply of approximately 12% of our energy needs. We have purchased trial electric vehicles to test across all aspects of the business to find the best solutions required for the varied work that is undertaken.

Our gross carbon emissions for the year were 5,610 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.
- Purchase almost all of 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 energy 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.
- Designed our custom site audit templates for roll out in 2022/23.

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.

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 proactive seasonal messaging, 'gamification' of water saving challenges through our Get Water Fit website - which also supports local charities through donations - and also providing free water saving devices. In addition we work closely with schools and our education centre at Staunton Country Park 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
We work closely with our community and see local events such as fêtes and fayres as an excellent way to promote Portsmouth Water and engage with our customer base. During the year we attended the Portchester Gala, a regular event for us. Luckily the weather was good and we had a brilliant team of volunteers whose enthusiasm made us a very popular stall for the public to visit.

We also ran our water bottles for schools' scheme as normal. Having seen a decline in orders from 2020, we were pleased to see ordering up to its normal levels. We promote this scheme to schools to stress the importance of the health benefits of drinking water for younger children.

As one of the headline sponsors for a local Science, Technology, Engineering and Mathematics (STEM) Fair, we deliver an exciting and challenging activity for primary school children each year to encourage and inspire children in the STEM subjects. Our activity involves the children in putting together a replica of our distribution network using pipes to illustrate to them what happens below ground. The model also helps to illustrate the range of possible future careers in the water sector.

Corporate Responsibility Statement

kWh Energy Consumed

	2021/22	2020/21
Electricity	**24,184,104**	23,300,000
Natural gas	**634,864**	717,000
Gas oil	**124,464**	320,143
Transport	**857,089**	786,200
Total	**25,800,521**	25,126,343

Volume of Water (Ml/year)

	2021/22	2020/21
Total	**67,157**	67,700

tCO²e Emitted

	2021/22	2020/21
Scope 1	**502**	450
Scope 2 (LB)	**5,108**	5,430
Scope 3	**-**	-
Total	**5,610**	5,880

Intensity Ratio (tCO²e/Ml)

	2021/22	2020/21
Total	**0.083**	0.087

Gross Greenhouse gas emissions per million litres of water delivered

	Units	2021/22	2020/21	2019/20
Electricity used	MWh	**24,184**	23,300	23,022
Gross greenhouse gas emissions	tCO²e	**5,610**	5,880	5,884
Water delivered - Distribution input	Ml	**67,157**	67,700	62,362
Gross Greenhouse gas emissions per million litres of water delivered	KgCO²/Ml	**83**	87	94

Supporting Disability in the Workplace
The Company has adopted a policy which complies with the Disability Discrimination Act 1995. Full 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.

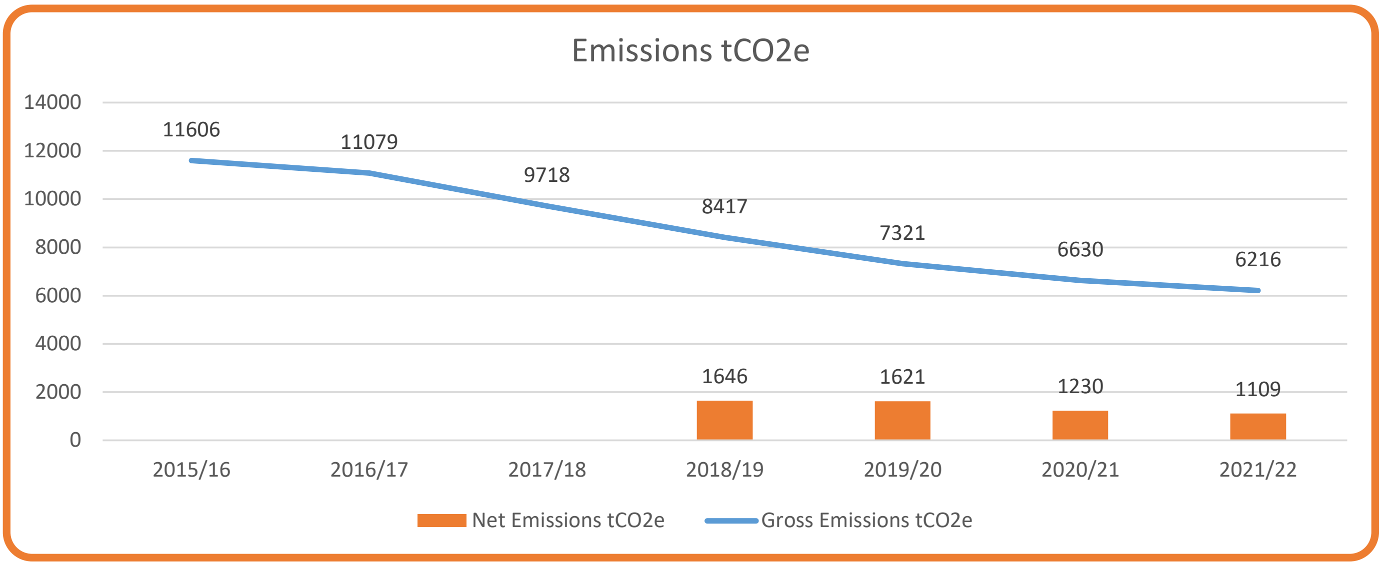
Community Partnership
The Portsmouth Water Community Partnership was launched in 2019. This programme sets out the commitments we have made to do the right thing for the communities that we serve. In 2020 Portsmouth Water took this partnership out to consultation to gain further views from the community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

Catchment Management
Our AMP7 WINEP Catchment Management programme has just finished its second 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 programme has included over 1000 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. We have also carried out a significant number of engagements with farmers, offering pollution prevention advice and providing 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 £1,300,000 for WaterAid. This funding is used by WaterAid to develop low cost water supply and sanitation infrastructure in developing countries.

Nature Conservation and 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 our forty four 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. We have just finished the second year of our Biodiversity Grant Scheme that provides £50,000 each year to organisations that want to create new or need to maintain or improve existing biodiversity projects. Examples of some

Corporate Responsibility Statement



projects include creation of dew ponds, restoration of a wetland and eradication of invasive non-native species on the River Itchen.

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 Notice is available on the Company's website and all employees undertake regular data protection training.

All data protection requests (e.g. Subject Access Requests) received were dealt with by the Data Protection Officer within the required timescales and no matters were escalated to the data protection governing body, the ICO.

Net Zero Carbon
The water industry has seen an increase in focus on producing plans and reports to show its commitment to Scope 1 and 2 Net Zero Carbon by 2030, although due to the intense use of energy within the UK water industry it has always been monitored and reported on an annual basis with businesses focussing on being as efficient as they can be.

We have so far produced our high-level plan of how we see our journey to Net Zero Carbon by 2030, although we are aware that this is a rapidly changing landscape and we will need to keep reviewing the changes to make sure we are obtaining the best path available utilising the most suitable technology and methods for achieving our goal.

We have already made a start with our plans and some of our existing projects backfill into our net zero journey, 'No Regrets'.

Solar Power Generation
We have embarked on a project to install additional solar assets on our existing sites to increase self-generation of green energy; the initial scope is for an additional 10 arrays which should push our self-generation to approximately 12% of our electricity usage.

New Head Office Building
We are planning to move to a new head office building by 2025. Although not triggered by our Net Zero Carbon commitment this project will help increase our business efficiencies and energy usage with the new more modern technology and building materials.

Electric Vehicles
We see electric vehicles as a logical transition from our existing fleet and we have purchased trial vehicles to make sure they are able to meet the varied business demands. Once our trial phase has been completed, we will be able to produce a roll out plan for all vehicles in the business.

Custom Site Audits
We have redesigned our custom site audit templates and documents to be rolled out in 2022/23 to make sure that we are keeping on top of our site energy use and making sure all opportunities of efficiency are noted and reported.

Technology Upgrades
As a business we are continuing to replace equipment to improve efficiency and resilience as required but as an aside we will also be able to utilise our automated control system to produce real time pump efficiency reports to allow us to make positive decisions on required pump schemes replacement.

Corporate Responsibility Statement

Governance

Christopher Deacon
Independent Chair

30 May 2022

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Chair'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 62 and 63 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 departure of Helen Orton, our previous Finance and Regulation Director and retirement of Mike Coffin, a Non-Executive Director. I should like to take this opportunity to thank both Helen and Mike for their service and contribution to the success of Portsmouth Water. I am pleased to confirm that Chris Milner joined us during the year as Chief Financial Officer and at the beginning of 2022 Dr. Lara Stoimenova joined as a Non-Executive Director. Lara will also Chair the Audit and Risk Committee and I'm sure both will prove to be huge assets for the business.

Board Evaluation

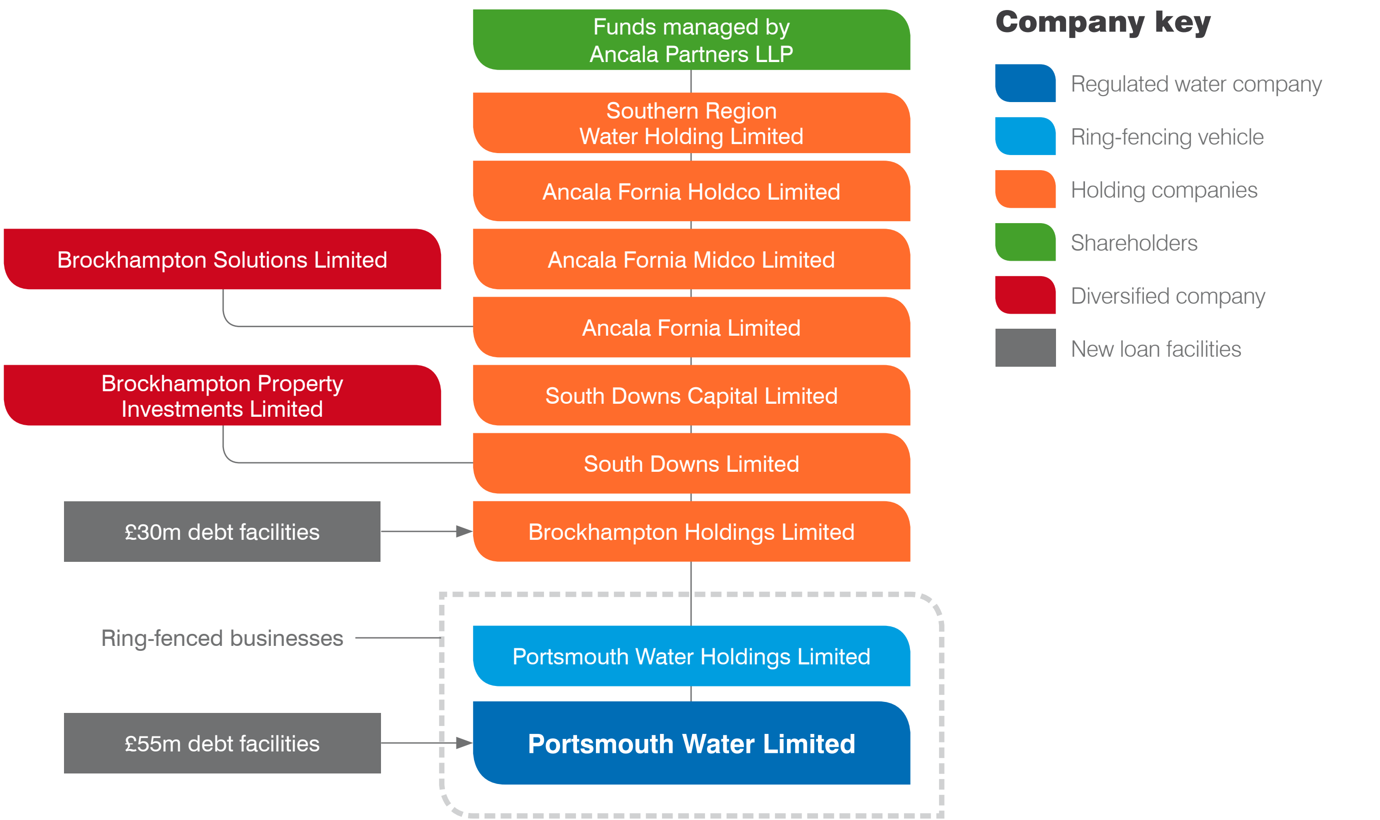
We undertook an external Board evaluation and review exercise in early 2021/22. The Board felt that this was particularly important given the recent Board membership changes, the ambitious agenda for change in the business and the strategic work planned in support of the business plan for PR24 and beyond. The actions from this review have been rolled out through the year and we have given more information about this throughout this Governance section.

Links

A copy of the FRC 2018 UK Corporate Governance Code can be found at:
https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.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/

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 2022 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).

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 £116.0m (2021 - £111.6m).

During the year changes were made to remove the sinking fund requirements of the loan to avoid the need to deposit significant cash sums over five years prior to 2032.

In 2020/21 the group 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

Appointed: 1 May 2020

Independent Chair

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 an Independent Director of the London Business School Trading Company Limited.

R A N

Angela Wilson

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.

A N R

Dr. Lara Stoimenova

Appointed: 17 January 2021

Independent Non-Executive Director

B.Sc., PhD., F.C.A., M.A.

Dr. Lara Stoimenova is a competition and regulatory policy expert with over 20 years of experience in public and private sectors. She has worked across a wide range of industries, including regulated sectors such as telecoms, post and digital. She is founder of Sigma Economics, advising firms on competition and regulatory issues. She is also an associate partner at DT Economics. Lara currently serves as an independent member on the Jersey Competition Regulatory Authority Board and is also Chair of its Audit and Risk Committee. She is also trustee at the Reform Think Tank. Before Sigma, Lara was a partner at Flint Global and co-head of its Competition and Regulatory practice. Prior to that, she held senior roles at the UK's Competition and Markets Authority (CMA) and the Office of Communication (Ofcom).

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

Board of Directors

EXECUTIVE DIRECTORS

N

Colin Robert Taylor

Appointed: 1 November 2018

Chief Executive Officer

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 of the Institute of Water.

John Christopher Milner

Appointed: 1 October 2021

Chief Financial Officer

ACMA CGMA

Chris is a Chartered Management Accountant with over 20 years' experience in utilities. He has comprehensive knowledge of the regulated UK Water Industry starting his finance career at United Utilities before moving to Severn Trent Water where held a number of senior roles within Strategy and Regulation. In 2016 he was a member of the team that established Water Plus Limited, the UK's largest Water Retailer. During his time at Water Plus he held the roles of Financial Controller and Interim Chief Financial Officer. He joined Portsmouth Water from a US private equity owned international luxury fashion group where he was in charge of global financial operations during a period of global restructuring.

SHAREHOLDER NOMINATED NON-EXECUTIVE DIRECTOR

N

Christopher Loughlin

Appointed: 1 April 2021

Investor Representative

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 Chair 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

Name of Director	Board Meeting (10)	Audit Meeting (3)	Nomination Meeting (7)	Remuneration Meeting (3)
Chair				
Christopher Deacon	10/10	-	7/7	3/3
Independent Non-Executive Directors				
Mike Coffin (Resigned December 2021)	7/8	2/2	7/7	2/2
Angela Wilson	10/10	3/3	7/7	3/3
Dr. Lara Stoimenova (Appointed January 2022)	2/2	1/1	-	1/1
Executive Directors				
Helen Orton (Resigned September 2021)	4/4	-	-	-
Bob Taylor	10/10	-	7/7	-
Christopher Milner (Appointed October 2021)	5/5	-	-	-
Investment Director				
Christopher Loughlin	8/10	-	7/7	3/3

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 62 and 63 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 41 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.

In preparation of the development of the regulatory Business Plan for PR24 the Board has been undertaking an extensive review of the Company's Purpose, Values and Strategy in partnership with the new Senior Executive Team in the Company. As this progresses it is being shared with the wider business before being shared with the wider stakeholder group.

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. In addition Mrs. Wilson is supporting Elevate, the newly formed Women's Network in the Company as well as mentoring the Future Innovators Board which comprises solely of aspiring young employees. They are currently promoting an enhancement of the Company's inclusion and diversity activities.

The Board have also agreed a new People Strategy to be introduced in 2022 which will see an additional emphasis on providing a positive working environment that provides opportunities and will facilitate and support staff development. This will include additional training and encourage our people at all levels to be innovative, work smarter, more efficiently and have the appropriate expertise, skills and values. We are committed to all our staff reaching their full potential.

Board of Directors

How the Board Operates

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.

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 and risk, 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 Chair, 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.

Chair and CEO

The roles of Chair and CEO are separate with a clear division of responsibilities between them. The Chair 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 54 to 72 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. During the year the Board agreed that the Havant Thicket Project and also the preparation for PR24 were such significant projects that they should have their own designated Board Sub-Committee. This ensures clear Terms and Governance to ensure the highest standards are maintained as these topics progress.

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 PRINCIPLES
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.

Board of Directors

There have been a significant number of changes in the Board composition in the last two years 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 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.

The appointment of Dr. Lara Stoimenova, with strong experience of the regulatory environments and the recent appointments of Christopher Deacon as Chair, for his detailed infrastructure experience and Angela Wilson for her stakeholder engagement expertise, 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.

In early 2021/22 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, both of which have developed over the past year:
- 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.

The work completed during the year included:
- Review full Company Purpose, Vision and Values in preparation for developing the strategy for PR24;
- A full review of Risk Management at Board level and renaming the Audit Committee the Audit and Risk Committee and increasing the prominence of Risk Activities in that Sub Committee;
- Improved transparency and communications between the Board, senior leadership team and employees;
- Introducing a new People Strategy to develop cultural change and deliver business change;
- The introduction of new sub committees including for Havant Thicket and PR24.

The Board continues to strive for diversity across the Company and is proud of the graduate, apprenticeship and leadership programme within the business; this helps 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 and 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. During the year this was undertaken by Christopher Loughlin. 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.

Board of Directors

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 our Customer Scrutiny Panel. The Board reviewed extensive stakeholder engagement as part of the PR19 process, as it will for PR24, 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 Chair of the Audit and Risk Committee. As restrictions are relaxed as the country starts to live with COVID-19, the Board have started to reconvene in-person Board Meetings and this has allowed them to meet employees on site. The Board meetings are often preceded by meetings with senior managers and followed by visits to, and demonstrations by, departments around the business. Some Board meetings are scheduled to be held at operational locations away from the Head Office and these are accompanied by site visits. It is normal practice for senior members of staff to present papers at Board meetings; in addition, external guests attend by invitation.

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 2022 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.

During the year the Board discussed how they should consider Risk Management at Board level. They have decided that the Audit Committee should take an active role in the matter and it has been renamed the Audit and Risk Committee. This committee will, at each meeting, review the key risks in the business, and their mitigations and will also consider increasing or emerging risks. They will also understand and continuously review the risk management strategy in the Company.

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.	During the year and as preparation for PR24, we undertook work to update the Company Purpose. This is set out in more detail on page 10. In parallel to this we also formalised our commitments to the communities that we serve through our Community Partnership. This has been carried out with the senior leadership team, and involves a 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 and 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. During 2022 we are introducing a new People Strategy which will 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 of Directors

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 55 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 31 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 58.
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 66 to 72, 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 59 and 65. 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 65.
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 59.
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 an annual performance evaluation and has set this out under "Board of Directors" on page 60. The Board has also updated its skills matrix and has been mindful of the appropriate balance of skills and experience in making new appointments. The actions arising from the Governance Review after the previous Board Evaluation are detailed throughout this Governance section.
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 65.
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 65. 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 pages 56 and 57 and in the sections covering the Audit, Nomination and Remuneration Committees.

Audit and Risk Committee

Dr. Lara Stoimenova
Chair of Audit and Risk Committee

30 May 2022

Audit and Risk Committee Members

Dr. Lara Stoimenova (Chair)
Appointed January 2022
Angela Wilson
Mike Coffin *Resigned December 2021*

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 and Risk Committee Chair

Lara Stoimenova commenced her role as Chair of the Audit and Risk Committee on 1 January 2022, taking over from Mike Coffin.

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 and Risk 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.

During the year the Board agreed that the Committee should take an increased focus on Risk Management within the business and the Committee was formally renamed the Audit and Risk Committee.

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
- 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 2022/23 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.

A review was completed of the Auditors effectiveness and performance, and the output, quality and cost of the audit. The review of the Auditor's independence and objectivity was initially carried out as part of the Audit Tender in 2020 and is monitored throughout the year. The current Auditors have been in tenure for five 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 major recommendations were made.

Annual Report and Accounts

The Audit and Risk 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 Chair

30 May 2022

Nomination Committee Members

Christopher Deacon (Chair)
Mike Coffin *Resigned December 2021*
Angela Wilson
Bob Taylor
Christopher Loughlin
Dr. Lara Stoimenova
Appointed January 2022

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 seven times during the year to consider two vacancies left by resigning directors and four senior Executives. During those discussions the Committee considered the mix of skills around the Board table and within the Executive Team, considered potential routes to finding appropriate candidates, and finally made a recommendation on the replacements.

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 each case. The appointment processes for directors included a meeting of the final candidate with the Ofwat Chair ahead of their appointment.

Board composition*

Executive 33%

Non-Executive 50%

Investor Appointed Non-Executive 17%

Male 67%

Female 33%

Age 40-49 17%

Age 50-59 17%

Age 60-69 50%

Age 70+ 17%

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

Remuneration Committee

Angela Wilson
Chair of Remuneration Committee

30 May 2022

Remuneration Committee Members

Angela Wilson (Chair)
Mike Coffin *Resigned December 2021*
Christopher Deacon
Dr. Lara Stoimenova
Appointed January 2022

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 lowest price 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.

In 2020 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 (2021/22)
- Determining performance targets in respect of 2022/23 annual incentive bonus plan
- Assessment of the annual incentive scheme for the Company's senior leadership team
- Continued 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 of 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.

Mr. J. C. Milner currently has no other Directorships.

The Chair 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 made in respect of Executive Directors are paid to an appropriate defined contribution pension scheme. Effective February 2022, Mr. C. R. Taylor now receives his employers pension contribution as salary.	10% of salary into a defined contributions scheme, or equivalent amount paid as salary.	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 (66.6%) 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 is 60% (CEO) / 30% (CFO) of base salary of which two thirds is payable during the first half of the following financial year and one third is payable at the end of the AMP period (see Long-term incentive scheme (Variable Pay) (1) 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) - "LTIP1" To incentivise Executive Directors to deliver sustained long-term performance	Long term bonus awards to Executive Directors calculated on an annual basis and paid out at the end of the Asset Management Plan ("AMP") (the five year period ending 31 March 2025), subject to the achievement of performance conditions.	20% (CEO) / 10% (CFO) of salary per year paid at the end of year five.	The incentive targets are as set out for the Annual Bonus award. A discretionary 25% uplift is determined by successful outcome at PR24.
Long-term incentive scheme (Variable Pay) (2) - "LTIP2" 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 AMP period. Annual assessment of likely performance conducted, with a provision for one fifth 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 period, together with 30% of non regulated EBITDA in excess of £4.75m target for the AMP period. 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 CFO respectively.	Totex and EBITDA from the non regulated business.
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

Remuneration Committee

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. There is a separate bonus scheme associated with property sales for the Chief Executive Officer and Chief Financial Officer there were no property sales with Portsmouth Water Limited during 2021/22.

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 (%)			
Chief Executive Officer	60%	40%	20%
Chief Financial Officer / Commercial Director	30%	20%	10%
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 and 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, two thirds will be paid during the first half of the following financial year, and the remaining one third 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%	Achievement of the 10 stretching performance measures (See Service metric targets table below with further information on targets).	10 measures met 8 measures met 6-7 measures met <6 measures	100% 75% 50% 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 Capex Cash flow	up to 40% up to 40% up to 20%
Personal objectives	20%	6.7%	Personal objectives (approved by the Remuneration Committee) linked directly to strategic business objectives.	Full or substantial Partial Some progress Incomplete	100% 75% 50% 0%
Total	**60%**	**20%**			

Service metric targets	Ofwat AMP7 Target	Company AMP7 Target	2021/22 spot target
Compliance Risk Index	0	< 2.0 reducing to < 1.5 in year 3	< 2.0
Interruptions	6 mins 30 to 5 mins over AMP7	4 mins to 3 mins over AMP7	3 mins 32 secs per property
Leakage	15.2% reduction over AMP7	15.2% by year 2022/23	6.2% reduction in the year
PCC	6.3% reduction over AMP7	3.6% reduction over AMP7	2.5% reduction in the year
Mains repairs	73.8 repairs reducing to 68.6 over AMP7	68.3 repairs reducing to 67.3	72.4 repairs per 1,000km
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	3.7%
Severe Drought	84% reducing to 32% over AMP7	84% reducing to 32% over AMP7	80%

Remuneration Committee

Financial objectives	Target
EBITDA (before exceptional items)	£15.2m
Capex - programme	£20.9m
Capex - efficiency	5%
Cash generated from operations - half year	Greater than £6.4m
Cash generated from operations - full year	Greater than £13.3m

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 2022 £000**	Total 2021 £000
Executive:						
C. R. Taylor	198	8	81	16	**303**	292
J. C. Milner (Appointed October 2021)	67	10	14	7	**98**	-
H. M. G. Orton (Resigned September 2021)	66	7	-	18	**91**	225
Non-Executive:						
C. Deacon	47	-	-	-	**47**	42
A. Wilson	27	-	-	-	**27**	20
Dr. L. Stoimenova (Appointed January 2021)	7	-	-	-	**7**	-
M. Coffin (Resigned December 2021)	20	-	-	-	**20**	27
	432	25	95	41	**593**	606

The Investor Director, Mr. C. Loughlin is not remunerated by Portsmouth Water Ltd as his primary employer is Ancala Partners LLP.

Mrs. H. M. G. Orton and Mr. M. Coffin resigned in 2021. Dr. L. Stoimenova was appointed in 2022 and Mr. J. C. Milner in 2021.

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

Other payments to Directors
An amount of £122,566 was paid in September 2021 to Mrs. H. M. G. Orton, a former Director, relating to her service and previous accrued bonus.

Taxable benefits
Benefits comprise company car (taken in cash and as a benefit in kind), medical insurance and relocation expenses.

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

	2022 £000	2021 £000
Car benefit	**15**	17
Medical insurance	**3**	5
Other	**7**	-
Total	**25**	22

Performance related award schemes (Annual bonus (Variable pay) and LTIP1)
As explained above the remuneration package of the Executive Directors, as reported in the notes to the financial statements, 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 and 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.

Remuneration Committee

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.

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

	Weighting (%)	% of targets achieved	% of bonus provision earned	Weighted % bonus earned
Service objectives		80 (8/10 ODIs)	75	
Financial objectives:				
EBITDA (before exceptional items)	40	95	100	40
Capex - programme	20	56	-	-
Capex - efficiency	20	74	90	18
Cash generated from operations	20	-	-	-
				58
Personal objectives:				
J. C. Milner (Appointed October 2021)		75	75	
C. R. Taylor		75	75	

Accordingly, the following performance related awards were made in respect of the current financial period.

Performance related bonus achieved 2021/22:

	% of base salary achievable	% of base salary	Bonus £
J. C. Milner (Appointed October 2021)	30.0	20.8	13,520
C. R. Taylor	60.0	41.6	81,120

Annual bonus (Variable pay)

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

	Service Objectives %	Financial Objectives %	Personal Objectives %	Total %
J. C. Milner (Appointed October 2021)	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 %
J. C. Milner (Appointed October 2021)	6.7	6.7	6.7	20
C. R. Taylor	13.3	13.3	13.3	40

Summary of Directors' performance targets and maximum Annual bonus (Variable pay) achievable:

	Target %	Service Objectives £	Target %	Financial Objectives £	Target %	Personal Objectives £	Maximum Annual bonus (Variable pay) £
J. C. Milner (Appointed October 2021)	6.7	4,333	6.7	4,333	6.7	4,333	13,000
C. R. Taylor	13.3	26,000	13.3	26,000	13.3	26,000	78,000

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

	Achieved %	Service Objectives £	Achieved %	Financial Objectives £	Achieved %	Personal Objectives £	Annual bonus (Variable pay) Achieved £
J. C. Milner (Appointed October 2021)	5.0	3,250	3.9	2,513	5.0	3,250	9,013
C. R. Taylor	10.0	19,500	7.7	15,080	13.3	26,000	54,080

Remuneration Committee

Long term incentive scheme 1 (LTIP1)

The maximum percentages of salary payable under the LTIP1 scheme were as follows:

	Service Objectives %	Financial Objectives %	Personal Objectives %	Total per annum %	5 Year Total %
J. C. Milner (Appointed October 2021)	3.3	3.3	3.3	10	50
C. R. Taylor	6.6	6.6	6.6	20	100

Summary of Directors' performance targets and maximum LTIP1 (Variable pay) achievable:

	Target %	Service Objectives £	Target %	Financial Objectives £	Target %	Personal Objectives £	Maximum LTIP1 (Variable pay) £
J. C. Milner (Appointed October 2021)	3.3	2,167	3.3	2,167	3.3	2,167	6,500
C. R. Taylor	6.6	13,000	6.6	13,000	6.6	13,000	39,000

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

	Achieved %	Service Objectives £	Achieved %	Financial Objectives £	Achieved %	Personal Objectives £	LTIP1 (Variable pay) Achieved £
J. C. Milner (Appointed October 2021)	2.5	1,625	1.9	1,257	2.5	1,625	4,507
C. R. Taylor	5.0	9,750	3.9	7,540	5.0	9,750	27,040

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 (LTIP2)

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.

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

The projected bonus is set out below.

	Maximum %	Projected 5 Year Bonus £	LTIP2 - earned in year £
J. C. Milner (Appointed October 2021)	25[1]	6,930[2]	990
C. R. Taylor	50	19,800	3,960

[1] Note, the remaining 25% bonus is payable to a member of the Senior Leadership Team.
[2] Note, J. C. Milner bonus pro-rated for length of service.

Long term incentive scheme 3 (LTIP3)

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.

Summary of total bonus earned in year

	Annual bonus (Variable pay) achieved £	LTIP1 (Variable pay) achieved £	LTIP2 earned in year £	Total bonus earned in year £
J. C. Milner (Appointed October 2021)	9,013	4,507	990	14,510
C. R. Taylor	54,080	27,040	3,960	85,080

Remuneration Committee

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.

Mr. J. C. Milner (previously Mrs. H. M. G. Orton) and Mr. C. R. Taylor are all 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.

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:	2017	2018	2019	2020	2021	**2022**
Total remuneration excluding pension (£000)	161	164	167	240	275	**287**

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]	13.3%	3.4%
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:	**2022**	2021
25th percentile	**1 : 6.31**	1 : 6.93
50th percentile	**1 : 8.61**	1 : 9.06
75th percentile	**1 : 11.48**	1 : 11.79

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 30 May 2022 and will be subject to shareholder approval at the Annual General Meeting to be held on Wednesday 27 July 2022.

Angela Wilson

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 2022.

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 Chair's Statement on pages 6 to 9 and the Strategic Report on pages 10 to 53.

The Company's Area of Supply is shown on page 3 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 44 and 45.

Financial Results and Dividends
The Company's (loss)/profit before taxation amounts to £(5.0)m (2021 - £2.7m). After deducting the tax charge of £1.2m (2021 - £0.7m), a (loss)/profit of £(6.2)m has been transferred to reserves (2021 - £2.0m).

The Directors have proposed a final dividend in respect of the year ended 31 March 2022 of £3.397m (final dividend in respect of the year ended 31 March 2021 - £3.439m).

Fixed Assets
Capital expenditure on tangible fixed assets was £16.8m (2021 - £17.0m). 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.

Exceptional items
An exceptional item of £4.5m has been declared for the fees associated with the restructuring of the index linked funding. These costs have been presented as exceptional in the accounts on the basis that these fees are material, non-recurring, outside the normal course of our business and do not give rise to a financial asset/liability through an amended term or interest on the facility.

Share Capital
There were no changes to the company's share capital during the year and the details of the current issued capital can be found in note 23 on page 98.

Board of Directors
The Directors who held office at the date of signing of these financial statements are shown on pages 56 and 57.

Dr. L. Stoimenova was appointed to the Board as a Non-Executive Director on 9 January 2022.
Mr. J. C. Milner was appointed to the Board as Chief Financial Officer on 1 October 2021.
Mrs. H. M. G. Orton resigned as a Director on 30 September 2021.
Mr. M. R. Coffin resigned as a Director on 31 December 2021.

Mr. C. Deacon, Mrs. A. Wilson, Mr. C. R. Taylor and Mr. C. Loughlin, who retire by rotation, offer themselves for re-election. Dr. L. Stoimenova and Mr. J. C. Milner offer themselves for election.

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

The Company maintains appropriate Directors' indemnity insurance.

Substantial Shareholder
At 31 March 2022, Portsmouth Water Holdings Limited owned the entire voting capital of the Company.

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

Employees
Direct communication with employees is maintained through the Company in-house newsletter. In addition, the Joint Information and Consultative Committee met regularly and ensured effective communication with employee representatives. The executive Directors review the minutes from the meetings.

Directors' Report

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's policy regarding the employment of disabled persons is included on page 51.

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 10 to 53. The total amount of gross Greenhouse Gas Emissions that resulted from the Company's operations in the financial year is estimated to be 5,108 tCO^2e (2021 - 5,430 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 Annual Report, the Strategic Report, the Directors' Report and the Financial Statements
The directors are responsible for preparing the Annual Report, the Strategic Report and 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
30 May 2022

The River Itchen

Company Information

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www.portsmouthwater.co.uk

Company Number: 2536455

Company Secretary: Christopher Hardyman ACIS

Registered Address of the Ultimate Holding Company

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Sai Ying Pun
Hong Kong

Company Information

Auditor

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Banker

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Insurance Broker

Willis Watson Towers
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34 Bridge Street
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Independent Auditor's Report to the Members of Portsmouth Water Limited

Opinion
We have audited the financial statements of Portsmouth Water Limited ("the Company") for the year ended 31 March 2022 which comprise the Income Statement, Statement of Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, 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 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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
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 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 and Risk Committee minutes.
- Considering 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 to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement related to 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 related companies legislation), distributable profits legislation, taxation legislation and 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

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

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 74, 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

31 May 2022

Income Statement

For the year ended 31 March 2022

	notes	**2022 £000**	2021 £000
Turnover	3	**42,670**	41,957
Cost of sales		**(25,864)**	(23,214)
Gross profit		**16,806**	18,743
Net operating expenses	4,5	**(8,316)**	(10,866)
Operating profit before loss on disposal of fixed assets and exceptional items		**8,490**	7,877
Loss on disposal of fixed assets	6	**(62)**	(13)
Exceptional items - Financing restructure fees	19	**(4,519)**	-
- Exceptional bad debt provision	16	**-**	(91)
Operating profit after loss on disposal of fixed assets and exceptional items and before interest		**3,909**	7,773
Investment income	7	**686**	803
Other finance income	25	**448**	479
Interest payable and similar charges	8	**(10,073)**	(6,308)
Profit/(loss) on ordinary activities before tax	6	**(5,030)**	2,747
Taxation on profit/(loss) on ordinary activities	9	**(1,186)**	(717)
Profit/(loss) for the financial year		**(6,216)**	2,030

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

Statement of Other Comprehensive Income

For the year ended 31 March 2022

	notes	**2022** **£000**	2021 £000
Profit/(loss) for the financial year		**(6,216)**	2,030
Remeasurement of net defined benefit asset	25	**(7,174)**	1,976
Gain/(loss) on deferred tax relating to pension asset	21	**489**	(376)
Total comprehensive profit/(loss) for the year		**(12,901)**	3,630

The accompanying notes form part of these financial statements.

Statement of Financial Position

For the year ended 31 March 2022

	notes	2022 £000	2022 £000	2021 £000	2021 £000
Fixed assets					
Intangible fixed assets	11	**1,575**		1,212	
Investment properties	12	**325**		325	
Tangible fixed assets	13	**172,394**		161,382	
Investments	14	**55,484**		55,484	
			229,778		218,403
Current assets					
Investments	15	**2**		2	
Stock		**575**		446	
Debtors	16	**11,296**		9,036	
Cash at bank and in hand	17	**25,694**		28,377	
		37,567		37,861	
Creditors: Amounts falling due within one year	18	**(37,323)**		(22,082)	
Net current assets			**244**		15,779
Total assets less current liabilities			**230,022**		234,182
Creditors: Amounts falling due after more than one year	19		**(148,155)**		(142,409)
Accruals and deferred income: Capital contributions	20		**(34,737)**		(34,545)
Provisions for liabilities	21		**(9,834)**		(8,529)
Net assets excluding pension asset			**37,296**		48,699
Pension asset	25		**10,996**		17,609
Net assets including pension asset			**48,292**		66,308
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			**34,582**		52,598
Shareholder' funds			**48,292**		66,308

The accompanying notes form part of these financial statements.

The accounts were authorised for issue and approved by the Board on 30 May 2022 and signed on its behalf by

J. C. Milner
Director

Company Number: 2536455

Statement of Changes in Equity

For the year ended 31 March 2022

	Called up share capital £000	Share Premium account £000	Capital redemption reserve £000	Retained earnings £000	Total £000
Balance as at 1 April 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 income 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
Loss for the year	-	-	-	(6,216)	(6,216)
Remeasurement of net defined benefit asset	-	-	-	(7,174)	(7,174)
Movement on deferred tax relating to pension scheme	-	-	-	489	489
Total comprehensive loss for the year	-	-	-	(12,901)	(12,901)
Dividends	-	-	-	(5,115)	(5,115)
Balance at 31 March 2022	1,078	9,382	3,250	34,582	48,292

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.

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

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the year ended 31 March 2022

	notes	2022 £000	2022 £000	2021 £000	2021 £000
Cash generated from operations	24		**10,654**		7,764
UK corporation tax refund		**-**		-	
Net cash inflow from operating activities			**10,654**		7,764
Cash flows from investing activities					
Purchase of tangible assets		**(16,661)**		(18,295)	
Purchase of intangible fixed assets		**(981)**		(705)	
Capital contributions received		**865**		1,016	
Sale of tangible fixed assets		**3**		8	
Interest received		**240**		1,103	
Net cash used in investing activities			**(16,534)**		(16,873)
Cash flows from financing activities					
Receipts from borrowings		**23,500**		9,500	
Repayment of borrowings		**(10,500)**		(20,500)	
Drawdown on subordinated liabilities		**-**		24,623	
Equity dividends paid		**(5,115)**		(1,103)	
Interest paid		**(4,688)**		(4,371)	
Net cash generated/(used in) financing activities			**3,197**		8,149
Net (decrease)/increase in cash and cash equivalents			**(2,683)**		(960)
Cash and cash equivalents at beginning of year			**28,377**		29,337
Cash and cash equivalents at end of year	17		**25,694**		28,377

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 March 2022

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 and loan facilities 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.

The Directors have prepared and reviewed a number of scenarios around HTWSR, including not progressing with the project. To this, specific core business downsides have been considered including the risk of another period of lockdown due to COVID-19, customer debt problems arising from the cost of living crisis, cyberattack and water quality events, together with cost inflation on a number of key inputs including chemicals to reflect market pressures. Our base case forecast assumes that the Company operates in line with its Business Plan assumptions with the required AMP7 financing already in place since March 2021. Scenarios have been assessed for increased cost to the HTWSR scheme with the assumption that reasonably likely increases in costs would be supported by Ofwat through the cost adjustment mechanism and Ancala would provide capital support through additional equity. The scenario of not progressing with the project has been included to reflect a scenario where the company is unable to agree the outcome of the cost adjustment mechanism included with the PR19 Final Determination with Ofwat. While this is not considered to be reasonably likely it has been included to demonstrate that even in this extreme scenario going concern can be demonstrated.

In the Directors' opinions a combination of events listed above 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 available financing facilities, reduction in infrastructure renewals, leakage detection and repair activities and recruitment delays.

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.

Notes to the Financial Statements

For the year ended 31 March 2022

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.

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:

Notes to the Financial Statements

For the year ended 31 March 2022

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.

Notes to the Financial Statements
For the year ended 31 March 2022

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 pages 32 and 33 '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 Limited 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 £77.26m (2021 - £84.76m) 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 liability 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;

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

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

If the useful economic life of mains were to be extended by a further 10 years, this would generate a £268k 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 £2,650k.

Notes to the Financial Statements

For the year ended 31 March 2022

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 increases, 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 £2.1m.
- An increase in the CPI inflation rate of 0.1% per annum would increase the defined benefit obligation by around £1.8m.
- A 5% fall in performance asset values would reduce the balance sheet asset by around £3.5m.
- Sensitivity in the mortality assumption: - A one year increase in life expectancies would increase the defined benefit obligation by around £5m.

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 £20.2m 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 is at a critical stage of the procurement process and bid submissions are being evaluated in conjunction with Ofwat and Southern Water. A cost adjustment mechanism has been included as part of the regulatory determination recognising that the determination was set at an early stage of the programme development. The cost adjustment mechanism provides a mechanism to mitigate adverse cost implications arising as a result of the planning and procurement process.

3. Turnover	**2022** **£000**	2021 £000
Unmeasured household supplies	**19,988**	20,185
Measured household supplies	**11,110**	11,000
Non-household supplies	**8,099**	7,173
Bulk supply	**462**	453
Amortisation of developer contributions (note 20)	**672**	723
Chargeable work	**2,183**	2,263
Deferred meter reading revenue	**156**	160
	42,670	41,957

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	**2022** **£000**	2021 £000
Administrative expenses	**8,764**	11,303
Other operating income	**(448)**	(437)
	8,316	10,866

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

Notes to the Financial Statements

For the year ended 31 March 2022

5. Directors and employees

	2022 £000	2021 £000
Employment costs:		
Wages and salaries	**9,408**	8,804
Social security costs	**906**	886
Defined benefit pension costs (note 25)	**1,651**	1,351
Defined contribution pension costs (note 25)	**436**	372
	12,401	11,413
Costs transferred to capital schemes	**(2,685)**	(1,109)
Ordinary net employment costs charged to the income statement	**9,716**	10,304

Average numbers employed during year:	2022 Number	2021 Number	2020 Number
Operations	**136**	138	149
Administration	**118**	113	115
	254	251	264

	Highest Paid Director 2022 £000	Highest Paid Director 2021 £000	Total Directors Remuneration 2022 £000	Total Directors Remuneration 2021 £000
Total remuneration	**287**	275	**451**	488
Pension scheme benefit	**16**	17	**41**	32
	303	292	**492**	520

2 Directors (2021 - 2) are accruing benefits under a defined contribution pension scheme. No benefits are accruing to Directors under defined benefit pension schemes.

During the year, an amount of £122,566 was paid to Mrs. H. M. G. Orton relating to her service and previous accrued bonus.

Further details relating to Directors' remuneration are set out in the Report on Remuneration on pages 66 to 72. 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

	2022 £000	2021 £000
Loss on ordinary activities is stated after charging:		
Depreciation - infrastructure assets	**1,182**	1,153
- non infrastructure assets	**4,553**	4,658
Amortisation of intangible assets	**255**	429
Loss/(gain) on disposal of fixed assets	**62**	13
Rates	**2,422**	2,422
Water abstraction charges	**1,322**	1,322
Hire of plant and machinery	**13**	1
Operating lease charges	**-**	-
Auditors' remuneration:		
Fees payable to the Company's current auditor for the audit of the Company's annual accounts	**70**	79
Fees payable to the Company's current auditor for other services:		
Audit related assurance services - Annual Performance Review	**43**	52
Taxation compliance services	**16**	22
Other non-audit services (including advice for refinancing)	**35**	-
Fees in respect of Portsmouth Water Holdings Limited - Audit and Tax	**7**	8
Fees in respect of the Brockhampton Pension Scheme: Audit*	**15**	11
Fees relating to previous audit	**-**	33

*Not paid by the Company

Notes to the Financial Statements

For the year ended 31 March 2022

7. Investment income	2022 £000	2021 £000
On loan from group company	**686**	803
Other interest receivable	**-**	-
	686	803

8. Interest payable and similar charges	2022 £000	2021 £000
Artesian loan:		
Interest	**4,161**	4,051
Indexation	**4,311**	1,793
Amortisation of fees	**57**	57
Administration fees	**89**	111
Revolving loan facility:		
Interest	**331**	-
Amortisation of fees	**297**	27
Intercompany loan:		
Interest	**690**	61
Revolving credit facility	**123**	194
Debenture stock	**10**	14
Other interest payable	**4**	-
	10,073	6,308

For information, the indexation is based on RPI. (July 2021 - 305.5 and July 2020 - 294.2).

9. Taxation	2022 £000	2021 £000
Current tax		
United Kingdom corporation tax at 19% (2021 - 19%)	**-**	175
Adjustment in respect of prior periods	**(143)**	-
	(143)	175
Deferred tax		
Origination and reversal of timing differences	**(2,637)**	535
Adjustment in respect of prior periods	**(24)**	7
Effect of tax rate change on opening balance	**3,990**	-
	1,329	542
Tax on profit on ordinary activities	**1,186**	717
Factors affecting the tax charge for the year		
(Loss)/profit on ordinary activities before tax	**(5,030)**	2,747
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021 - 19%)	**(956)**	522
Effect of:		
Depreciation on assets not qualifying for capital allowances	**(57)**	188
Effect of change in tax rate	**3,240**	-
Other tax adjustments	**(874)**	-
Prior year adjustment - current tax	**(143)**	-
Prior year adjustment - deferred tax	**(24)**	7
Total tax charge for year	**1,186**	717

Current Tax - United Kingdom corporation tax at 19% (2021 - 19%)
Due to the company's trading losses, no current tax charges have been incurred for the year (2021 - £175k). The adjustment in respect of prior periods arose from the alignment of the group loss position.

Deferred Tax
Total deferred tax charged to the income statement was £1,329k (2021 - £542k), driven by the effect of the change in the corporation tax rate from 19% to 25% for future years.

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 £13.6m (2021 - £9.6m). Offset against this is the deferred tax benefit of other timing differences – these primarily relate to unutilised tax losses. A deferred tax asset of £3.8m (2021 - £1.1m) 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 £9.8m (2021 - £8.5m).

Notes to the Financial Statements

For the year ended 31 March 2022

A deferred tax liability of £3.7m (2021 - £4.1m) 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.

The UK Finance Bill 2021 was published on 11 March 2021 and substantively enacted on 24 May 2021. The bill provides for an increase in the rate of corporation tax from 19% to 25% with effect from 1 April 2023.

The closing UK deferred tax asset as at 31 March 2022 has been calculated at the rates which will be in force when the assets and liabilities are expected to reverse.

10. Dividends	**2022 £000**	2021 £000
Equity: Ordinary		
Interim paid	**-**	559
Final paid	**5,115**	544
	5,115	1,103

Dividend policy is set to align with the 5-year business plan agreed with Ofwat. A new dividend policy was adopted in April 2020 in line with the proposal in our PR19 business plan submission. The policy was set in line with regulatory guidance in Ofwat's PR19 Final Methodology and the Draft Determination. The policy has been revised for financial year 2021/22 to reflect additional guidance provided in Ofwat's PR19 Final Determination to reflect a yield of 4% on regulated equity (vs 5% in the previous published dividend policy).

In assessing our dividend policy and our proposed dividend, the Board consider the following factors:

1. Achievements against performance commitments to customer and stakeholders over a rolling 3-year period. This includes:
   - 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 and safety, pensions.

2. Overall financial performance of the appointed and non-appointed business including performance against Totex allowances and other regulatory financial incentives.

3. Financeability tests on medium term liquidity and long-term financial viability testing to consider long-term financial resilience, including consideration of future capital requirements to supporting RCV growth and investment requirements.

4. Compliance with regulatory requirements in particular Licence Condition P and License Condition F.

   The dividend is calculated in two components:
   - A 4% return on the equity component of the Regulatory Capital Value (RCV) at the end of the financial period in line with the PR19 Final Determination guidance;
   - A "recirculating" dividend in relation to a legacy financing structure which is value-neutral where distributions are received back in intercompany interest receipts.

   The company will adjust the dividend payable for:
   - Interest payable in relation to holding company intercompany loans to ensure overall distributions to holding companies are maintained in line with PR19 dividend guidance;
   - Net financial penalties relating to in-period Outcome Delivery Incentives (following publication of Ofwat's final determination in November following the end of the financial year).

Dividends relating to financial year 2019/20 paid in year:
In relation to the year ended 31 March 2020 the Company declared a dividend of £3.930m in line with the dividend policy of 5% return on regulated equity, and a recirculating dividend to service intercompany debt.

Interim dividends of £2.254m were paid during 2019/20 but the final dividend was deferred due to the uncertainties associated with the COVID-19 pandemic in early 2020. A final dividend of £1.676m was paid in February 2022 after the Board were assured on national progress in relation to managing the pandemic, the Company's ongoing business performance and COVID-19 response, financial and cash flow headroom and the availability of mitigating actions. In reaching this decision, the Board also concluded that it was appropriate to first repay amounts received by the Company under furlough arrangements, totalling £220,000, before dividend payments were resumed.

Dividends relating to financial year 2020/21 paid in year:
As part of the Company's PR19 business plan submission a revised Dividend policy was adopted. This is centred upon a base dividend reflecting a 5% return on the average equity RCV for the year. The company declared a final dividend of £3.454m. The company paid a core dividend of £3.199m and a further £0.240m recirculating dividend in February 2022. The dividends paid were within Board approval. The core

Notes to the Financial Statements

For the year ended 31 March 2022

dividend was recalculated to reflect Ofwat's published RCV that was updated in June 2022 after the accounts were signed. As it was 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 did not choose to make any enhancement above the core dividend.

Proposed dividend for financial year 2021/22:
The dividend policy for financial year 2021/22 has been revised to reflect a change in Ofwat guidance with the PR19 Final Determination. The base dividend yield has been revised from 5% to 4% of regulated equity. The Directors are recommending a dividend of £2.711m and a recirculating dividend of £0.686m for the financial year 2021/22, to be paid in June 2022.

In making this recommendation, the Directors have carefully considered the relevant factors and believe a 4% dividend yield is appropriate. The company has delivered industry leading performance on customer service, leakage and supply interruptions over the last 3 years. Social tariff and vulnerable customer targets have been achieved and the company has maintained RoSPA gold award accreditation. Financial performance is in line with budget, all financial covenants have been met for the year and Totex expenditure is projected with the Final Determination allowances for the current price control. Regulatory gearing is within the threshold of the PR19 Ofwat Gearing Outperformance Sharing Incentive and AMP and RCV growth has been supported by additional capital support from our investors through equity and capital raised in 2020/21.

The Directors support two adjustments to the base dividend. The dividend proposal reflects an increase to base dividends of £0.530m (£0.473m 2017/18 prices) for in-period Outcome Delivery Incentive rewards earned in relation to financial year 2021/22 reflecting industry leading service performance. The dividend proposal also includes a reduction to base dividend of £0.690m in relation to intercompany interest payable. Interest relating to holding company intercompany loans is adjusted as part of our updated dividend policy to ensure total distributions to holding companies are in line with the PR19 guidance on yields.

Further disclosures supporting the dividend proposal have been provided in our Annual Performance Report.

11. Intangible fixed assets

	Software, consultancy and internal staff costs £000
Cost	
At 1 April 2021	4,047
Additions	618
Disposals	-
At 31 March 2022	4,665
Amortisation	
At 1 April 2021	2,835
Charge for year	255
Disposals	-
At 31 March 2022	3,090
Net book value	
At 31 March 2022	1,575
At 31 March 2021	1,212

Intangibles in the course of construction as at the 31 March 2022
Included in the above are assets in the course of construction as follows:

At 1 April 2021 (cost and net book value)	843
Additions in to WIP during the year	609
Transferred into completed intangible assets	(363)
At 31 March 2022 (cost and net book value)	1,089

12. Investment properties

	Investment properties £000
Valuation	
At 31 March 2021	325
At 31 March 2022	325

The historic cost of the investment properties at 31 March 2022 was £0.195m (2021 - £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.

Notes to the Financial Statements

For the year ended 31 March 2022

13. Tangible fixed assets

	Freehold land, buildings, and reservoirs £000	Mains £000	Pumping £000	Vehicles, mobile plant and office £000	Total £000
Cost					
At 1 April 2021	71,468	71,267	67,719	28,087	238,541
Additions	6,761	3,050	4,320	2,681	16,812
Disposals	-	(90)	-	(238)	(328)
At 31 March 2022	78,229	74,227	72,039	30,530	255,025
Depreciation					
At 1 April 2021	15,128	8,134	34,450	19,447	77,159
Charge for year	543	1,182	2,220	1,789	5,735
Disposals during year	-	(50)	-	(213)	(263)
At 31 March 2022	15,671	9,266	36,670	21,024	82,631
Net book value					
At 31 March 2022	62,558	64,961	35,369	9,505	172,394
At 31 March 2021	56,340	63,133	33,269	8,640	161,382

Assets in the course of construction

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

	Freehold land, buildings, and reservoirs £000	Mains £000	Pumping Plant £000	Vehicles, mobile plant and office equipment £000	Total £000
Cost					
At 1 April 2021	15,284	5,399	2,875	280	23,838
Transferred into completed fixed assets	(1,062)	(3,937)	(3,424)	(1,778)	(10,201)
Additions in to WIP during the year	6,841	3,340	4,481	1,676	16,338
At 31 March 2022	21,063	4,802	3,932	178	29,975
Depreciation					
At 1 April 2021	-	-	-	-	-
At 31 March 2022	-	-	-	-	-
Net book value					
At 31 March 2022	21,063	4,802	3,932	178	29,975
At 31 March 2021	15,284	5,399	2,875	280	23,838

Of the balance of assets in the course of construction, £20.2m (2021 - £14.3m) relates to Havant Thicket Winter Storage Reservoir.

14. Fixed asset investments

	Loans to Group undertakings £000
As at 31 March 2021 and 31 March 2022	55,484

Non-current asset investments represent a loan to the parent entity South Downs Limited. 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 2021 and 31 March 2022	2

16. Debtors

	2022 £000	2021 £000
Trade debtors	**4,099**	2,822
Amounts owed by Group companies	**2,071**	1,934
Prepayments	**866**	622
Accrued income	**3,206**	3,308
Other debtors	**1,054**	350
	11,296	9,036

All of the above amounts fall due within one year. As at 31 March 2022, trade debtors had a carrying value of £7.881m (2021 - £7.262m) 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 £3.782m as at 31 March 2022 (2021 - £4.440m) as noted further below.

Notes to the Financial Statements

For the year ended 31 March 2022

The ageing of these debtors was as follows:	2022 £000	2021 £000
Up to 12 Months	**5,042**	4,705
Over 12 Months	**2,839**	2,557
	7,881	7,262

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 £3,782k provision (2021 - £4,440k) £257k (2021 - £792k) relates to non-household debtors and £3,525k (2021 - £3,648k) relates to household debtors.

	2022 £000	2021 £000
At 1 April 2021	**4,440**	4,823
Provision for bad debt required in the year - charged to income statement	**138**	228
Provisions released in year	**(409)**	-
Debt written off in the year as uncollectable includes fully provided debt over 6 years old	**(387)**	(611)
At 31 March 2022	**3,782**	4,440

The other classes within debtors do not contain balances that may be irrecoverable. The maximum exposure to credit risk at the reporting date is the fair value of each class of debtor mentioned above. The Company does not hold any collateral as security for debt except in relation to non-household debt, where in accordance with 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	2022 £000	2021 £000
Cash at bank and in hand	**25,694**	28,377

Of the total amount shown of £25.694m (2021 - £28.377m), £2.209m (2021 - £2.049m) is held specifically for the payment of the next half yearly loan interest charges.

18. Creditors: amounts falling due within one year	2022 £000	2021 £000
Trade creditors	**6,755**	6,929
Payments received on account	**1,426**	1,697
Amounts owed to group companies	**2,711**	2,100
Accruals	**1,042**	1,029
Other creditors	**482**	460
Social security and other taxation	**384**	327
Bank facility	**17,500**	-
Less: deferred arrangement costs	**(356)**	-
3% Perpetual debenture stock	**-**	60
3½% Perpetual debenture stock	**-**	185
4% Perpetual debenture stock	**-**	38
Balance outstanding on revolving credit facility (note 22)	**-**	2,000
Accrued bank loan refinance fees (note 19)	**309**	-
Water rates paid by customers in advance	**7,070**	7,257
	37,323	22,082

19. Creditors: amounts falling due after more than one year	2022 £000	2021 £000
Bank loan	**116,556**	112,245
Accrued bank loan refinance fees	**2,830**	-
Bank facility	**5,000**	7,500
Less: deferred arrangement costs	**(1,137)**	(1,958)
3% Perpetual debenture stock	**60**	-
3½% Perpetual debenture stock	**185**	-
4% Perpetual debenture stock	**38**	-
Intra-group subordinated creditor	**24,623**	24,622
	148,155	142,409

Bank loan

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

Notes to the Financial Statements

For the year ended 31 March 2022

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 £0.596m (2021 - £0.653m).

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.

An exceptional item of £4.5m has been declared for the fees associated with the restructuring of the index linked funding. These costs have been presented as exceptional in the accounts on the basis that these fees are material, non-recurring, outside the normal course of our business and do not give rise to a financial asset/liability through an amended term or interest on the facility.

Of the exceptional cost of £4.5m included in the Income Statement, £3.4m relates to a ten year fee agreement regarding obtaining the updated security trust and intercreditor deed. Of the £3.4m, £0.3m was paid during the year, £0.3m is shown in note 18 as due within one year, and £2.8m is shown above.

Bank facility

On 2 March 2021 Portsmouth Water Limited entered into a £55m Bank Facility. This facility matures in March 2025.

The terms of the facility were updated on 24 December 2021 to reflect the cessation of the London Interbank Offer Rate (“LIBOR”), which has been replaced by Sterling Overnight Index Average (“SONIA”), plus a Credit Adjustment Spread in the amended agreement. The impact of the change in interest terms has not been material. The practical expedient in relation to IBOR reform has been taken, on the basis that the amendments have been on an economically equivalent basis. Interest is accounted for using the effective interest rate.

Interest is now payable at SONIA plus an adjustment dependent upon the term of any drawdowns plus a 1.25% margin. 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 against five sustainability linked ODIs.

Fees associated with the loan 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 £24.623m. Interest accrues daily at 3% p.a. on the total amount drawn, payable six monthly in arrears. This loan matures in March 2025.

20. Deferred income - capital contributions	**2022 £000**	2021 £000
Capital contributions	**35,409**	35,268
Release to turnover (note 3)	**(672)**	(723)
	34,737	34,545

21. Provisions for liabilities	**2022 £000**	2021 £000
Deferred taxation:		
At 1 April	**8,529**	8,094
Charged during the year in income statement	**1,305**	435
At 31 March	**9,834**	8,529

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.

	2022 £000	2021 £000
Total deferred taxation including deferred tax on pension asset:		
Accelerated capital allowances	**13,630**	9,614
Other timing differences	**(3,797)**	(1,086)
	9,833	8,528
Pension asset (note 25)	**3,666**	4,131
Total provision for deferred tax	**13,499**	12,659

	2022 £000	2021 £000
At 1 April	**12,659**	11,741
Deferred tax charged in income statement (note 9)	**1,329**	542
Deferred tax charged/(credited) to the statement of comprehensive income	**(489)**	376
At 31 March	**13,499**	12,659

The UK Finance Bill 2021 was published on 11 March 2021 and substantively enacted on 24 May 2021. The bill provides for an increase in the rate of corporation tax from 19% to 25% with effect from 1 April 2023.

Notes to the Financial Statements

For the year ended 31 March 2022

The closing UK deferred tax asset as at 31 March 2022 has been calculated at the rates which will be in force when the assets and liabilities are expected to reverse.

A deferred tax asset of £0.8m (2021 - £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:

	2022 £000	2021 £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)	**25,694**	28,377
	81,180	83,863

	2022 £000	2021 £000
Financial liabilities		
Bank loans and overdrafts	**115,960**	111,592
Intercompany loans	**-**	-
Intra-group subordinated creditor	**24,623**	24,623
Bank facility	**21,603**	6,195
Revolving credit facility	**-**	2,000
Debenture stock	**283**	283
	162,469	144,693

The Company's financial liabilities are further analysed between fixed and floating rates of interest as follows:

	Fixed Rate 2022 £000	Fixed Rate 2021 £000	**Floating Rate 2022 £000**	Floating Rate 2021 £000	**Total 2022 £000**	Total 2021 £000
Liabilities						
Bank loans and overdraft	**115,960**	111,592	**-**	2,000	**115,960**	113,592
Intercompany loans	**-**	-	**-**	-	**-**	-
Intra-group subordinated creditor	**24,623**	24,623	**-**	-	**24,623**	24,623
Bank facility	**-**	-	**21,603**	6,195	**21,603**	6,195
Debenture stock	**283**	283	**-**	-	**283**	283
	140,866	136,498	**21,603**	8,195	**162,469**	144,693

Fixed Rate	**Weighted average interest rate % 2022**	Weighted average interest rate % 2021	**Weighted average period for which rate is fixed Years 2022**	Weighted average period for which rate is fixed Years 2021
Sterling				
Artesian	**3.6**	3.6	**10**	11
Intra-group subordinated creditor	**3.0**	3.0	**3**	4
	3.5	3.5	**9**	10

Interest on the floating rate financial liabilities are based on Sterling Overnight Index Average rates (formerly London Interbank Offered Rates).

The maturity profile of the Company's financial liabilities is detailed below:

	2022 £000	2021 £000
In one year or less	**-**	2,283
In more than one year	**162,469**	142,410
	162,469	144,693

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For the year ended 31 March 2022

The Company had undrawn borrowing facilities at 31 March 2022, in respect of which all conditions precedent had been met, as follows:

	2022 £000	2021 £000
Expiring within one year	**25,000**	23,000
Expiring between two and three years	**57,877**	72,877
	82,877	95,877

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

23. Called up share capital	2022 £000	2021 £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 (2021 - 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 shares. 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' Ordinary 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.

24. Cash generated from operations	2022 £000	2021 £000
(Loss)/Profit for the year before taxation	**(5,030)**	2,747
Adjustments for:		
Finance costs recognised in income statement	**10,073**	6,308
Investment income recognised in income statement	**(686)**	(803)
Exceptional items	**4,519**	-
Other finance income	**(448)**	(479)
Notional pension costs	**352**	(91)
(Profit)/Loss on disposal of tangible fixed assets	**62**	13
Depreciation and amortisation of tangible and intangible fixed assets	**5,990**	6,240
Amortisation of capital contributions	**(672)**	(723)
Amortisation of deferred meter reading revenue	**(154)**	(157)
Movements in working capital:		
Stock (increase)/decrease	**(129)**	91
Debtors (increase)/decrease	**(1,680)**	(3,411)
Creditors increase/(decrease)	**(1,543)**	(1,971)
Cash generated from operations	**10,654**	7,764

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 2021 was updated to 31 March 2022 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.

Notes to the Financial Statements

For the year ended 31 March 2022

The estimated contributions expected to be paid to the Scheme by Portsmouth Water Limited for the 2023 year, commencing 1 April 2022 is £1.2m (2022 actual - £1.2m). Of this amount, £1.05m is contributed directly by that Company and £0.15m is contributed by employees by salary sacrifice under the SMART arrangement.

Employer contributions for the remainder of the AMP period are projected to be FY23 - £1.2m, FY24 - £1.2m, FY25 - £1.2m.

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

	2022	2021	2020
	% per annum	% per annum	% per annum
RPI inflation	**3.7**	3.2	2.5
CPI inflation	**3.3**	2.7	1.9
Discount Rate	**2.8**	2.0	2.4
Pension increases	**3.3**	2.7	2.0
Salary growth	**3.4**	2.8	2.0

Assumption	31 March 2022	31 March 2021	Comments on assumptions
RPI inflation	3.7% pa	3.2% pa	• The assumption for future RPI inflation is derived from the breakeven measure implied by the difference between nominal yields on fixed interest gilts and real yields on RPI linked gilts. The single equivalent breakeven inflation rate, weighted by Scheme cash flows, is 4.0% pa. • 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	3.3% pa	2.7% pa	• As an approximation to reflect the differences pre/post 2030 from the upcoming 2030 RPI reform, a reduction of 0.4% pa has been applied. • This reflects the average expected reduction in RPI - CPI gap, giving broadly equivalent results to a stepped gap of 1.0% / 0.1% pa pre/post 2030. • This is an update to last year's assumption of 0.5%, reflecting the reduced timeframe to 2030.

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 23.3 years (2021 - 23.7 years) and for a female is 25.9 years (2021 - 26.2 years).

The projections model used in the pension valuation also includes a weighting (or 'w') parameter, referred to as w2020. This parameter is used to vary the weight that is placed on the nation's mortality experience for 2020 to avoid the unusually high mortality experience due to the COVID-19 pandemic, skewing the projections. The default 'core' model places no weight on the data for 2020. In our view, some weight can be given to allow for the direct and indirect impact of the pandemic. It is evident that, despite the wide-spread vaccination program in the UK, there has continued to be repercussions for the nation's health due to the COVID-19 pandemic. In addition to deaths directly associated with COVID-19, we are seeing delayed diagnoses of chronic conditions, disrupted treatment within the health care system and more deaths at home, as opposed to in hospitals and care homes. This is expected to have implications for mortality experience for future waves of the pandemic. In our view, these factors point to a strong likelihood of increased mortality rates for a number of years, given the wider indirect impacts of the pandemic on the nation's general health, habits and the pressures on the healthcare system. While the longer-term impact of COVID-19 is still uncertain, we have proposed a modest reduction in life expectancies due to the future direct and indirect effects of the pandemic. We have allowed for the above by using a w2020 parameter of 10%.

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 £2.1m.
- An increase in the CPI inflation rate of 0.1% per annum would increase the defined benefit obligation by around £1.8m.
- A 5% fall in performance asset values would reduce the assets by around £3.5m.
- A one year increase in life expectancies would increase the defined benefit obligation by around £5m.

Notes to the Financial Statements

For the year ended 31 March 2022

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:

	%	**2022 Fair Value £000**	%	2021 Fair Value £000	%	2020 Fair Value £000
Equities	**25**	**41,752**	24	38,643	17	23,783
Absolute Return Bonds	**13**	**21,108**	11	18,875	13	18,158
Liability Driven Investments	**11**	**18,896**	9	14,106	10	13,957
Property	**5**	**8,487**	8	12,892	12	17,404
Cash	**4**	**6,845**	4	5,938	3	4,565
Buy-in policy	**42**	**68,773**	44	71,867	45	64,162
	100	**165,861**	100	162,321	100	142,029

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 £77.260m (2021 - £84.759m) 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.

Method of valuation

The benefits are valued using the projected unit method at the trustees' funding valuation date of 31 March 2021. In line with industry practice and the approach taken in previous years, the liabilities are then estimated by rolling forward the 31 March 2021 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.

	2022 £000	2021 £000
Total fair value of scheme assets	**165,861**	162,321
FRS 102 value of scheme defined benefit obligation	**(128,606)**	(138,348)
Impact of asset ceiling	**(22,593)**	(2,233)
Pension asset	**14,662**	21,740
Related deferred tax liability	**(3,666)**	(4,131)
Net pension asset	**10,996**	17,609

Under FRS 102, the scheme is represented on the statement of financial position at 31 March 2022 by an asset of £14.662m (2021 - £21.740m), which amounts to £10.996m net of deferred tax (2021 - £17.609m).

Portsmouth Water Limited paid contributions at a rate of 28.9% 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 £435,989 (2021 - £372,033).

Movement in the net balance sheet position

The FRS 102 value of scheme assets moved over the period as follows:	**2022 £000**	2021 £000
Opening asset	**21,740**	19,193
Expense charged to profit and loss	**(1,203)**	(872)
Gain/(loss) recognised outside of profit and loss	**(7,174)**	1,976
Employer contributions	**1,299**	1,443
Closing asset	**14,662**	21,740

Movement in present value of defined benefit obligation

The FRS 102 value of scheme defined benefit obligation moved over the period as follows:	**2022 £000**	2021 £000
Opening scheme liabilities	**138,348**	113,826
Employer's part of current service cost	**1,651**	1,351
Interest on scheme liabilities	**2,719**	2,666
Benefits paid and running costs	**(4,798)**	(5,504)
Actuarial loss/(gain)	**(9,314)**	26,009
Closing scheme defined benefit obligation	**128,606**	138,348

Notes to the Financial Statements

For the year ended 31 March 2022

Movement in fair value of scheme assets

The FRS 102 value of scheme assets moved over the period as follows:	**2022 £000**	2021 £000
Opening fair value of scheme assets	**162,321**	142,029
Interest on scheme assets	**3,212**	3,360
Contributions by Portsmouth Water Limited, including employee contributions under the SMART arrangement	**1,299**	1,443
Benefits paid and running costs	**(4,798)**	(5,504)
Actuarial gain/(loss)	**3,827**	20,993
Closing fair value of scheme assets	**165,861**	162,321

Expense recognised in income statement

The following amounts have been included within operating profit:	**2022 £000**	2021 £000
Current service cost (employer's part only)	**(1,651)**	(1,351)
Total operating charge	**(1,651)**	(1,351)
The following amounts have been included as other finance income under FRS 102:		
Interest on pension scheme assets	**3,212**	3,361
Interest on asset limit	**(45)**	(216)
Interest on pension scheme defined benefit obligation	**(2,719)**	(2,666)
Net return	**448**	479
Total expense recognised in the income statement	**1,203**	872

Amounts recognised outside income statement

The following amounts have been recognised within the statement of changes in equity:	**2022 £000**	2021 £000
Actual return less interest	**(3,827)**	(20,993)
Experience gains arising on scheme defined benefit obligation	**(1,288)**	(593)
Loss/(gain) due to changes in assumptions	**(8,026)**	26,601
Change in asset limit other than interest	**20,315**	(6,993)
Remeasurement loss of net defined benefit asset	**7,174**	(1,978)

Changes in accounting estimates

The applicable discount rate is based upon a high quality (AA rated) corporate bond yield curve. This was adjusted to remove the historic 0.1% deduction for investment management expenses. The impact of this change in methodology is to reduce the balance sheet liabilities by £2.1m.

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 0.5% to 0.4%) 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 £1.8m (2021 - £2.2m).

The actual return on plan assets was £7.039m in the year to 31 March 2022 (2021 - £24.354m).

26. Lease commitments

At the reporting date the Company had no disclosable commitments under non-cancellable operating leases.

27. Ultimate controlling party

On 13 September 2019, the Company's shareholders incorporated Southern Region Water Holding Limited in Hong Kong 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 55.

We consider SRWHL to be the ultimate holding company and ultimate controlling entity. Consolidated group financial statements for the year ended 31 March 2022 will be prepared for Ancala Fornia Holdco Limited and this will be the largest Group for which consolidated financial statements are prepared.

28. Capital commitments

	2022 £000	2021 £000
Relating to fixed assets	**2,531**	4,349

Of the capital commitments of £2.5m at 31 March 2022, the largest proportion, £1.3m, is attributable to the Havant Thicket Winter Storage Reservoir project.

Notes to the Financial Statements
For the year ended 31 March 2022

29. Related Party Transactions
The Brockhampton Pension Scheme, the scheme for which the company is the principal employer, is considered to be a related party to the company. Transactions between these two parties are set out in note 25.

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 55 and have the same Registered Office as stated on page 76.

30. Post Balance Sheet Events
No disclosable events occurred post 31 March 2022.

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 Wednesday, the 27th day of July 2022, on the following business:

1. To receive and consider the Directors' Report and Accounts for the year ended 31 March 2022 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. A. Wilson a Director of the Company.
6. To re-elect Mr. C. Loughlin a Director of the Company.
7. To elect Dr. L. Stoimenova a Director of the Company.
8. To elect Mr. J. C. Milner 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
30 May 2022

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.

	2022 £000	2021 £000
(i) Debt		
Bank loan (note 19)	**116,556**	112,245
Intra-group subordinated creditor	**24,623**	24,623
Bank facility	**22,500**	7,500
Revolving credit facility (note 18)	**-**	2,000
Debenture stock (note 18)	**283**	283
Cash at bank and in hand	**(25,694)**	(28,377)
Net debt	**138,268**	118,274
(ii) Regulatory capital value indexed to 31 March	**189,444**	168,169
(iii) Gearing - Debt: RCV ratio (i) ÷ (ii)	**73.0%**	70.3%

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

	2022 £000	2021 £000
(i) Debt		
Bank loan (note 19)	**116,556**	112,245
Bank facility	**22,500**	7,500
Revolving credit facility (note 18)	**-**	2,000
Debenture stock (note 18)	**283**	283
Cash at bank and in hand	**(25,694)**	(28,377)
Net debt	**113,645**	93,651
(ii) Regulatory capital value indexed to 31 March	**189,444**	168,169
(iii) Gearing - Debt: RCV ratio (i) ÷ (ii)	**60.0%**	55.7%

Deferred arrangement costs of £1.493m (2021 - £1.958m) are excluded from the above calculations. £0.897m relates to the bank facility and £0.596m relates to the bank loan. Current asset investments of £0.002m (2021 - £0.002m) are also excluded from the total value of debt in this ratio.

(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	2022 £000	2021 £000
Operating profit	**8,490**	7,877
Less exceptional National Insurance costs (below operating profit)	**-**	-
Less exceptional COVID-19 bad debt provision (below operating profit)	**-**	(91)
Gain/(loss) on disposal of fixed assets (below operating profit)	**(62)**	(13)
Notional pension costs (note 24)	**352**	91
Depreciation and amortisation charges (notes 12 and 13)	**5,991**	6,240
Interest received, excluding amounts for inter-company loan (note 7)	**-**	-
Taxation refund excluding payments for group relief	**-**	-
Capital expenditure (net of contributions)	**(16,774)**	(17,913)
Amortisation of deferred capital contributions	**(672)**	(723)
Amortised meter reading	**(156)**	(157)
Cash received from investing activities	**-**	-
Loan draw-down	**15,000**	9,500
Repayment of loan draw-down	**(2,000)**	(20,500)
Receipt of intercompany loan	**-**	24,623
	10,169	8,934
(ii) Interest paid	**4,688**	4,371
(iii) Cash interest cover ratio (i) ÷ (ii)	**2.17**	2.04

Appendix 1 KPI Calculations

d) Return on regulatory equity (RoRE)	2022 £000	2021 £000
Revenue	**42,670**	41,957
HTWSR capacity charges earned	**583**	233
ODI reward/(penalty) earned	**600**	733
Operating costs, excluding Employee Benefit Trust payments depreciation and amortisation and exceptional items	**(28,190)**	(27,839)
Regulatory depreciation (run off rate)	**(6,491)**	(6,077)
Infrastructure depreciation	**(1,182)**	(1,153)
Earnings before interest and tax	**7,990**	7,854
Current tax credit/(charge)	**-**	(175)
Interest payable, excluding indexation and amortisation	**(4,688)**	(4,371)
(i) Return	**3,302**	3,308
(ii) Average Regulatory Capital Value, equity element only (adjusted gearing)	**54,542**	46,086
(iii) Return on regulatory equity (i) ÷ (ii)	**6.05%**	7.18%

*RoRE has been calculated excluding exceptional items as set out on 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 2022 to reflect the PR19 methodology. Please see Portsmouth Water Annual Performance Report 2022, Table 4H for full calculation.

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

	2022 **£000**	2021 £000
Operating profit before loss on disposal of fixed assets and exceptional items	**8,490**	7,877
Depreciation	**5,990**	6,240
EBITDA	**14,480**	14,117