Portsmouth Water

PORTSMOUTH WATER LIMITED

Annual Report and Accounts 2023

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PORTSMOUTH WATER AT A GLANCE

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

324,000

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

£109

On average our domestic customers paid £109 during 2022/23 for their water supply.

740,000

Over 740,000 local residents use our clean drinking water every day. In addition we support additional numbers of tourist and migatory workers, as well as the resident population.

166 YEARS

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

183M LITRES

We serve the cities and towns of Portsmouth, Chichester, Fareham, Gosport, Havant and Bognor Regis. On average, each day we supply approximately 183 million litres of water.

3,387KM

Our area of supply has a network of over 3,387 km of underground pipes.

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

CHAIR'S COMMENTS

This year we have seen the future and everybody, especially our customers, has had a very difficult year. In a year of weather extremes, our region has seen a sustained period of dry weather and high temperatures, record rainfall through the autumn, followed by a very cold winter. Our people have worked very hard to deliver reliable services to our customers.

The cost-of-living crisis, driven by high inflation and energy costs, has put significant and continuing pressures on our customers. All this comes at a time where the water sector faces significant criticism, largely due to the environmental performance of Sewerage companies.

Against this backdrop Portsmouth Water has continued to deliver on in its commitment to its customers and communities. We lead the industry on customer service and supply interruptions and our customers faced no loss of supply or water restrictions despite the hottest summer on record[1] and the driest period since 1976. To respond to the cost-of-living crisis and support customers facing financial difficulties we extended our financial support available to customers.

We engage with our customers and stakeholders throughout the year, directly and through customer research. Through our preparation of our next five-year business plan for 2025-2030 and in the light of public and Ofwat concern we have reviewed and are making changes to our dividend policy and executive performance related pay. Our economic regulator, Ofwat, has challenged water companies to deliver a step change in performance. To answer this challenge, we published our long term vision in July 2022 to outline our priorities and ambition for the next 25 years.

Christopher Deacon
Independent Chair

June 2023

We are making good progress on our new reservoir at Havant Thicket following receiving planning permission in 2021. On site we have completed the tree clearance, preserving over 250 young saplings to establish new woodland, and we have completed construction of a trial embankment which will provide valuable data on how the clay used to construct the reservoir will perform. In January 2023 we agreed the updated scheme funding with Ofwat through the planned cost adjustment mechanism following completion of procurement of the pipeline and reservoir contracts. In February 2023 we appointed the main reservoir construction contractors and secured all financing for the scheme including a £150m equity commitment from our investors. The cost of the scheme has increased significantly from the early estimates included in our 2019 plan, as a result of inflationary pressures, but the scheme still offers the best value for money solution to help deliver the region's water requirements and will provide a key strategic source of stored water for the South East of England region.

There are areas where we need to improve. We were very disappointed to miss our leakage target for the first time in this 5 year cycle. Despite the challenges of the weather this year we must do better and we have a plan to recover performance. Through our Pure Excellence programme we are working with the Drinking Water Inspectorate to make improvements to our processes, including documentation and training on water quality.

We are reviewing and improving our governance and control procedures as the business grows through the construction of Havant Thicket. In March 2023 one of our group companies was the victim of a social engineering scam. The incident occurred outside the regulated business and Portsmouth Water Limited and its customers have not been impacted. Further details are set out in the Governance section on page 65. The Board has undertaken a thorough review of controls and governance procedures across the business and management are implementing improvements to systems and processes to reduce the risks of future incidents of fraud.

Our company purpose, values, and vision

As part of the development of our next regulatory business plan, PR24, we have reviewed our company 'purpose and values', and further developed our vision for the next 25 years. In considering changes to our purpose and values we have tried to capture the need to focus on the long term, find new sustainable solutions and reflect the need to work collaboratively to meet customer and environmental needs. To develop our vision, we combined what we've heard from our stakeholders and customers with the challenges we face, the uncertainties we think we need to adapt to and the opportunities we've identified to innovate. We have evolved the outcomes we identified in our current business plan and developed 4 priorities that reflect our long term ambition and acknowledge the interdependencies of the future challenges.

OUR 25 YEAR VISION PRIORITIES

PRIORITY ONE: Secure sustainable water supplies for our customers, which protect and enhance our environment in a changing world.

PRIORITY TWO: Be at the frontier of delivering high-quality, resilient, net zero services – for our customers, environment and region.

PRIORITY THREE: Co-create solutions which deliver our customers', communities', and stakeholders' priorities.

PRIORITY FOUR: Affordable water for all. Always.

[1] The average temperature for the summer months of June, July, and August in 2022 was 17.2 degrees Celsius The previous record for the average temperature for the summer months was 17.1 degrees Celsius, which was set in 2018.

Our customers

Delivering on our commitments to our customers and communities remains our primary focus. Our values-based culture creates a customer focussed environment. This is reflected in the outstanding performance on customer service in 2022/23. We were ranked 2nd overall in the industry for Customer Measure of Experience (C-MeX) and Developer satisfaction (D-MeX), continuing our track record of leading performance in this 5-year period. We also 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 81.2 compared to a utilities average of 74.1 and all sector average of 78.4.

We continue to have the lowest customer bills in the water industry, with our average bill in 2022/23 being £109, against an industry average of £199. While our bills are a smaller part of household costs, we understand the extraordinary pressures our customers face currently with high energy costs and wider inflationary pressures.

Institute of Customer Service score

81.2

UTILITIES AVERAGE: 74.1

Average bill 2022/23

£109

INDUSTRY AVERAGE £199

We have taken action to expand our social tariff, and we're offering additional support to customers struggling to pay. We've changed the income threshold so more than double the number of households are now eligible for our social tariff, extended payment holidays from 3 to 6 months and we are offering free leak repairs for our most vulnerable customers. Our Helping Hand Social Tariff helps those on low incomes and capped our bill at £82.73 for the 2021/22 billing year. Numbers supported have grown from 10,254 in March 2022 to 11,673 in March 2023 and we hope to help 1 in 10 of our customers with the extension of our tariff.

Interruptions to supply performance

2 MINS 21 SECS

PER PROPERTY

TARGET OF 5 MINUTES 45 SECONDS

Our customer experience performance is underpinned by delivery of excellent levels of service. We have maintained our industry leading performance for interruptions to supply. At an average of 2 minutes 21 seconds per property, compared to a target of 5 minutes 45 seconds, this is equal to 2021/22 performance where we were 1st in the industry. We also met our water quality measures for 2022/23 and delivered on our environmental commitments, completing our environmental schemes, and providing £148.5k of our biodiversity grants against our target of £150k.

We have more to do to improve performance on leakage and reduce per capita consumption. These make up key components our longer term water resources management plan. Our 3-Year rolling average is 27.1 Ml/d, 1.3 Ml/d above our regulatory target. The summer of 2022 saw prolonged, extremely dry weather followed by prolonged freezing conditions in the winter which were comparable with the conditions last seen in 2018 during the 'Beast from the East'. We increased resources to address leakage issues from November, but we were not able to recover the position from the peak leakage breakouts arising earlier in the year from changes in ground conditions. We have developed a comprehensive recovery plan and put in place additional resources to recovery performance over the remainder of the five-year period to 2025.

Our environment

A dry winter in 2021/22 meant we started the year with levels of groundwater in the chalk system around the South Downs well below long term averages. The lack of rainfall continued through the Spring and Summer, groundwater levels decreased rapidly as a result triggering the early stages of our drought plan. We continued to talk to our customers throughout the summer, explaining the water situation and asking for restraint in how they used water. As a result, whilst our production sites were put under pressure by the low groundwater levels and high summer customer demand, supplies were always maintained and, unlike some of our neighbouring water companies, no water restrictions were needed. We supported Southern Water by providing water into their Hampshire region.

Our Water Resource Management Plan (WRMP), our strategic water planning work, follows a 5-year cycle. For the first time water resource planning has been coordinated regionally on a national basis. Portsmouth Water is a member of Water Resources in the South East (WRSE). This group carried out a public consultation on its draft plan and is now in the process of developing the final 'best value' regional plan. Our Havant Thicket reservoir project is a significant source of future water supply in this regional plan, being an environmentally led project it will allow Southern Water to take less water from the sensitive chalk habitats around the rivers Test and Itchen in Hampshire.

In conjunction with the regional plan, we have carried out a public consultation on our next draft plan (WRMP24) and will be publishing a statement of response and revised draft plan this summer. Our new plan has several significant changes that mark it apart from previous ones. If approved we will be able to compulsorily meter our customers for the first time, and we will be aiming to provide every customer with a smart water meter. This is the tool best suited to help reduce our 'per capita consumption' which is currently the highest in the industry. Smart metering will play a crucial role in evolving our service to customers, helping protect our environment and supporting customers to optimise their water consumption. The data we will be able to share with customers will help us to detect leaks quicker (both in the customers' homes, businesses and on our network), support customers to optimise their consumption and better understand how water is being used across our supply area.

WE HAVE WORKED CLOSELY WITH OUR STAFF AND UNIONS TO MODERNISE OUR OFFER TO OUR EMPLOYEES

We have continued to deliver on our environmental commitments to enhance the habitat network within Portsmouth Water's catchment area by making improvements on our own land and through our grants scheme. Our catchment management programme looks to protect our water sources by working with farmers through a package of funding and support to then reduce environmental pollution in our catchments sensitive to nitrate levels. Working in partnership with our non-regulated renewables business we have continued to invest in solar panel energy equipment across a number of out sites, reducing the need for electricity imports, and helping reduce our ongoing operating costs.

Water Quality

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 8 water quality failures in the latest calendar year (2021 - 9 failures), which impacts our CRI score, however, we will still met our CRI target (of < 2.0 units per calendar year).

Portsmouth Water is blessed with 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 "Pure Excellence" programme was established in 2021 to deliver improvements in this area and address the Notice. This is progressing well, with all regulatory milestones achieved to date, and it is responding to the areas of improvement required by the DWI 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.

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

Our people

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. A sustained focus on Health and Safety over the last 20 years has significantly reduced the number of accidents and we hold RoSPA's "Order of Distinction".

To avoid the risk of complacency we renewed our focus on health and safety to capture the new and increased risks arising from our major construction programme at Havant Thicket.

We have worked closely with our staff and unions to modernise our offer to our employees. We have historically supported two pension schemes - the Brockhampton Pension Scheme, a defined benefit scheme for employees who joined before 2011, and a Group Personal Defined Contribution Scheme, for those who subsequently joined the business.

A recent actuarial valuation highlighted that the ongoing cost of the defined benefit scheme was unaffordable for the business in the long term and not supportable for our customers. We have therefore agreed with those employees effected to close the defined benefit pension scheme for future accrual, with effect from April 2023. In so doing we have strengthened our defined contribution scheme for all employees and modernised our employee terms and conditions to ensure we can fairly reward, retain and recruit the skills and resource needed to deliver for our customers.

As a company we are very proud of our investment in our people. We are firmly committed to the development of our staff such that they all have the opportunity to reach their full potential. As a result, we fully support those wanting to undertake further education such as Degrees, HNC's, NVQ's along with associated professional qualifications.

Our business

The investment to deliver Havant Thicket is transformative for our company. The programme not only delivers significant growth for investors, but it creates a key strategic asset for the Southeast and puts Portsmouth Water in the centre of the regional and national long term water resource plans. The year saw the completion of three major milestones with the conclusion of the procurement for the main works contracts to construct the pipeline and reservoir, the agreement of totex funding through the scheduled cost adjustment mechanism with Ofwat, and the successful conclusion of increased investor and other external financing for the construction of the reservoir.

YEAR ON YEAR REVENUE AND OPERATING PROFITS HAVE STRENGTHENED BUT WE HAVE SEEN A SIGNIFICANT INCREASE IN THE FINANCING CHARGE DUE THE RECORD LEVELS OF INFLATION.

In January 2023 we agreed increased totex funding of £310m (2017/18 prices) and the adjustment to the regulated capital value ('RCV') of the company at PR24, following several months of negotiation with Ofwat and Southern Water. Following agreement of the funding we entered into contracts with Ward & Burke, a leading infrastructure business specialising in pipelines and tunnelling and Future Water, a joint venture between Jones Brothers, a leading earth works company and Mackley, a subsidiary of Van Oord group. In February and March 2023, the group secured £325m of new debt financing, including £75m of CPI linked bond and £205m of sustainability linked term loans and debt facilities.

The £75m CPI linked bond was issued in March 2023. The £205m debt facilities included the UK Infrastructure Bank's first loan into the water sector. Our investors have also committed £150m of new equity to support the construction. The first tranche of the new equity is due to be drawn down in July 2023 when £120m will be deployed from a new continuation fund established by Ancala Partners. We plan to use half of the £120m as new equity immediately and the remaining funds will be used to repay a legacy inter-company loan between Portsmouth Water and South Downs Limited.

We have seen another solid set of financial results in 2022/23. Year on year revenue and operating profits have strengthened but we have seen a significant increase in the financing charge due to record levels of inflation.

In particular our results have been impacted by the high inflation on our RPI linked Artesian bank loan resulting in a loss after tax of £5.0m (£5.3m loss in 2022). The high inflation impact on the debt is offset by growth of our RCV and costs will be recovered in future bills, so we don't see this as a threat to our financial resilience. We are closely monitoring the risks of inflation on customers' affordability and on our cost base.

Turnover was £45.4m, a £2.7m increase from 2021/22. This increase was due to inflation and an increase of consumption from Non-Household water customers. Operating profit after exceptional items, at £8.1m, shows an increase on the prior year of £4.2m but the increase in operating profit before exceptional items is more modest, an increase of £0.3m on the prior year. Operating costs for the year totalled £36.6m, a £2.4m increase from 2021/22. This reflected an increase in our provision for bad debt to recognise collection risk as the cost-of-living crisis impacts household finances. Costs have also been impacted by high inflation on commodities but the risk on energy costs was largely mitigated through our hedging strategy and increased renewable arrangements. We have already fixed 100% of our energy costs for the next financial year.

Our financial ratios are in line with our financial covenants. Our investors continue to support our growth and we received £20m of new equity in February 2023 from capital committed in 2021 by Ancala. Our regulatory gearing has increased in year to 78% but it does not yet reflect the additional RCV allowance agreed through the cost adjustment mechanism relating to the Havant Thicket project. Underlying gearing reflecting this adjustment is 64% (73% in 2022). We have sufficient financing in place to complete the construction of Havant Thicket and our day-to-day operations following the receipt of the new £75m CPI linked bond and other new bank facilities remained undrawn at year end.

Havant Thicket Winter Storage Reservoir new capital investment in the year was £27.2m, and total expenditure on the project reached £47.3m by 31 March 2023. The wider investment programme on other capital projects was impacted by Covid in the first two years of our current 5 year plan. We have seen an increased delivery in 2023 with, in addition to the spend on the Havant Thicket Winter Storage project, £16.1m spend in the year to 31 March 2023 and we have a fully allocated programe of work in place for the remaining AMP period to 2025. In March 2023 we received confirmation of transition expenditure to support early delivery of our new CRM and Smart Metering programme. The initial procurement of the CRM to support smart metering was completed in early 2023 and we expect to have a working system by the end of the next financial year ready to start metering trials in late 2024.

Our investors continue to support our growth and we received £20m of new equity in March 2023 from capital committed in 2021 by Ancala.

Turnover of £45.4m (2022 - £42.7m) showed a 6.5% increase in the year.

OUR COMPANY PURPOSE

EXCELLENCE IN WATER. ALWAYS. COMMITTED TO A SUSTAINABLE FUTURE TOGETHER.

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.

We are continuing to deliver the strategy and outcomes we committed to in our business plan for 2020 - 2025 but we have started to think deeply about the future. As part of this exercise we have reviewed our company purpose and values.

In considering changes to our purpose and values we have tried to capture the need to focus on the long term, find new sustainable solutions and reflect the need to work collaboratively to meet customer and environmental needs. We have created a new value, 'Future Focussed' to reflect the need to look at future priorities as well delivering for todays customers.

This revised purpose and our values underpin our 25-year vision we published in June 2022, as part of developing our PR24 business plan for 2025-2030.

To develop our vision, we combined what we've heard from our stakeholders and customers with the challenges we face, the uncertainties we think we need to adapt to and the opportunities we've identified to innovate. We have evolved the outcomes we identified in our current business plan and developed four priorities that reflect our long term ambition and acknowledge the interdependencies of the future challenges.

Our vision

Against the backdrop of climate change and population growth, our vision is to provide an affordable, reliable, and sustainable supply of high-quality water for our customers. By being smart in our approach we will work with our local communities to meet our goals while protecting and enhancing the environment for future generations.

Our priorities for the next 25 years are:

1. Secure sustainable water supplies for our customers, which protect and enhance our environment in a changing world.
2. Be at the frontier of delivering high-quality, resilient, net zero services – for our customers, environment and region.
3. Co-create solutions which deliver our customers', communities', and stakeholders' priorities.
4. Affordable water for all. Always.

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 43. 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 26 to 33 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 third 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 RESOURCE

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 RESOURCE

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 services

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. We invest in new equipment and technology to do this efficiently and effectively.

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.
- 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 processes.
- 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
- Mains repairs
- Interruptions to supply
- Ofwat service measures – C-MeX and D-MeX

RISKS (PAGES 52 TO 53)

- 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 52 TO 53)

- Human Resources
- Health and Safety

Our Environment

OUTCOMES 2020-2025

- Low leakage.
- Water efficiency.
- 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

RISKS (PAGES 52 TO 53)

- Environmental

Our Business

OUTCOMES 2020-2025

- A business that is financeable and provides a stable return for shareholders.
- 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)

- Profit - EBITDA
- Cash Interest Cover
- Gearing (Net Debt: Regulatory Capital Value ("RCV")).
- Return on Regulatory Equity ("RORE").

RISKS (PAGES 52 TO 53)

- Financial
- Regulatory
- Legal and Governance
- Political
- IT

WE MONITOR AND MANAGE OUR SIGNIFICANT BUSINESS RISKS AGAINST OUR ABILITY TO ACHIEVE THE OUTCOMES.

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 19)

WATER QUALITY STANDARDS (COMPLIANCE RISK INDEX) (CALENDER YEAR FOR THIS MEASURE)
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 (CALENDER YEAR FOR THIS MEASURE)
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 monthly customer surveys 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 Water UK levels of service we provide to developers.

Our People (pages 20 to 22)

ROSPA ACCREDITATION
The Company will apply for RoSPA 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
Percentage of days absent from work per person.

Our Environment (pages 24 to 33)

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 35 to 37)

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.

2022/23 target (financial year)	2022/23 Performance	2021/22 Performance	2020/21 Performance	2019/20 Performance	2022/23 Target met?
< 2.0 units (Calendar year)	1.244	3.74	0.58	0.03	✓
< 0.430 contacts per 1,000 population (Calendar year)	0.414	0.405	0.432	0.395	✓
< 71.2 per 1,000km	83.3	47.3	76.3	50.0	✗
< 5 mins 45 secs per property	2 mins 21 secs	2 mins 21 secs	2 mins 48 secs	3 mins 22 secs	✓
Upper Quartile	2nd	3rd	1st	1st	✓
Upper Quartile	2nd	2nd	3rd	1st	✓

2022/23 target (calendar year)	2022/23 Performance	2021/22 Performance	2020/21 Performance	2019/20 Performance	2022/23 target met?
RoSPA awarded	Awarded	Awarded	Awarded	Awarded	✓
0 accidents	1	0	0	1	✗
< 12 accidents	2	5	3	5	✓
< 2.5%	2.12%	1.74%	2.19%	3.36%	✓

2022/23 target (financial year)	2022/23 Performance	2021/22 Performance	2020/21 Performance	2019/20 Performance	2022/23 target met?
< 31.9 Ml/d	32.2 Ml/d	26.9 Ml/d	23.6 Ml/d	24.4 Ml/d	✗
< 140 l/h/d	153 l/h/d	160 l/h/d	171 l/h/d	150 l/h/d	✗
0 bans	0	0	0	0	✓

2022/23 target (financial year)	2022/23 Performance	2021/22 Performance	2020/21 Performance	2019/20 Performance	2022/23 target met?
On budget	£15.2m	£14.5m	£14.1m	£14.4m	✓
> 1.40	3.19	2.17	2.04	1.59	✓
< 74%	78.4%	73.0%	70.3%	71.5%	✗
> 6.0%	3.00%	6.05%	7.18%	6.62%	✗

OUR CUSTOMERS

Delivering for our Customers and Communities

Our values of Excellence, Integrity and Future Focus 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 2nd overall in the industry Customer Measure of Experience (C-MeX) for 2022/23, an outstanding achievement and up one place from the previous year. We continued our strong performance in the industry measure of developer satisfaction (D-MeX) throughout 2022/23. We finished 2nd in the industry marginally behind 1st place.

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 81.2 compared to a utilities average of 74.1 and all sector average of 78.4. This provides strong and independent evidence that our customer service rivals high customer service standards across all sectors. The survey showed that customers continue to value our service reliability, helpfulness and the competence of our staff.

We have been pro-active in supporting our customers through the cost-of-living crisis, by offering extended payment holidays, offering further leak allowances and increasing promotion of our social tariff.

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 an industry leading 31,838 customers on our Priority Services Register which represents over 10% of our customer base.

We have missed our target for mains repairs to our network in 2022/23, having achieved the target in the previous year. Our performance was hindered by extremes of weather in both summer and winter, as detailed below. Close management of this activity resulted in reduced adverse impacts on our customers, as shown by the overall 'interruptions to supply' ODI results for the year.

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.

Supporting our 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.

Water Quality

The key 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 have met our CRI target, i.e. less than 2. We had 8 water quality failures in the calendar year 2022 which has impacted the CRI score. We note that 5 of the failures reported were from customer properties all attributed to internal plumbing. 3 failures were from 2 treatment works attributed to sample line design and maintenance. Work is ongoing to prevent reoccurrence of similar failures.

A further measure of water quality is the feedback from customers, and the number of contacts and queries during the year relating to taste, odour, discolouration and 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 year 3 target for AMP7, being less than 0.43 contacts per 1,000 population served.

Our Values – Doing the right thing for our customers

In 2022 we launched our new company values of Excellence, Integrity and Future Focus, making them central to delivering the best possible levels of service to our customers. Great customer service is part of our DNA, and these values ensure we create a customer-first culture which empowers our people to do the right thing for our customers.

We think about our customers individually but also, collectively, in the communities that we serve. As a 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 been working on 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 the water industry, but across all industries. Although we are in the privileged position of being a monopoly supplier, this is not something we would ever abuse. We hold ourselves accountable to provide and serve our customers to the best of our collective responsibilities and to the high standards our customers deserve, without exception.

A STRONG SERVICE ETHOS IS AT THE HEART OF OUR BUSINESS

The number of written complaints per 10,000 connections is 9.43, a reduction on last year and expected to be upper quartile performance in the industry. We have seen several complaints this year as a result of introducing new metering strategies - change of occupier metering and non-billable metering.

Our metering strategies resulted in increased customer contact with some resulting in complaints due to a reluctance to have a meter installed. Throughout these programmes, our customer communication and installation processes have been adapted. This resulted in a reduction in contacts and therefore complaints.

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 2022, 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 continue to have the most affordable bill in the industry, with our average bill in 2022/23 being £109, against an industry average of £199, and the next lowest to ours being £140. Our average bill in 2023/34 will be £117. Our Helping Hand Social Tariff helps those on low incomes and caps our bill at £82.73 for the 2023/24 billing year. Numbers supported have grown from 10,254 in March 2022 to 11,673 in March 2023.

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 have forged new relationships 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 77%, an improvement 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 3 of these measures impacting our customers - mains repairs, leakage and per capita consumption.

Mains repairs

For the reporting period of 2023 we recorded 282 mains failures compared to 160 for 2022. Whilst 2022 was an outlier in terms of a low number of recorded mains failures, conversely 2023 was higher than the forecast number of mains repairs. This we believe was because of two extreme weather events during the period, the long dry hot summer and the prolonged cold period and rapid freeze thaw in December.

Although the number of mains repairs was high, our management of this activity did not adversely impact our customers, as shown by the strong 'interruptions to supply' ODI performance.

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.

OUR CUSTOMERS

Guaranteed Standards Scheme

We are legally required to pay customers compensation where we do not meet the prescribed standards. This includes not responding to customer letters, not informing them that their supply may be interrupted as we work on the network and compensation if we miss an agreed appointment. In the year we made a total of 130 payments, with 61 related specifically to one event in December 2022 where supply was not restored to customers by the stated time following a planned interruption, and 44 related to missed appointments over the year.

Non Household Retail Market

The 2022/23 year saw holistic reporting become a new means of monitoring and comparing trading parties' performance across a range of measures, to provide a view of performance in the business retail market. Holistic reporting assesses performance using data across several performance indicators such as Market Performance Standards (MPS), Operational Performance Standards (OPS) and Additional Performance Indicators (APIs), including the Retailer Measure of Experience (R-MeX). We have performed strongly during the year and achieved upper quartile performance, finishing the year in second position in the peer comparison table.

During 2022/23, we provided a NHH metering service for a number of retailers, with an 80% coverage of all NHH meters in our area of supply. The service includes 'active skip management' whereby we raise jobs for broken or damaged meters, thereby reducing the workload on retailers. We have synced accounts with retailers so they have easy access to meter images when required.

We will shortly be undertaking a 12-month pilot with a retailer to read NHH meters outside of our area of supply. This will transplant our performance and culture to support the retailer's drive to improve customer service and billing accuracy.

Whilst the role of the wholesaler has changed, since market opening, we still play a key role in facilitating the delivery of a good business customer experience. To capture both the experience of end business customers, and the experience of retailers when engaging with wholesalers, in their PR24 final methodology Ofwat set-out its decision to include BR-MeX as a new common performance commitment. To ensure BR-MeX is robust and ready for implementation from April 2025, Ofwat and MOSL will pilot new B-MeX and R-MeX surveys in 2023-24 and run a shadow period from spring 2024.

Developer Services

We have continued our strong D-MeX performance throughout 2022/23. We finished 2nd in the industry and improved from our 3rd place in 2021/22. We continue to implement improvements based on the feedback we receive from developers on our service delivery. Improvements in the year included the introduction of SLP and NAV applications via our online bilateral Portal. Following developer customer feedback, we also launched a redesign of the Developer section on our website. This makes it much easier to navigate and to locate desired information.

We have seen good levels of competition, in developer services activities throughout 2022/23, with both SLPs and NAVs remaining active in our area of supply.

During 2023/24 we will be developing environmental incentives, in-line with Ofwat's desire for these incentives to replace income offset charges from April 2025.

Leakage

After an annual average leakage figure of 26.9 Ml/d in 2021/22, leakage his risen in 2022/23 to an annual average of 32.2 Ml/d, resulting in a 3-Year rolling average of 27.6 Ml/d, 1.3 Ml/d above our regulatory target. The summer of 2022 saw prolonged, extremely dry weather. This change in ground conditions resulted in our first significant breakout of the year. This was followed by three more breakouts throughout the year, the last of which was in December. This was caused by prolonged freezing conditions comparable with the breakout seen from the so-called 'Beast from the East' in 2018. This breakout saw our leakage hit a high of 40.9 Ml/d as a weekly average. Recovery from this latest breakout has been challenging, as the leaks amassing within this have been a large quantity of smaller hidden leaks, as compared to the 'Beast from the East' which produced easier to detect and repair larger visible leaks.

In November, we increased our detection resource, doing so again in December and January. This additional resource is remaining in place for the rest of AMP7 in order to reduce leakage back to previous industry leading levels. We are also using new and innovative techniques to locate more leaks than before, including Satellite Imagery, Electronic Listening Devices, and AI enabled Acoustic devices. These techniques paired with our previous successful techniques such as our Acoustic Fixed Network (which has a network penetration of around 50%) and our progress with our Digital Twin, will allow us to not only recover leakage levels to achieve targets set, but also reduce leakage to record low levels.

Interruptions to supply

We continue to maintain 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 5 minutes 45 seconds, this is equal to our best performance on record achieved last year. Our network has been designed with good interconnection, so that we can quickly feed customers using water from different zones 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 carefully consider 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 also continue to use and explore new technology and techniques to make repairs to our network in a way so that customers are not impacted by unforeseen events. We remain well placed to achieve our regulatory targets for the remainder of AMP7.

Regulatory Outcome Delivery Incentive ("ODI") performance

We have delivered our target on Water Industry National Environment Programme (WINEP) delivery and the biodiversity grant scheme. The one outstanding WINEP scheme from last year was completed and approved. We have provided £148.5k of our biodiversity grants against a target of £150k, another strong performance with more schemes enhancing the environment within our area.

WE CONTINUE TO MAINTAIN ONE OF THE BEST LEVELS OF PERFORMANCE IN THE INDUSTRY FOR INTERRUPTIONS TO SUPPLY FOR CUSTOMERS.

OUR PEOPLE

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.

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.

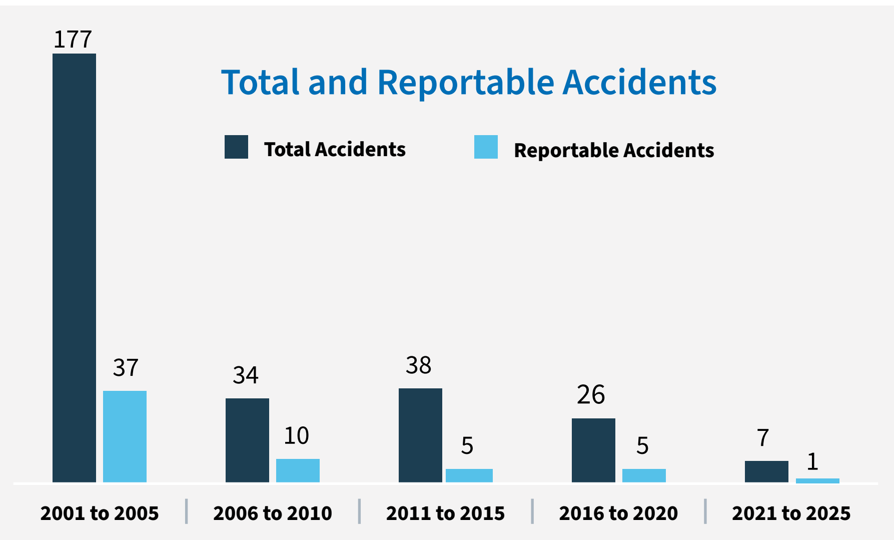
We also have in place an ongoing programme of company wide campaigns and initiatives which form part of our extensive staff training and development plans. These actions have enabled the business to record a dramatic fall in the number of accidents over the last 15 years clearly illustrating the emphasis and priority given to Health and Safety at Portsmouth Water.

We were awarded RoSPA's "Order of Distinction" for the fourth consecutive year. 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 the impact of the COVID-19 pandemic across nearly all our operations over this time period.

Number of Accidents in 2022

We measure the number of accidents through a calendar year. A reportable accident means someone has been injured to an extent they are off work for over 7 days. Unfortunately we had our first reportable accident since 2019 in the year, so accordingly we missed our 'zero' target for 2022/23.

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. The company will continue to prioritise this area going forward.



Modernising our Terms and Conditions

During the past twelve months we have worked closely with our staff and trade unions to agree upon a way to modernise our Terms and Conditions. We have slightly increased the length of the working week for those employees who wanted that arrangement. This allows us to further improve our service to customers whilst offering a package to our staff that rivals other local employers. This includes salaries as well as other benefits.

In addition to a significant salary rise, there are increased pension contributions (detailed below) and a new employee wide bonus scheme which directly links to ODI, and customer performance. With our continued training, upskilling, graduate recruitment and apprentice programs we believe that Portsmouth Water is now recognised as an excellent place to develop your career.

As well as the new Terms and Conditions we have also moved out of the pandemic but continued to offer staff flexible working and working from home opportunities that first arose at the start of COVID-19. We believe this allows us to attract individuals to the business that previously would not have been able to join the Company.

Pension Scheme Changes

Portsmouth Water has historically supported two pension schemes – the Brockhampton Pension Scheme, a defined benefit (DB) scheme for employees who joined before 2011, and a Group Personal Defined Contribution (DC) scheme for those who subsequently entered the business.

A recent Actuarial Valuation within the DB scheme highlighted the need for an ongoing contribution rate for future accrual of over 40%.

The Board took the decision that this was unaffordable going forward, hard to justify to customers, and gave an imbalance of benefits between the third of employees in the DB scheme over those in the DC scheme.

In 2022, the business entered into a consultation period with DB members with a view to closing the scheme to future accrual. After that consultation and amendments to the proposals, the members unanimously agreed to the cessation of accrual after 31 March 2023. We thank those employees for the manner in which they engaged with the business during that consultation.

As a result of the saving of contributions in the DB scheme, the Company is now able to increase its contribution into the DC scheme for each member up to a maximum of 15%. We believe this is an excellent pension provision for staff, reflects our modernised benefit offering, and is helping each individual build a benefit that will help them long after their career is over.

OUR PEOPLE

Investing in Our Future

We are firmly committed to the development of our staff such 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, and during the 2022/23 we funded and supported 14 employees to undertake further education qualifications.

We have a strong relationship with Portsmouth University hosting student placements within our company. As an example, the Catchment & Environment Team have employed a student placement to support their duties as well as the student being able to undertake their dissertation thesis on water quality research on Nano-plastic pollution in the environment.

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 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.

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 close to £0.5 million from the Apprenticeship Levy for the development of our staff.

WE HAVE UNDERTAKEN A £1.5 MILLION TRAINING PROGRAM FOR OPERATIONAL STAFF

NON-REGULATED BUSINESS

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

On-site solar generation and energy storage

In the last year, 1.3MWp of new solar generation capacity across 5 different sites has been added onto the PW network and has already started to deliver low carbon and low-cost energy at the sites where we need it most. As well as reducing carbon, the investment in solar reduces Portsmouth Water's exposure to energy price volatility and also delivers a long term revenue stream into the non-regulated business (Brockhampton Solutions Ltd) with a guaranteed off take agreement (PPA) signed with Portsmouth Water.

In the coming year, there will be further development in solar and renewable energy. We already have permitted development rights agreed for 2.8MWp of new solar at our Farlington WTW and we are making plans for a further 2.5MWp to be built across several other sites.

The project to deliver large scale Battery Energy Storage Systems (BESS) at two PW sites has also progressed well this year. Grid capacity has been secured and the preplanning is complete with the full planning application now underway at both sites.

There is only limited further work required at both sites for network upgrades locally, but progression is dependent on the National Grid ESO works which is now critical to our rate of future progress.

HomeServe

Our relationship with HomeServe has continued to expand, with over 3,000 new policy sales made this year and an overall increase in customer numbers of over 1,000 policy bundles. Particularly impressive is the growth in sales through the Value-Added Services channel, which accounted for 1,200 of these new sales, representing a 2% transfer rate of all inbound customer service calls. This year is the start of the 4th and final year of the existing contract and negotiations will now start for a new agreement to commence in January 2024.

Further development of meter reading capability

Having successfully replaced the meter reading software and hardware this year, the new Non-Household (NHH) meter reading service formally started in July and since then 15,000 NHH meters have been read with an industry leading 'skip' rate of 6% ('skips' are the meters that can't be read because they can't be found or are missing).

Following a successful trial in December, a 12-month pilot for NHH meter reading outside of the area of PW's supply will commence in Redhill, Guildford, and Brighton, which will double the number of NHH meters to be read annually.

If the pilot is successful, the in / out of regional teams will be harmonised to deliver flexibility and cost-effective solutions that can be scaled up as demand for the service increases.

Since go-live, our addition of new software is supporting a much more efficient meter reading team, with a 50% reduction in miles driven per meter read, compared to the same period last year.

OUR ENVIRONMENT

Portsmouth Water has made a commitment to support conservation and biodiversity.

As part of the commitment to our environment we employ an Environment and Biodiversity Specialist to guide us to:

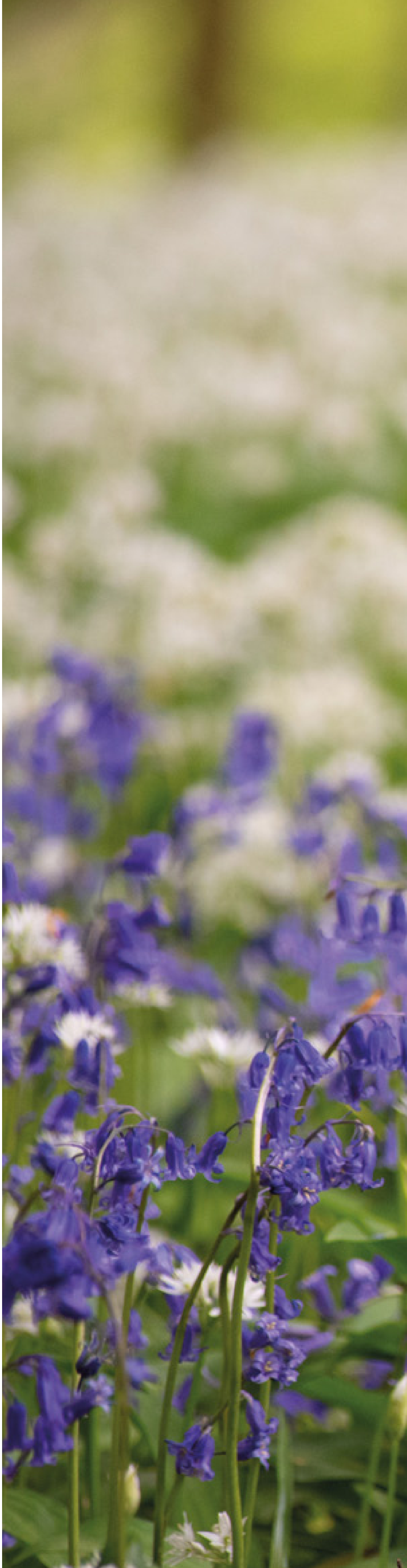
- Raise awareness within the business of environmental issues and constraints, especially when we plan new capital schemes, to ensure any negative impacts are avoided, minimised or mitigated;
- Provide advice to the engineering teams on all aspects of environmental legislation and biodiversity;
- Work 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.'

The following conservation activities have been completed in 2022/23:

- We employed an experienced botanist to carry out detailed vegetation monitoring on a number of sites and produce survey reports;

  List of reports: Fishbourne Woodland, Clanfield, Lavant and Littleheath and Street End Service Reservoirs, Newtown Pump Station, Northbrook, Soberton, and Slindon WTW, Nursery Booster. Woodmancote, Whiteways Lodge and Worlds End pump stations.

- We planted new hedgerows at Bidbury Mead and Walderton WTW 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 revisited hedging that was planted in the last 3 years to assess their condition, replanting where necessary.
- We have obtained 10 Black Poplar trees to plant on our land. Black Poplars are rare species and as an organisation we are working with Arun and Rother Rivers Trust (ARRT) on their plan to re-populate Sussex with these trees.
- We have also planted more Elm trees on our land as part of an ongoing project. They support the White-letter Hairstreak butterfly, which is rare in the UK.
- Woodland thinning, coppicing, reed removal and scrub management was carried out at Maindell WTW, Itchen, Fishbourne and Lovedean WTW, Hoe and Norehill Reservoir. This will allow remaining trees to have the space to mature, and increase the biodiversity at the sites.
- Supported our Solar Panel development with biodiversity assessments.
- Himalayan Balsam (Invasive Non Native species) was removed at Itchen WTW and the Hermitage stream near Bedhampton.
- Japanese Knotweed (Invasive Non Native species) was controlled at numerous Havant and Bedhampton sites.



Case Study

Capital Grant Scheme

Farm Infrastructure Audit:

New pesticide spraying filling area and bio-bed **– Bedhampton and Havant Springs**

We employed ADAS to undertake farm infrastructure visits to assess the activities and infrastructure on individual farms and where improvements are needed to prevent pollution and water quality impacts, so that we can provide funding to support these improvements.

Results achieved were as follows:

- The farm has just relocated and constructed a new area for the sprayer filling.
- There is a bunded concrete fill area, with its runoff and washings collected in a tank and pumped onto a biobed for treatment of dilute pesticide.
- The system has been well constructed and provides now a safe position for sprayer filling.
- It will be fenced off to prevent people walking over the area, as it is potentially contaminated with pesticide and presents an environmental and health risk.

Outcome: The water environment is protected with the safe use and handling of pesticides that will not enter drains or water courses.

OUR ENVIRONMENT

Havant Thicket Reservoir

The Havant Thicket reservoir is an environmentally led project. We will create the first new reservoir in the South East since the 1970s. Its purpose is to protect world renowned chalk streams in Hampshire by supporting Southern Water to reduce their abstraction from these sources.

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.

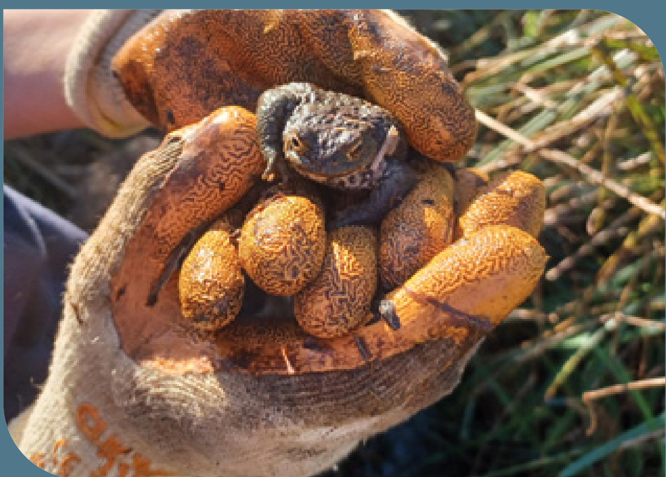
Formal planning permission for Havant Thicket Reservoir was granted in October 2021 and construction has started on site.

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 has included sending qualified ecologists to search the site of the reservoir for wildlife before any construction work begins.

We have worked with specialist ecologists to create new habitats in Havant Thicket and the surrounding woodland.

In the last year we have been busy with our wildlife translocation programme, moving bats, dormice, reptiles, macro invertebrates and amphibian animals.



The tree removal works were mostly completed in October 2022. The work was timed so that we could carry out tasks in an environmentally sensitive way – for example, avoiding bird nesting season. Each tree was inspected to ensure that it was free of bats and birds before felling.

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, with the help of local groups and volunteers, we have relocated around 250 saplings from the site and grown around 200 oak saplings from acorns gathered on site.

As part of the project's award-winning stakeholder engagement work, members of a local interest group, 'Havant Thicket for Nature' helped us to identify trees that we could relocate to areas of the site. With their help, this has been a success and we expect to exceed our target to relocate 80 trees.

As part of the Havant Thicket Reservoir project, Forestry England have been carrying out work 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.

Enabling works were completed in 2022, including the completion of ground investigations and using clay from the reservoir site to build an 8m-high trial embankment. Data has been collected during and after construction of this trial embankment, so that the design and construction of the main embankment can be completed as efficiently as possible.

Initial archaeological investigations were completed during 2022, with archaeologists supervising topsoil excavations. Stone age tools, a Roman coin and mediaeval pottery were discovered. These have helped to inform the scope of archaeological investigations for construction works in the following years.

Improvements were also completed to the B2149, improving road safety prior to construction of a new northern access road to the site. The northern access route will enable most construction traffic to avoid passing though residential areas, minimising disruption to our local communities.

What happens next?

Detailed design is underway, following the award of contracts for the reservoir and the main pipeline.

In 2023, the northern access road will be constructed, followed by construction compounds and welfare facilities. Work will start on the site drainage and access routes, which will pave the way for construction of the main embankment, starting in 2024.

As part of these works, we will continue to take 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 continue their translocation of reptiles, amphibians and macro invertegrates in their active season which runs from April to October.

OUR ENVIRONMENT

Water resources in 2022/23

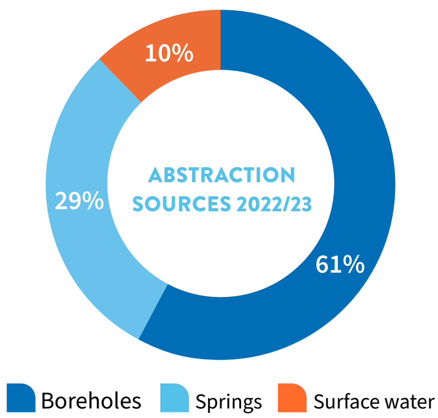
Due to a relatively dry winter in 2021, we started the year with levels of groundwater in the chalk system around the South Downs below long term averages. Groundwater levels are a good indicator of the water available to Portsmouth Water, as we abstract the majority of our water for supply from the chalk aquifer.

With the exception of May, the below average levels of rainfall continued and our groundwater levels decreased rapidly towards our first Drought Trigger. The summer of 2022 saw periods of extreme heat and minimal rain, which led to the crossing of our Level 1 Drought Trigger in August 2022. Level 1 indicates a 'developing drought' scenario and the implementation of our Drought Plan which was published in April 2022.

Throughout the period of the developing drought we launched our enhanced communications campaign to spread awareness of the evolving situation and to provide water efficiency tips, including direct appeals to voluntarily reduce water consumption. We also implemented our enhanced Active Leakage Control and Pressure Management plan. Our demand management actions and efforts from production meant that our groundwater levels did not decline beyond the Level 1 trigger, and we were able to maintain supplies to our customers throughout the summer without the use of mandatory restrictions.

A wet Autumn and plenty of rainfall in the early winter months meant that our groundwater levels rose well above average, and put us back into a good water resource position.

We continue to reflect and learn from our experiences in 2022 through the developing drought event and how these learnings can be taken forwards.



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. We have recently carried out a public consultation on our next draft plan (WRMP24), and will be publishing a statement of response and revised draft plan in the summer. This new plan 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 Water Resources in the South East (WRSE).

This group carried out a public consultation on its draft plan, and is now in the process of developing the final best value regional 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.

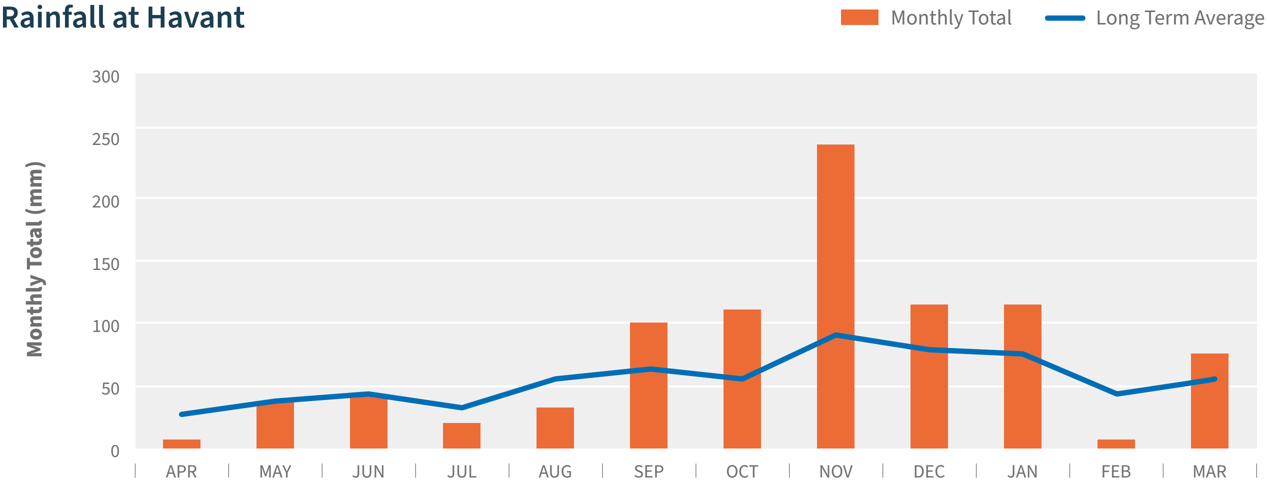
Such a drought does not occur in the historic records and so we are using complex statistics to generate a view of what such an event would feel like and importantly the extra resources and equipment we would need to be in place in order to secure supplies under those conditions.

Planning horizon

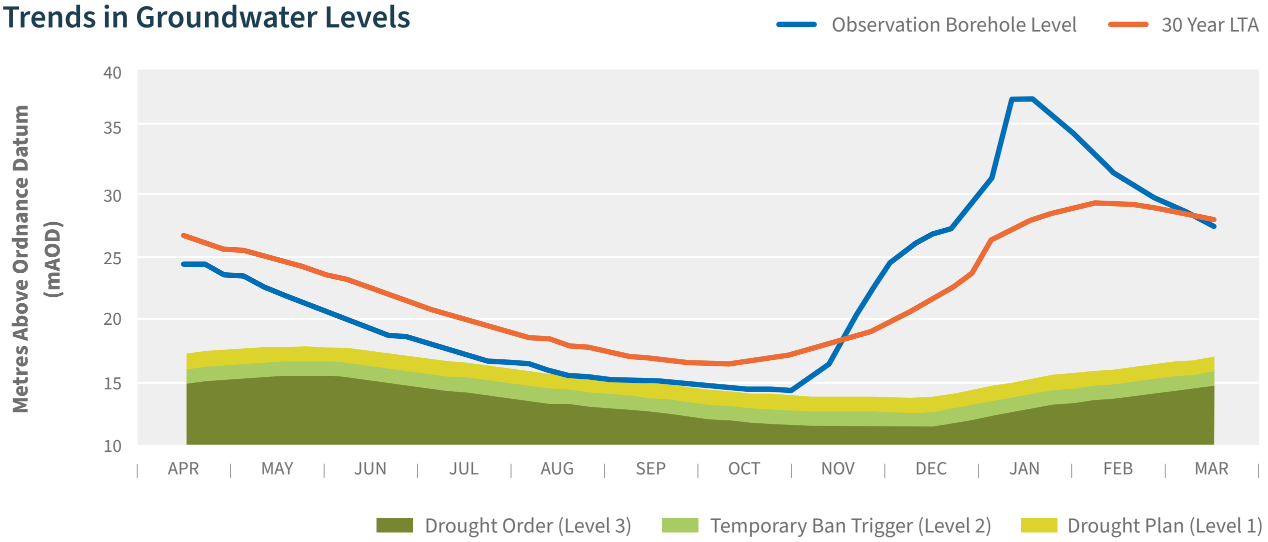
Previous WRMPs were required to plan for the provision of a resilient supply for a minimum of 25 years. We have increased that this time round, by planning for a resilient supply out to the year 2075. There is obviously uncertainty in planning over such long time frames and so we are taking an adaptive 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.

Key trends in local rainfall, groundwater and water demand

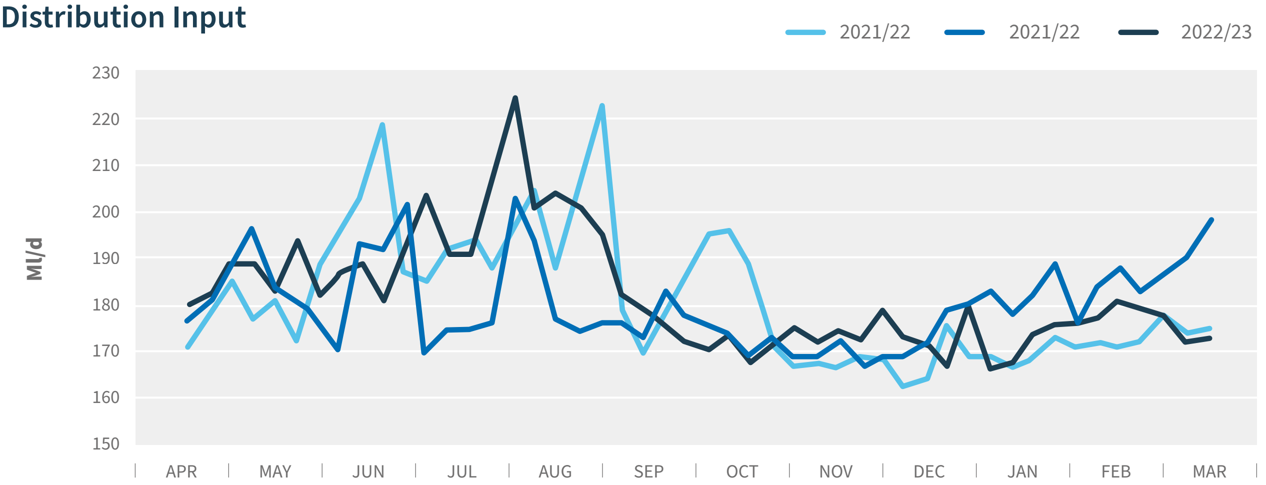
Rainfall at Havant



Trends in Groundwater Levels



Distribution Input



OUR ENVIRONMENT

Biodiversity Management and successful outcomes

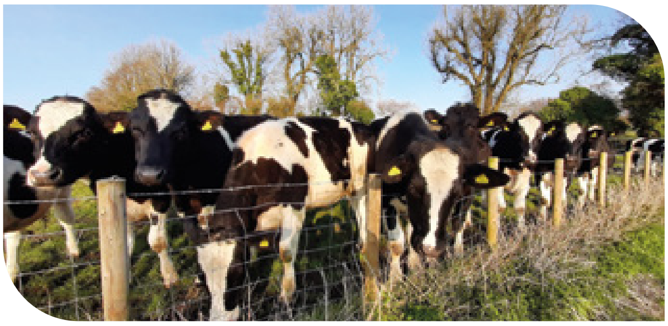
We have been planning and carrying out our winter programme of site enhancements on our own land, including Priority Habitat management and we are into the second year of our Biodiversity Grant Scheme. This is part of our environmental commitments to enhance the habitat network within Portsmouth Water's catchment area.

We received 6 applications for the Grant Scheme this year totalling to just under £50,000. The range of activities include:

- The South Downs National Park used the grant to restore Staple Ash Farm Pond to create an ecological steppingstone between Kingley Vale NNR and West Dean Woods SSSI.
- The South Downs National Park received a grant to undertake a catchment walkover of the River Lavant (West Sussex).
- The walkover will help understand the risks to the river Lavant and the opportunities for improving water quality, flow, habitat improvement and flood management and biodiversity.
- The Arun and Rothers Rivers Trust received a grant to conduct a walkover survey on the river Ems to give a clear idea of its current status and health and to influence future actions on the stream as part of the River Ems 10 year restoration plan.
- The Arun and Rothers Rivers Trust received a grant to purchase water quality monitoring equipment
- Portsmouth City Council received a grant to purchase a mower with both a flail and scythe cutter units designed to work on steep slopes for scrub management on Portsdown SSSI and adjacent areas of conservation value.
- Wickham Parish Council received a grant towards fencing and bank planting to protect water voles at Wickham Water Meadows.

Catchment Management

Our AMP7 WINEP Catchment Management programme has just finished its third 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 where there is a risk of rising levels of nitrates. As a result of the programme over 1500 hectares of arable land has been put into schemes to help reduce nitrate leaching. We have provided funding to farmers for enhanced soil testing that has enabled better nutrient management plans and we have also carried out a significant engagement with the farming community where we have offered pollution prevention advice and provided capital grant funding for infrastructure and equipment improvements to reduce pollution. We are on target to meet our milestones and ODI targets.



Successful outcomes this year

- Started a "living mulch" trial – provides planting cover within winter wheat. Clover provides nitrogen that could offset the requirement to add fertilizer to crops and therefore reduce excess nitrate leaching in to groundwater.
- Completed our 2-year under-sowing trial, planting rye grass between maize crops on a farm. This has successfully shown a significant reduction in soil erosion and reduced nitrate impacts on groundwater. This is now an activity that we provide funding to farmers to replicate on their own farms in order to reduce water quality impacts within our catchments.
- Completed a 3-year trial of our soil carbon toolkit project. This has provided baseline information on individual farms' carbon footprint and soil health. 2 out of the 8 farms within the trial have subsequently become Carbon Neutral with their efforts to increase carbon sequestration and reduced use of fuel and fertilisers.
- Completed 3-year trial on optimising nitrate reduction and foliar nitrate application. Studies in the trial have shown that farmers are generally over applying nitrate (fertilizer) without any improvement to the crops' yield. With our partners, we will publicise these trials and undertake local workshops to raise awareness and encourage wide scale take up of more informed fertilizer processes.
- Responded to over 100 planning applications for development within our groundwater Source Protection Zones and gave specific advice to ensure the protection of groundwater quality.
- Completed our Joint oil care campaign with DEFRA and the Environment Agency. This resulted in continuing with our grant scheme and subsidised OFTEC Inspection programme to reduce rural oil tank failures; uptake has been successful in replacing over 60 poor and potentially polluting tanks since the start of the campaign.

River Lavant (West Sussex) – South Downs

The River Lavant rises in the South Downs National Park and flows west 9 miles to Singleton, then south past West Dean and Lavant to Chichester. It then outflows to Chichester Harbour past the sewage works between Fishbourne and Apuldram. A survey of this stretch of water is necessary to identify areas of risk and of opportunity.

In order to understand the risks to the river Lavant and the opportunities for improving water quality, flow, habitat flood management and biodiversity for the catchment area we funded a survey of a 9 mile stretch. The survey comprised a walk over and captured a range of physical and environmental information including the presence of structures, channel modifications, vegetation and opportunities for improvement. The features and observations recorded are valuable in assessment of the hydromorphological characteristics of the river. Information on additional floodplain features, bankside or floodplain management and hydrology was also recorded. A report and GIS layer of the findings is being produced, including recommendations for creation enhancement or restoration where appropriate.

OUR ENVIRONMENT

CPES

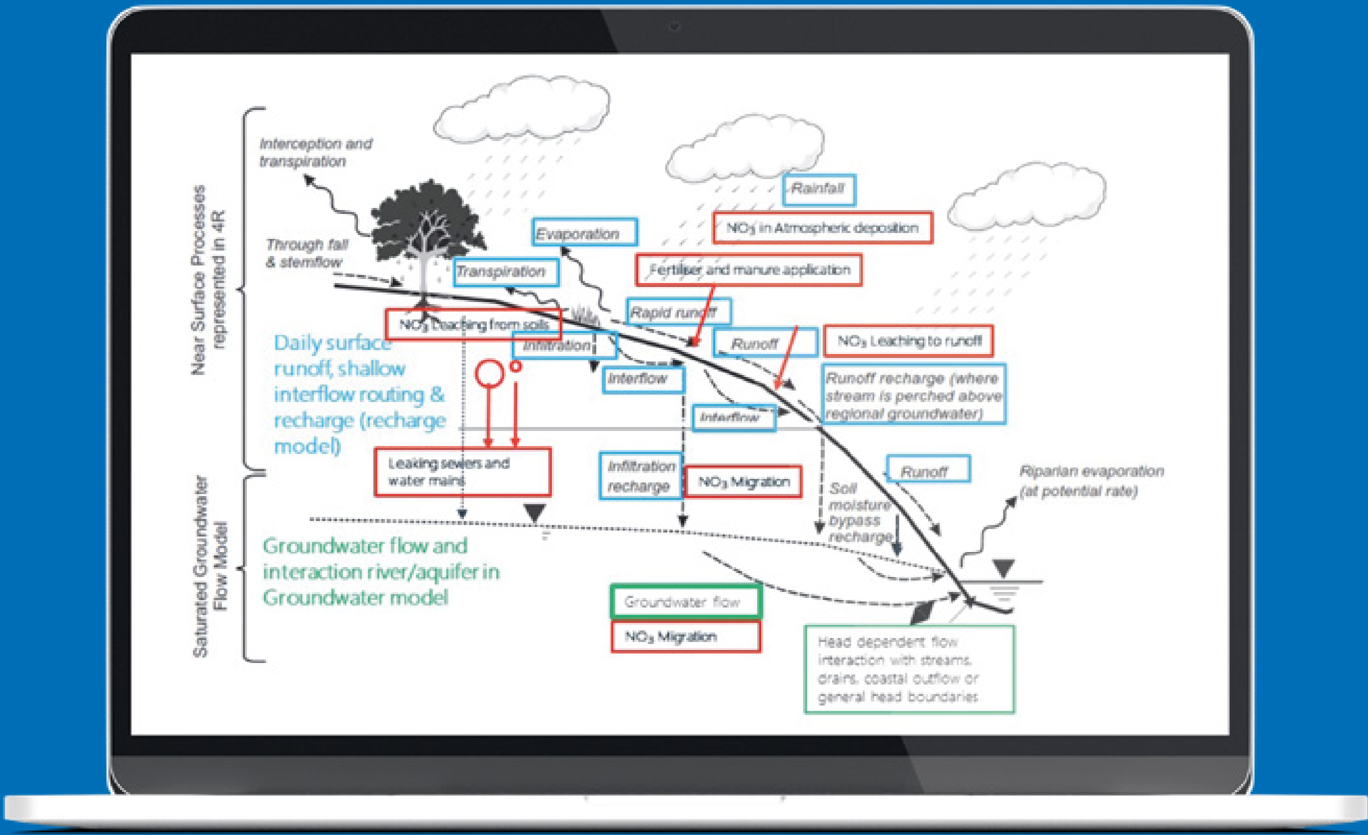
Cross Channel Payments for Ecosystem Services

The Channel Payments for Ecosystem Services (CPES) Project came to an end in the summer of 2022. The project brought just over £200k of funding to support catchment pilot trials to reduce nitrate pollution within our catchments.

This project was a cooperation project under the Interreg VA France (Channel) England program and is co-financed by the European Regional Development Fund. The project aims were 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 had 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 led 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.

cpes-interreg.eu



Ofwat Innovation Breakthrough Challenge Project – Diffusing the Nitrate Time Bomb

Nitrate pollution has long been a threat to chalk derived drinking water and dependent environments in Southern England. Reducing nitrate in drinking water requires expensive treatment or changes in farming practice.

Water companies work with farmers to reduce nitrate inputs, but farmers often lack detailed knowledge of where to focus efforts for efficient, rapid results.

The project will develop modelling software that can predict concentrations throughout the Chalk so that land use options can be tested to select those that deliver efficient nitrate reduction. This will reduce treatment costs and energy consumption and help to protect habitats and biodiversity.

This funding will allow us to develop tools to predict nitrate concentrations in our catchments and to test catchment management scenarios. This means that we can better target our nitrate reduction efforts and further reduce the need for expensive treatment of nitrate for drinking water.

This project has been supported by Ofwat with £154k in funding with contributions from Portsmouth Water and Southern Water of £18k.

UV plant at Farlington WTW

OUR BUSINESS

The year ended 31 March 2023 was the third year of the current Ofwat regulatory review period. We have made positive progress in delivering against challenging ODI targets. In addiction, we have signed the two main works contracts and have also made significant progress in the development of the Havant Thicket Winter Storage Reservoir (HTWSR).

Havant Thicket (HTWSR)

We have made significant progress in the development of the HTWSR project. In particular in the last year we have agreed a revised budget for the reservoir construction with Ofwat, obtained the funding required to complete construction, and placed the major works contracts.

Ownership structure

The Group is wholly owned by Ancala Partners LLP ("Ancala"). This is effected through Ancala Fornia Holdco Limited, an investment holding company based in the UK. Ancala is an independent European midmarket infrastructure investment manager. Ancala is committed to supporting the Company purpose of 'Excellence in Water. Always'. Ancala's ownership is effected through Southern Region Water Holding Limited, registered 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 67 of the Annual Report and Accounts.

Financing structure

The Group has raised up to an additional £495m of financing over the current regulatory period supporting the development of HTWSR and other capital enhancement spend. This was achieved through a combination of £250m of new revolving credit facilities (£45m of this is in parent holding companies), a £75m CPI linked bond and £20m of equity issued in the year, with a further £150m of committed equity.

Ancala have established a continuation fund to support the new equity capital that is committed. Of this, £120m will be deployed in July 2023 with £30m additional equity to follow in 2024. 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 £20m of inter-company loans, for the first time there is a divergence between gearing calculated for banking covenants (which excludes subordinated inter-company debt) and gearing defined by Ofwat which includes subordinated inter-company debt.

Gearing as defined for banking covenant purposes is 69% (2022 - 60%). Gearing as defined by the Ofwat methodology is 78% (2022 - 73%). Reported regulatory gearing does not yet reflect the additional RCV allowance agreed through the cost adjustment mechanism relating to the Havant Thicket project. This allowance will be applied on 1 April 2025. Underlying gearing reflecting this adjustment is 64% (2022: 73%).

Interest Cover

On 31 March 2023 the interest cover ratio, defined by the covenants associated with Company's index linked loan, of 4.23 times (2022 – 2.17 times) remains comfortably above the 1.40 times (at Portsmouth Water level) covenant requirement.

Return on regulatory equity (RoRE)

RoRE, at 3.0% is below the targeted level (6.0%), but is largely reflective of the higher interest costs incurred in the year (2022: 7.2%)

Review of Trading Performance Operating Profit

Operating profit after exceptional items, at £8.1m, shows an increase on the prior year of £4.2m. This is because of a £4.5m exceptional charge associated with restructuring of index linked debt financing prior year. Operating profit before exceptional items is £8.8m, an increase of £0.3m on the prior year.

Revenue

Turnover of £45.4m shows a £2.7m increase from 2022. This increase is due to higher consumption from Non-Household customers, including the increased demand from Southern Water as part of our existing bulk supply agreement.

Operating costs

Operating costs for the year totalled £36.6m compared to £34.2m in the previous year. This £2.4m increase is the result of a £1.3m increase in cost of sales, largely attributable to inflation.

OUR BUSINESS

Exceptional items

There is one exceptional item charged to the Income Statement of £0.8m. This related to the non-recurring costs arising from the decision to close the defined benefit pension scheme to future accrual, effective from 31 March 2023. In the prior year, there was one exceptional cost of £4.5m relating to the restructure of a long term 30 year RPI linked bank loan.

Interest payable and other finance income

Total interest payable for the period increased significantly to £16.9m (2022 - £8.9m). This increase was largely due to the impact of inflation on the RPI linked bank loan. In addition to this interest charged to the Income Statement, an additional £4.1m (2022 - £1.2m) of borrowing costs have now been capitalised in the year into the carrying value of fixed assets, mainly relating to the HTWSR project. Other finance income is driven by the net return on the pension scheme asset of £0.427m (2022 - £0.448m).

Taxation

There is a deferred tax credit in the year of £1.5m, relating to the pre-tax loss recorded of £(6.5)m. There is no current tax charge or tax payable, reflecting the tax losses recorded in the year and the tax losses carried forward from prior years. The prior year tax charge of £1.2m (on pre-tax loss of £(3.8)m) largely arose as a result of the change in tax rates from 19% to 25% impacting the calculation of deferred tax balances being carried forward.

Dividends

Historically dividends have been 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 inter-company 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. This element will stop moving forward as we intend to pay back the inter-company loan in July 2023 with new shareholder equity.

Our dividend reflects a 4% return on the average equity within the RCV to reflect the updated guidance provided with the PR19 Final Determination. The dividend is then adjusted for any other distributions to holding companies relating to inter company loans to ensure total distributions align with Ofwat guidelines.

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.

We paid a dividend of £3.4m for the financial year 2022 which included £0.5m adjustment for strong performance against the 2021 ODI's. The dividend included £0.7m recirculating dividend which will be stopped moving forward.

The Board are proposing a dividend of £2.3m relating to this financial year, which is expected to be paid in July 2023. No interim dividend was paid in 2023 or 2022.

Further analysis supporting the dividend paid for financial year 2022 and proposed for financial year 2023 is included in our Annual Performance Report (APR) including our regulatory accounts. The APR will be published in July 2023.

Capital investments

During the year, capital expenditure on the HTWSR project increased significantly, with a further £27.2m spend in the year, increasing the total direct project spend to 31 March 2023 to £47.3m. Following the signing of the main construction contracts in the year, this will increase significantly again in 2024 and 2025.

In addition to the direct capital spend on the project, to better reflect the true cost of this project and its asset carrying value, the company has amended its fixed asset accounting policy so that borrowing costs incurred by the business relating to construction of all long term capital projects are capitalised during the period of construction. This change in accounting policy has resulted in an additional £6.0m being capitalised into the HTWSR asset value at the 31 March 2023 year end date, with £3.9m of this cost relating to the current year. Further amounts (£0.2m) have also been capitalised into the carrying value of a number of other long term development projects being carried out by the business.

Full details on the impact from the change in accounting policy carried out are set out in Note 1.3 of the financial statements (on page 96).

Capital investments in the year on other capital projects, excluding HTWSR, were £16.1m (2022: £11.0m). Further details on this is given in the Engineering Report on page 40 and 41.

Capital contributions

The Company receives capital contributions, primarily in connection with new mains for housing developments, which amounted to £0.5m (2022 - £0.9m). 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. After consultations with the members of the Scheme during the year, the Scheme was closed for future accrual effective from 31 March 2023. The latest actuarial valuation as at 31 March 2023 was carried out in accordance with FRS102, and this showed a continuing pension net asset surplus.

Following the closure of the scheme to future accrual, it is no longer possible to recognise this pension net asset in the company's financial statements, with the required charge to remove the prior year net asset recognised (£11.0m) being recorded within Other Comprehensive Income.

Cash and cash flow

Cash generated from operations of £11.0m is in line with the prior year (2022 - £10.7m), largely reflecting the consistent levels of operating cashflows generated by the business.

Non-Regulated Business

The Non Regulated business delivered revenues of £0.2m (2022 - £0.3m) and operating profits of £0.2m (2022 - £0.2m) in the year, arising from CON29DW (Drainage and Water) Searches and meter reading services for Non-Household retailers.

TAX STRATEGY

Corporate Structure

The Group structure is set out on page 67. 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. In addition to paying corporation tax, when the company has earned taxable profits, we also contribute to the UK government and wider society as a result of the indirect taxes, employee related taxes and environmental taxes that we pay every year. The Company's tax affairs are managed in a way which takes into account our wider corporate reputation, and at all times are managed in line with the Company's values.

Corporate Interest Restriction

For the periods up to 31 March 2020, Corporate Interest Restriction was applied at a group level and the resulting tax cost was incurred at the wider group level. For periods since 1 April 2020 the group has elected into the Public Benefit Infrastructure Exemption.

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 all tax matters.

The day-to-day management of tax affairs is delegated to the Group Financial Controller, who reports directly to the Chief Financial Officer.

Members of the wider finance team are suitably experienced and trained to a level that ensures tax compliance is maintained at all times and a continuous cycle of training occurs to ensure that skills required within the finance team are relevant and up to date.

For tax filings, specialist taxation advice and support, the company engages the services of suitable Finance, Taxation and Accounting professionals.

Risk Management

Attitude towards tax planning and level of risk

Portsmouth Water Limited manages risks related to compliance with taxation and related legal requirements in a manner which ensures payments of the correct amount of tax on a timely basis.

The Company'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 taxation 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, where we are able to utilise Government tax initiatives, such as the use of Research and Development Tax Credits scheme to reduce our corporation tax charge, we will do so. This helps us 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 claim appropriate levels of capital allowances, and help maximise legitimate taxation opportunities where possible.

Working with HMRC

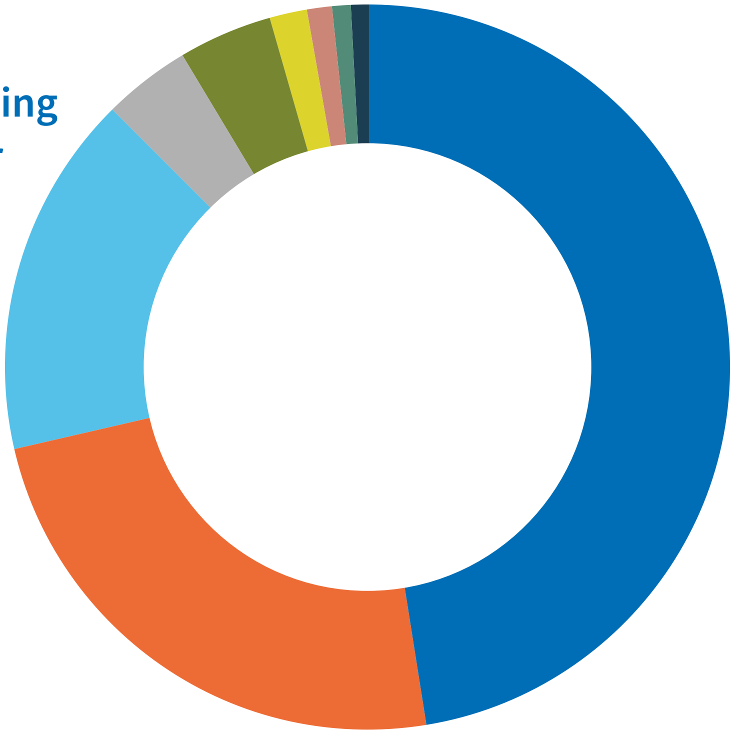
Portsmouth Water seeks to have a transparent, respectful and proactive relationship with HMRC at all times, be that directly or through intermediaries acting on our behalf.

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.

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

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

PAYE	£2,323k
Employer's NI	£1,165k
Employee's NI	£774k
Climate Change Levy	£197k
Permit Schemes	£200k
Fuel Duty	£82k
Insurance Premium Tax	£57k
Road Fund Licence	£34k
Apprenticeship Levy	£38k



Corporate Criminal Offences Code of Conduct

In line with UK government guidance, the Company has performed a taxation risk analysis relating to the potential for tax evasion taking place across the business. From this assessment, the Company has concluded the risks of tax evasion to be low. 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 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 compliance with IR35 legislation for all contractors and suppliers we engage with.

Accountability and Governance

The Board has approved a code of conduct 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 code 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, using the established reporting mechanisms and whistle-blowing process where and when necessary.

Risk assessment and mitigating factors

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

Our commitment

Portsmouth Water is committed to the following principles:

- Our business is carried out fairly, honestly, and openly at all times;
- 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 refusing to carry out an action which may lead to tax evasion.

Chris Milner
Chief Financial Officer

ENGINEERING REPORT

Reservoir inspection and maintenance in progress

Capital Investment

The target Capex was delivered at £16.1m and a fully allocated programme of work is aligned with the PR19 Business plan for the delivery of the remaining £44m of Capital Investment until the end of the AMP. Delivery of the AMP7 Capital Investment programme is a significant challenge due to the reduction of planned work during the pandemic.

These impacts continued during the first quarter of the year, mainly due to recruitment and retention challenges across several delivery departments. The second half of the year recovered strongly as an increase in headcount across the Investments teams lead to an acceleration in output.

The subcontractor framework agreements in place are delivering value through contract rates that were procured prior to recent economic pressures on power generation, materials and labour inflation.

Capital Programme

Mains renewals in the year were as follows:

	2022/23 £m	2021/22 £m
Renewals charged in the income statement	1.5	2.3
Mains renewals capitalised	1.9	1.9
Total mains investments	**3.4**	**4.2**

Over 12km of mains were renewed during the year which represents 0.4% of the total PW network. 80% of all mains renewed were installed using 'pipe insertion' and 'pipe bursting' no dig techniques which minimises the impact on the environment and disruption for customers. Keeping 'open-cut' mains replacement to a minimum has also significantly reduced the unit cost per metre installed. This enables PW to optimise the programme and replace more mains for the available budget. Replacing old mains has a direct benefit to our customers as modelling has demonstrated that the programme has a direct impact on reducing bursts, loss of supply and water quality incidents. Modelling has shown that there has been a significant reduction in bursts as a consequence of the consistent approach to mains renewal programming and targeting.

£1.8m was invested in the annual metering programme that delivered 12,000 new units over the year. Meter Optant uptake remained stable and was comparable with previous years at 1,600 units. However, meter installations for 'change of occupier' and 'company use' saw these programmes accelerate with a strong focus on PCC reduction in advance in advance of the AMP8 smart metering programme.

The reservoir inspection and maintenance programme for the year was successfully delivered with £411k expenditure, in compliance with the 10 yearly regulatory inspection requirements. Nine reservoirs were taken out of service, cleaned and inspected during the year. Remedial works were completed on every site. The remaining years' programme remains a challenge due to the effects of the pandemic on planned work.

Major Capital Schemes

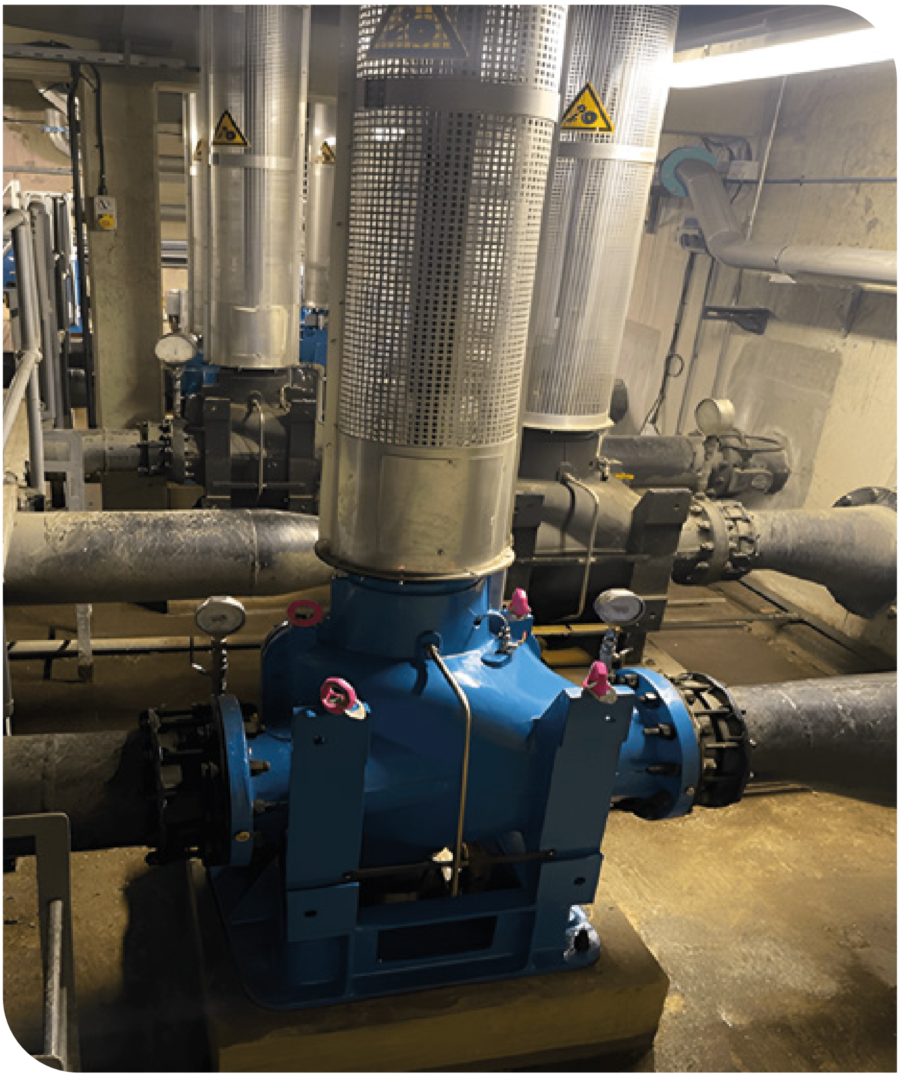
We continued with the development and delivery of several separate defined packages of work under the 'Client Rolling Investment Programme' with a value of £11m. The majority of the investment was concentrated on the replacement of obsolete Telemetry hardware with digital comms, the replacement of integrated alarms and hatches, pressure management projects at Hillsea and Eastern Road, Slindon WTW borehole capping, River Itchen WTW Low lift pump replacement and membrane plant replacement at Lovedean, Itchen and Soberton sites.

Following a detailed review of the disinfection process at all water treatment works, a major project is progressing with a strong focus on scoping, design and procurement to replace the Lavant Water Treatment Works in partnership with a specialist contractor.

This year, the final phase of the AMP7 SEMD project was successfully completed to comply with enhanced security requirements defined by Defra, with 22 wooden doors and 6 alarms replaced with SR4 rated security access to dosing rooms, pumping stations and reservoirs.

Following increases in wholesale energy prices, a project was instigated to investigate the performance of 15 sites that consume 92% of PW's energy and invest in measures to reduce energy consumption. We delivered 20% of the forecast savings with an estimate of 100% savings by the end of 2023/24 mainly focusing on pump performance and optimisation. This will lead to an overall 5% reduction in energy usage by the Company.

A fast track project has been in progress to install a new UV plant in the existing generator building at our Lovedean site to bring the site back into service to meet summer demand.



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.

Energy costs

The UK water industry uses around 3% of the UK's total energy consumption, and is working to reduce its reliance on fossil fuels by increasing its use of renewable energy sources. The Russian invasion of Ukraine has caused a sharp increase in energy prices. Russia is a major supplier of oil and gas to Europe, and the war has disrupted these exports. This has led to a shortage of energy supply, which is driving up prices. The outlook for energy prices in the near term is uncertain. The war in Ukraine is likely to continue to disrupt energy markets, and the global economy is facing a number of headwinds that could further increase demand for energy. However, there are also some positive signs, such as the increasing deployment of renewable energy technologies. Overall, the Russian crisis is having a significant impact on energy prices. It is likely that prices will remain high in the near term, but they could start to decline in the medium to long term if investment in renewable energy continues to grow.

Regulation

The water industry is highly regulated (see page 43 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.

Interest rates /Inflation

The rising cost of energy and debt are putting pressure on water companies' costs. Water companies are also facing higher employment costs and labour shortages, as the industry is a labour-intensive industry, and there is a shortage of skilled workers in the field. This could lead to higher prices for consumers and lower investment in infrastructure.

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 rivers Test and Itchen in Hampshire.

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 voice for water consumers
Llais defnyddwyr dŵr

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 we have a 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 65 the Group is owned by Southern Region Water Holdings Limited, an investment holding company controlled by Ancala Partners LLP, a UK based infrastructure investment fund.

We are financed through an historic RPI linked loan, together with a new CPI linked bond issued in 2023, and additional bank facilities. 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 borrowings at the most 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 on 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 (ODIs).

ODI Performance 2022/23

The company met 18 of the 26 ODI measures. The CSP notes that this is largely in line with the performance in the prior year. The specific ODIs where the Company failed to meet the targets set were as follows:

Compliance Risk Index
The Company had 8 water quality compliance failures in the calendar 2022 year, which gave a maximum estimated CRI impact of 1.24 for the calendar year 2022. We note this is above the 'zero' target, but below the ODI penalty threshold of 2.0, set by the regulator. Drinking Water Inspectorate (DWI) confirmation for some compliance failures will not be completed until July 2023. The sensitivity of this measure and known aluminium issues mean this ODI remains an ongoing risk until the Company's 'Pure Excellence' improvement programme completes its programme of work.

Per Capita Consumption (PCC) and Risk of Severe Restrictions in a Drought
Changes in the household consumption of water seen during the Covid pandemic endured through the year and was further impacted by the extremes in weather seen in 2022. These changes affect both PCC and Drought resilience. Whilst many areas of the UK experienced temporary use bans (hosepipe bans), the Company did not have to implement any such restrictions. However, the threat of such restrictions being imposed in the future remains high. Through the use of innovative campaigns such as Leakbot and Smart Metering trials we are encouraging better customer understanding of personal consumption. We promote water efficiency and water saving gadgets on our website as well as providing a dedicated water efficiency platform for our metered customers. Community events during the summer and a social media campaign help deliver the key message to all customers to use water sparingly.

Household Voids
Disappointingly, the Company has failed to meet the challenging 'void' target. However, void levels continued to decrease as they have year on year since 2019/20. Through collaboration with third party providers, we intend to continue the improvements seen in recent years, and the Company remains confident of further reductions continuing into next year.

Vulnerability
The Company has missed its satisfaction rating for the third year in succession, despite an improvement from the previous year. The Company continues to engage with organisations dedicated to helping vulnerable customers and is committed to increasing the reach of our support framework, recognising the increased impact from the ongoing 'cost of living' crisis on our customers.

Grant Scheme
Promoting and enhancing biodiversity within our region is key to a healthy and diverse environment. We fully support this through the use of Grant schemes. However, due to a small variance in the total value of grants actually awarded in the year, this ODI marginally failed to meet target. Greater visibility in reporting will ensure that this ODI is met for future reporting periods.

Leakage
The Company is disappointed to report that reported Leakage value has increased this year and has therefore missed the target set. Issues surrounding staffing levels have been rectified so allowing for greater detection and repair from the start of 2023. The Company is resolved to improving the situation and has multiple initiatives planned to reduce leakage, from enhances to reporting to more field based 'mains walks' to ensure we detect the largest leaks as early as possible.

Summary

The Company has been transparent in explaining performance and the CSP considers that we have a good understanding of the reasons for failing to meet the various targets set, and the mitigations the Company has put in place to improve in these areas. The company has agreed to provide the CSP with updated plans and timelines against which improvements will be tracked.

Lakh Jemmett

Lakh Jemmett
Chair of Customer Scrutiny Panel
June 2023

THE ISSUES THAT AFFECT US

Regulatory Price Review 2020-2025 and Beyond

Our customers and our community

In 2019/20 the industry concluded the process of the 2020-25 Regulatory Price Review. This process is led by Ofwat, the industry economic 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 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 third year of the current regulatory period, the business has continued to implement its plans to meet the stretching performance commitments that we agreed.

We have experienced pressure on performance related to the hot summer of 2022 and harsh winter of 2022/23, with increased bursts across the year and higher leakage.

Despite these challenges, there has been no impact on service to customers, with no implementation of a Temporary Use Ban and continued low levels of supply interruptions to customers. We have a leakage recovery plan in place to recover our performance in 2023/24. We are also working alongside Southern Water in the programme to deliver additional water resource schemes under the RAPID programme.

Finally, we have continued the process with regulators, stakeholders, customers, and our Board to develop a strategic approach to the challenges of the next price review – PR24. Most notable work streams have significantly progressed 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 (WRMP19) 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.

Led by statutory requirement, our strategic water planning work follows a 5 year cycle. We have recently carried out a public consultation on our next draft plan (WRMP24), and will be publishing a statement of response and revised draft plan in the summer.

Cyber and Related IT Risks

Cybercrime in the UK water industry has been growing and becoming more impactful year on year. Portsmouth Water is aware more than ever of the importance of protecting its customers' data and supply of drinking water. 2022 saw renewed focus on security, with the introduction of measures to improve our leadership, staff awareness and the technology that safeguards our data and business.

Mandatory training takes place across the business so that all our staff are aware and understand how to act if they see suspicious activity. Industry leading technology has been implemented, not just to monitor our systems for abnormal activity, but also to act in response to remove the threat. We have partnered with industry specialists to introduce a plan that enables us to react quickly should a cyber incident occur. Recognising the dependence on our suppliers to be safeguarded against cybercrime, we have implemented a framework for assuring their own cyber practices, only taking on new suppliers that meet our requirements in this area.

Portsmouth Water is transforming not just in its information security practices. The year saw the rollout of a Modern Workplace programme, by providing better communication technology we have enabled improved collaboration and flexibility across the workforce. Replacement of our ageing systems has begun with the delivery of a new customer services system. Leveraging cloud technologies means we are able to further secure and increase the resilience of our core business systems.

DIRECTORS STATEMENT ON STATUTORY DUTIES

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(1) 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 this 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 2023. 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 the matters set out in the "Corporate Governance" section.

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 between members of the company is covered under the "Ownership Structure" and as part of the wider "Corporate Governance" statement.

IMAGE OF HAVANT THICKET RESERVOIR ONCE CONSTRUCTION COMPLETED AND OPERATIONAL

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

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 of water abstraction on sensitive chalk stream habitats in Hampshire. These were reflected in discharging conditions to our planning consent, including the approval of our detailed environmental compensation and mitigation plan by the local planning authority and regulatory bodies.
- Public and stakeholder consultation was also completed for the design of the northern access road, the recreational strategy and a potential improved route for the pipeline that will supply the reservoir with water. If the new pipeline route is approved, then it will result in a reduction in carbon emissions, environmental and community impact, by reducing the pipeline length and using mainly tunnelling instead of open excavations.
- 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 completed, with contracts awarded to Ward & Burke for the pipeline and Future Water (a joint venture of Mackley Construction and Jones Bros) for the reservoir.
- In line with the securing of planning permission and procurement of the two main contracts, Ofwat determined a new regulatory allowance for the project of £339m (£310m at 2017/18 prices). This enabled Portsmouth Water to complete the process of raising the additional funding needed for the project through a combination of debt and shareholder equity.
- The Board of Directors has been closely involved in the project, including a non-executive presence on key programme governance committees and full 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.
- Portsmouth Water has been working to support Southern Water in their 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. Portsmouth Water has been considering the potential for changes to the reservoir which would reduce the impact on construction if Southern Water gets approval for the recycling project. Progression of these alignment works would be subject to a commercial agreement with Southern Water, regulatory approval by Ofwat, and could only be utilised if Southern Water secures planning permission for the scheme.

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 our operational success.

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 2023.

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 publishes 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.

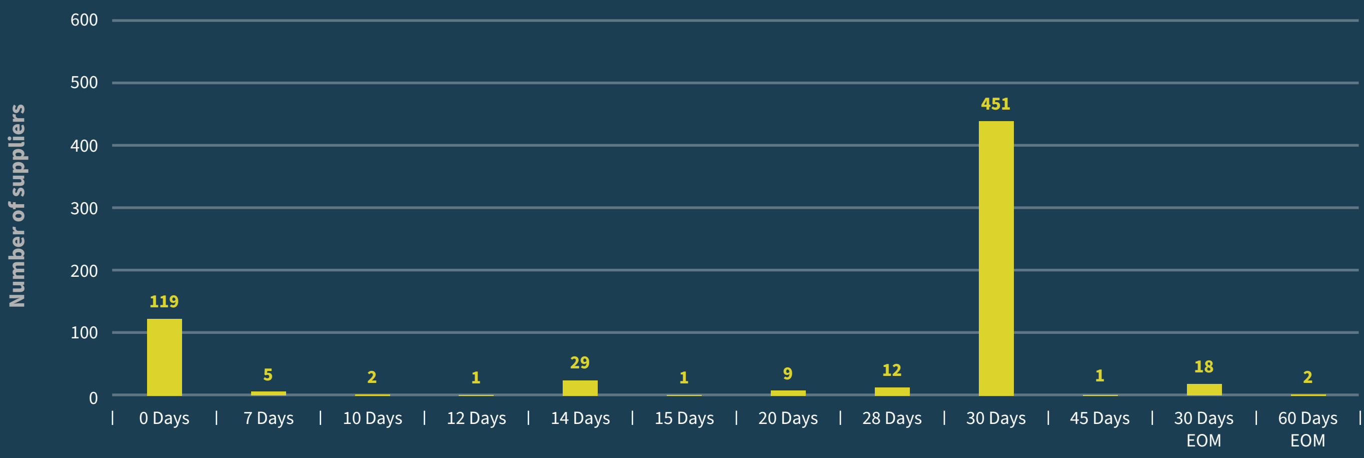
Suppliers are encouraged to follow paper-less invoicing and send their invoices to us digitally. We work with our larger partners to implement electronic invoice processing and reconciliation.

Supply chain finance is not utilised.

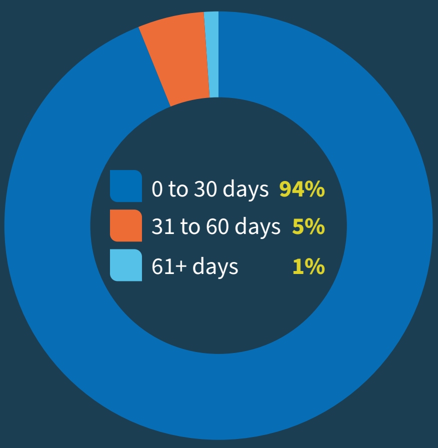
Portsmouth Water aims to exceed the criteria of the Prompt Payment Code but are not currently signatories.

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

Supplier Payment Terms



Breakdown of Percentage Paid



Average number of days taken to make payments within the dates above from receipt of invoice* **19.3 days**

Invoices paid outside of terms in the period:*

	Number of invoices	**% of total invoices processed in period**
Not paid	1,084	7%
Not paid within terms	2,178	13%
Not paid within 30 days of receipt	881	5%
Total	**4,143**	**25%**

Invoices with a receipt date between 1 October 2022 and 31 March 2023

Total Number of those invoices paid	**13,552**
Total Number of those invoices unpaid	**3,081**
Total number of invoices processed during period	**16,633**
Total number of those invoices unpaid but due	**1,084**

*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	Nature	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	Nature	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	Nature	Likelihood	Impact
Financial 1 – Liquidity, solvency, capital risk and credit risk, increased 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, a new CRM and billing system and a proposed roll out of a Smart Metering Programme.	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	Likelihood of occurrence	Impact of occurrence
	● Low ● Medium ● High	● 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. This reduces the likelihood of water quality failure.
↔	• 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 a policies in place to ensure that all relevant legislation is complied with. • Appropriate use of contractors and consultants to support the business needs, especially in key specialist areas which lead strategic change. Changes to Terms and Conditions, being introduced to ensure the business remains competitive regarding retaining and employing staff.
↔	• 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. • Board led Health and Safety review completed during the year and recommended improvement being implemented.

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. • Additional long term resource options continually being identified and assessed.

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 10% of operating costs but prices now largely hedged for the remainder of the AMP. • 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. • Significant preparations underway for the PR24 submission.
↔	• 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 teams. • Signed contract with Southern Water sets out key terms and protections. Contract also signing with Kraken on the CRM and billing system. • Specific regulatory protections including cost adjustment mechanism and licence obligations. • Appropriate financing arrangements have been executed and Defra early funding achieved.
↑	• 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 future period of 12 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 Havant Thicket for 10 years to 2030) and the related Ofwat Final Determination are the primary drivers for the Company's future prospects over the medium term. 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 2035. More information in respect of the regulatory regime is set out in page 43.

The Company has just completed the third year of the current regulatory cycle 2020-2025 (for Havant Thicket the price control period is from 2020-2030) and together with an estimate of the regulatory outcome for the period to 2030 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 (2023/24) financial period.
- Longer 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 2023.

The key business assumptions in the budget related to;

- The extent and duration of ongoing effects of the recovery from the cost of living crisis
- 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
- 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 2023. 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 52 and 53) reflects this consideration of "resilience in the round". Details of the Board risk assessment process are set out on page 73. 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.

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.

The period of assessment

The Board conducted the assessment for a period to 2035, to include AMP8 and AMP9 in full. The Board considers this period to be most appropriate given the current stage of the regulatory review cycle, the longer term nature of the business and the new 10 year Havant Thicket price control. This period covers; for the "core business" the 2 years remaining of the regulatory period and an assessment of the results for the successive two AMPs; and for the Havant Thicket price control the 7 years to the end of the price control and the successive two AMPs. 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. These are the key drivers to the end of the next regulatory period and beyond to 2035.

2. Assessment of viability

The Assessment of Viability therefore uses; for the "core business" a period of 2 years of regulatory business plan to 2025 and a further 10 years of projection to 2035; and for the Havant Thicket price control a period of 7 years of the regulatory business plan together with a further 5 years to 2035. Although these results reflect the Directors' best estimate of the future prospects of the business, they have also stress tested the potential impact on the Company of a number of scenarios. This has been performed by quantifying their financial impact and overlaying this on the financial forecasts. The potential impact has been considered in relation to operating profit, cash flow, liquidity and the key financial ratios needed for banking covenants and the retention of an investment grade credit rating with Moody's (such as covenant and regulatory gearing, and interest cover ("ICR"). These scenarios (which are summarised on pages 56 and 57), 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 52 and 53). 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 Inter-company 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. Discussions with our rating agency indicates that while gearing level remain modest in the Company's projections a lower Interest Cover Ratio may be needed to maintain our current credit rating.

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.

During the year ended 31 March 2023 the Company has performed a number of actions to increase financial resilience, including:

- Secured significant new debt and equity financing, predominantly to support the investment in HTWSR. Equity commitments from shareholders provide mitigation against high interest environments and maintain a relatively low gearing level.
- Renegotiated legacy debt agreements to allow for the inclusion of swap instruments with the Company's capital structure. This hedges the interest rate risks on variable rate debt used to support the HTWSR investment, mitigating against high interest rate sensitivities.
- An RPI for CPI swap agreed after year end aligns the indexation on the Company's inflation linked debt to the same basis that determines revenues.

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 period ending 31 March 2035.

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

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	Borrowings	Capital
Cost of living	Assumption that the cost of living crisis leads to inflation 2% higher than current forecasts in FY24 and FY25. This is accompanied by £0.75m and £0.50m increases in bad debt in FY24 and FY25. £0.5m reduction of EBITDA in AMP7, £3.5m increase in capex cash spend to deliver the same programme. Moody's ICR remains above 1.3x on a 3 year average. Artesian ICR <1.45x (1.44x) in FY27.	Increased borrowing on Opco facility (£2m in AMP7, £15m AMP8, £5m less in AMP9).	✓	✓	
SONIA + 1%	£7.8m increase to interest payments in AMP8, partially mitigated by £3.8m increased in interest received on cash investments. Artesian ICR fails in FY28 (1.44x).	£3.3m drawdown on debt in FY28 , repaid FY29.	✓	✓	
3% RORE ODI penalty	£2.3m penalty per year in AMP8. £14m reduction in EBITDA in AMP8, Artesian ICR at 1.39x and 1.38x in FY26 and FY27 respectively (below the 1.45x target).	An increase in borrowings of £8m in AMP8 (giving rise to £1m more interest payment) - fully repaid in AMP9.	✓	✓	
50bps reduction in AMP8 WACC	AMP8 WACC 50bps lower than projected. £6.7m reduction of AMP8 EBITDA, £11.8m in AMP9. This assumes HT WACC is unchanged from Base Case. Artesian ICR 1.42x in FY27.	Increased borrowing on Opco facility (£2m in AMP8).	✓	✓	
HTWSR 10% overspend + 2 year delay	ODI penalty in FY26 (£1.92m in 17/18 prices) and FY30 (£7.68m in 17/18 prices), together with an increase of £26m cash capex in AMP8, £15.6m in AMP9. Artesian ICR failed in FY27 and FY28 (1.22x and 1.44x respectively).	£28m increase in debt drawdowns (giving rise to £1.4m additional interest) in AMP8, £7m of which repaid in AMP9.		✓	✓
Core business capex overspend 20%	AMP8 capex programme (non HT) overspend at 20%. £34m additional capex cash flow in AMP8, £29m AMP9. Artesian ICR failed in FY26, FY27, FY28 (1.17x, 1.10x and 1.19x respectively).	£38m drawdown in AMP8, £16m of which repaid in AMP9. £3m additional interest paid in both AMPs as a result.		✓	✓

Individual Scenario	Impact (pre mitigation)	Mitigation	Opex	Borrowings	Capital
Combination - 50bps AMP8 WACC reduction and core business capex overspend	£9m EBITDA reduction per AMP, Artesian ICR failed in FY26, 27 and 28 (1.08x, 1.03x and 1.12x respectively).	£38m drawdown in AMP8, £16m of which repaid in AMP9. £3m additional interest paid in both AMPs as a result.	✓	✓	✓
Combination - 1% SONIA increase plus HT overspend and delay	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).	✓	✓	✓
Combination - 1% Sonia increase plus ODI penalty	Artesian ICR failed in FY27 and FY28 (1.21x and 1.35x respectively). £12m reduction in AMP8 EBITDA. £8m increase in interest payments in AMP8.	£28m drawdown in AMP8, £7m repaid in AMP9. Interest payments increased £9m vs base.	✓	✓	
Combination - all negative individual scenarios combined	£31.7m reduction in AMP8 EBITDA, Artesian ICR failed in FY26, FY27 and FY28 (0.99x, 0.54x and 0.74x respectively), Moody's rolling average falls below 1.30x (1.19x) in FY28.	Additional £53m of debt in AMP9, £7m of cost savings in AMP7, £3m in AMP8. Moody's ICR greater than 1.1x while gearing remains sensible so not a risk of downgrade.	✓	✓	✓

CORPORATE RESPONSIBILITY STATEMENT

Affordability

In recent years the UK has seen increasing levels of household debt. We see the rising pressures of the cost-of-living crisis and see these presenting further challenges 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 £109, our average bill for the 2022/23 year 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 £82.73 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 450 customers on this scheme with over 800 having completed it. We have found the Arrears Assist Scheme has been successful in encouraging customers to engage with us about payment of their outstanding 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 or more 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, in 2022 we increased our Customer Support Officer team, 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 appointments with customers;
- Responding to account queries;
- Responding to complaints;
- Dealing with interruptions to the water supply (planned and unplanned); and
- 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.


SOLAR PANELS BEING ADDED TO THE ROOF SPACE AT OUR RIVER ITCHEN WTW SITE

Streamlined Energy and Carbon Reporting (SECR)

We are committed to managing our energy and carbon effectively to minimise our impact on the environment and ensure we are fiscally responsible. Our Net Zero plan sets out 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. In this last year we extended our Bedhampton Springs solar array and brought new solar fields on line at, Eastergate and Hoads Hill.

The roof top array at our Havant head office is also producing power and new arrays at our River Itchen WTW and Worlds End WTW are both constructed and awaiting final connections, programmed in the near future. Our solar panels produced over 350MWh in the year, up from 287MWh last year, enough to power over 120 homes.

Design and planning work is ongoing at some other sites such as Farlington which will help us reach a self-supply of approximately 12% of our energy needs.

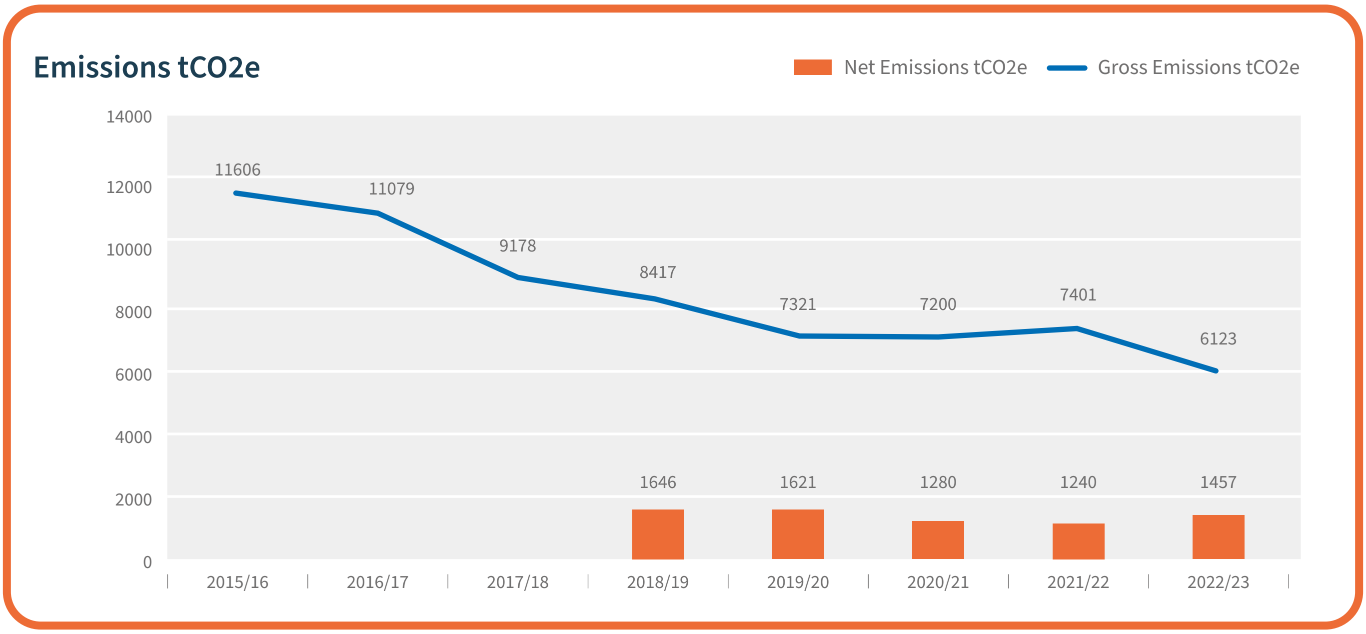
We have replaced the old fluorescent tube lighting in head office with LED lamps. We have combined this with PIR sensors to reduce the number of lights being left on when no one is in the office. We anticipate these two things will save 92,000kWh/year which is the equivalent of 19 tonnes of Carbon.

Our trial fleet of 3 electric vehicles is ongoing. Early, indicative, results are positive with potentially significant operational cost savings to be had with little impact on day-to-day usage. The high capital cost of purchasing the vans is still being investigated to understand its influence on Totex.

As part of our ongoing energy efficiency strategy we have commenced a programme of investment targeted to reduce our annual electricity consumption by 1,150 MWh, or 5%, across our top 15 consuming sites. This investment is primarily focussed on key pumping assets with more optimised and efficient equipment, resulting in reduced electrical demand.

Together with technology such as variable speed drives, this also delivers operational control benefits and, in some cases, facilitates enhanced deployable output. Feasibility and outline design work is complete at the first two sites, Northbrook and Lovedean, with forecast energy reduction of at least 600 MWh per year expected to be realised later in the year.

Net Emissions and energy consumption has increased during the year. This is primarily due to the additional natural gas consumption to heat our head office and operational sites through the harsh winter and additional electricity driven by higher water volume production during the hot summer.



CORPORATE RESPONSIBILITY STATEMENT

The tables below show our energy consumption, greenhouse gas emissions for Scope1 and Scope 2, and also the volume of water we deliver with the energy we use.

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.
- Implement technological solutions and control systems 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.

The increase in energy costs will drive the business to be as efficient as possible which will reduce our operating emissions but also help us towards our ongoing reduction strategy.

kWh Energy Consumed	2020/21	2021/22	2022/23
Electricity	23,300,000	24,184,104	**24,687,573**
Natural Gas	717,000	634,864	**945,699**
Gas Oil	320,143	124,464	**247,193**
Transport	786,200	857,089	**776,542**
Total	25,123,343	25,800,521	**26,657,007**

Volume of Water (Ml/year)	2021/22	2020/21	2022/23
Total	67,700	67,157	**70,143**

tCO^2e Emitted	2021/22	2020/21	2022/23
Scope 1	450	502	**513**
Scope 2 (LB)	5,430	5,108	**6,149**
Scope 3	-	-	-
Total	5,880	5,610	**6,662**

Intensity Ratio (tCO^2e/ML)	2021/22	2020/21	2022/23
Total	0.09	0.08	**0.09**

Gross Greenhouse gas emissions per million litres of water delivered	Units	2019/20	2020/21	2021/22	2022/23
Electricity used	MWh	23,022	23,300	24,184	24,688
Gross greenhouse gas emissions	tCO^2e	5,884	5,880	5,610	6,662
Water delivered - Distribution input	Ml	62,362	67,700	67,157	70,143
Gross Greenhouse gas emissions per million litres of water delivered	$KgCO^2$/Ml	94	87	83	95

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 on social media and on line, 'gamification' of water saving challenges through our Get Water Fit website - which also supports local charities through donations - whilst also providing free water saving devices to our customers.

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 save water.

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.

We also ran our water bottles for schools' scheme as normal. 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.

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 third year of a 5 year programme that includes the Payment for Ecosystem Service (PES) package and Capital Grant 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 1500 hectares of arable land in schemes to help reduce nitrate leaching, providing 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 also have a large pilot trial programme where we are carrying out innovative projects with farmers such as planting Cover Crops, companion cropping (clover) and inter-sowing grass in maize. These pilot trials involve a considerable amount of soil testing, porous pot water analysis and crop yield and health assessment so that we can evaluate reductions in nitrate leaching whilst improving yields and profits for farmers. 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 £1.3 million for WaterAid. This funding is used by WaterAid to develop low cost water supply and sanitation infrastructure in developing countries.

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.

CORPORATE RESPONSIBILITY STATEMENT

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 44 operational sites as well as other land that we own. Sites are located in a variety of habitats including chalk downland, river catchments and coastal margins. Habitat management plans have been agreed for all operational sites and a number of other land parcels we own.

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

We have just finished the third year of our Biodiversity Grant Scheme that provides £50,000 each year to organisations that want to create new or maintain and improve existing biodiversity projects. Examples of some projects include creation of dew ponds, restoration of a wetland and eradication of invasive non-native species on the River Itchen.

Data Protection

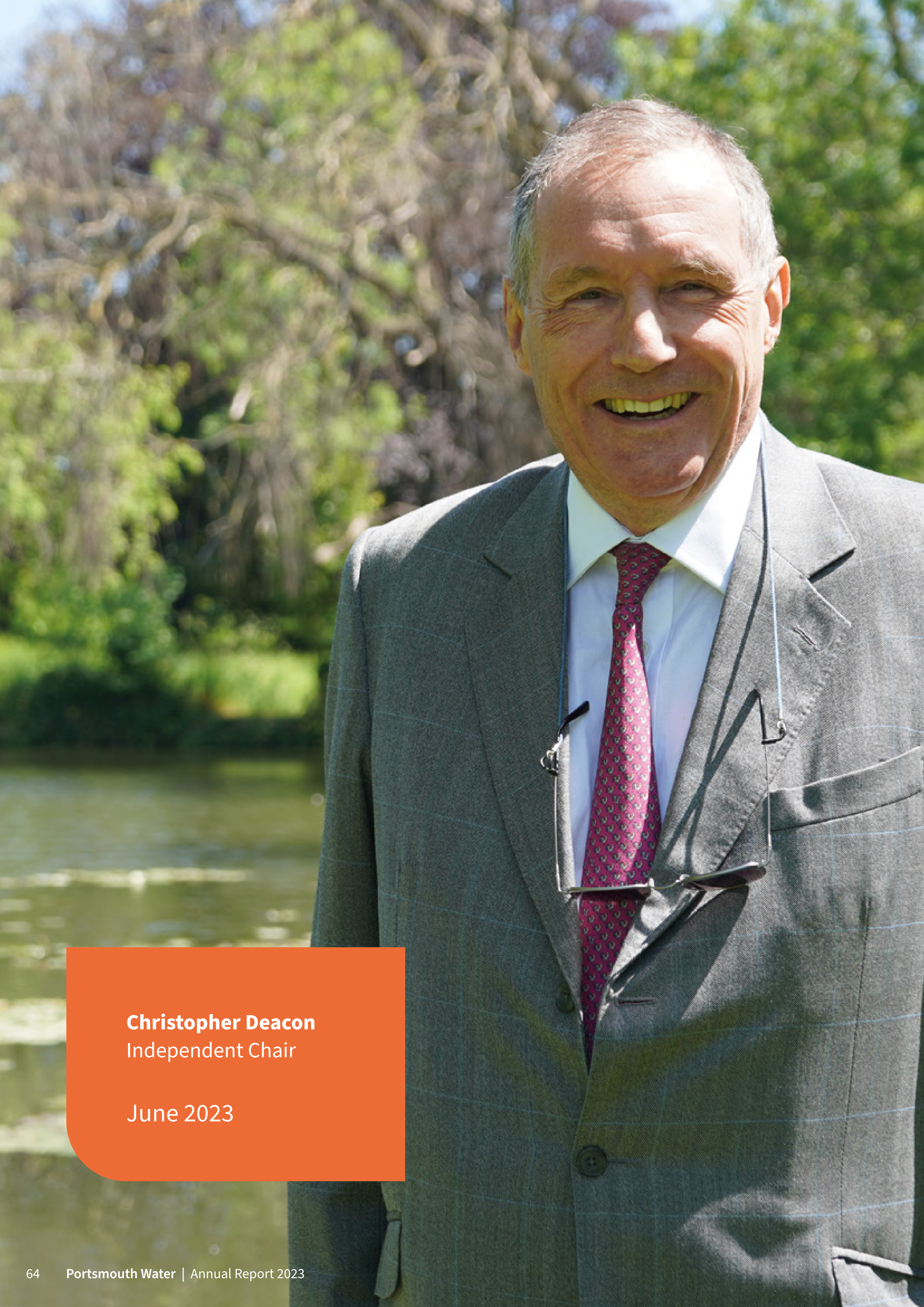
The Company continues to take its obligations under data protection seriously and can confirm that it is compliant with all aspects of data protection law.

The Company's Privacy Notice is available on our website and all employees undertake data protection training when joining the business and this is regularly refreshed throughout their career.

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.

Custom Site Audits

Our custom site audit templates and documents make sure that we are keeping on top of our site energy use and making sure all opportunities for efficiency are noted and reported.



Christopher Deacon
Independent Chair

June 2023

GOVERNANCE

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 74 and 75 how we have complied with the Ofwat provisions.

Dividends

During the first year of COVID-19, in 2020, the Board took the decision to defer dividend payments, as a precautionary measure, until the financial ramifications of the pandemic to the business were clearly understood.

Once the Board were assured the Company was unaffected by COVID-19 it was agreed to pay up those deferred dividends. This gave the impression that in 2021/22 dividends were greater than the Ofwat approved level. We are reviewing the dividend disclosure in our Annual Performance Report to Ofwat to ensure all future payments are clearly detailed to avoid confusion and the rationale for the dividend paid is transparently explained to customers and stakeholders. Along the same lines a recycling dividend to fund an inter-group loan also slightly distorted dividend payments and needed greater explanation. In the past year we have restructured group finances and we will be removing the group debt with the new equity so this will no longer be an issue for the Company.

Executive Bonuses

As a Board we understand the prominence given to Executive bonus levels and the focus on this area from the media and public. We have reviewed and consider the levels of our bonus payments are appropriate to motivate and incentivise the Executives to deliver the stretching targets that are set.

During the year we have held constructive discussions with Ofwat around the individual elements of the targets and accept the Ofwat view that our financial performance targets do not clearly align with customer priorities. Although we cannot change the 2022/23 targets we are amending the future targets to transparently link executive pay to delivery for customers and will ensure at least 2/3rds of the targets achieve this ambition.

Fraud

In early 2023, a Group Company suffered a financial loss as a result of a social engineering fraud event. Although this loss had no impact on Portsmouth Water Limited and the other regulated companies, the Board of Directors have insisted that a number of activities are undertaken by employees of Portsmouth Water to ensure the risk of repeat events are minimised. All employees have repeated their cyber training and an independent review of internal controls and procedures has been completed and the actions arising from the review are being implemented. This will continue to be a key focus for the Board over the next 12 months. The executive Directors have reflected on the incident and agreed with the Board and the Investors that given the loss to investors and the current external concerns on executive pay that it is appropriate for them to forgo the bonus payable for 2022/23.

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 on the next page 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 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 2023 will be prepared at the level of Ancala Fornia Holdco Limited (this will be the largest Group for which consolidated financial statements are prepared).

To finance the additional capital requirements for Havant Thicket Ancala have established a new 'continuation fund' . The new fund will replace existing investments in Ancala Fornia Holdco Limited and a new Singaporean holding company will be established. Following the transaction we anticipate that SWRHL will be liquidated. The transition is expected to complete in July 2023.

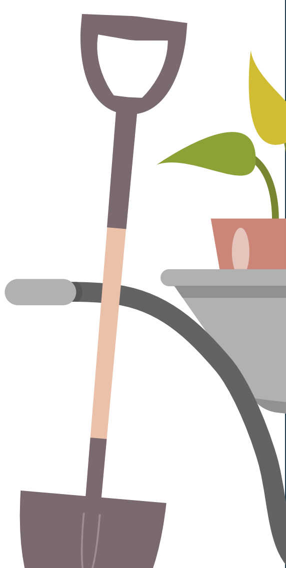
Financing

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 in 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 £130.9m (2022: £116.6m).

In 2022 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 2022/23 the group raised additional debt facilities of up to £325m in order to finance the development of Havant Thicket Winter Storage Reservoir (HTWSR). This was raised under four different debt facilities which comprised a syndicate facility of £155m, a facility with current bankers Lloyds of £50m, a £75m CPI Bond issued in March 2023, and a separate £45m RCF at Brockhampton Holdings Limited. In addition, the Lloyds Bank plc Revolving Credit Facility of £15m was renewed in May 2023.

The new debt was supported with a shareholder equity commitment of £150m. £120m will be deployed in 2023, £60m as equity and £60m to repay an inter-company loan from Portsmouth Water. The remaining £30m of committed capital is anticipated to be drawn in 2024.



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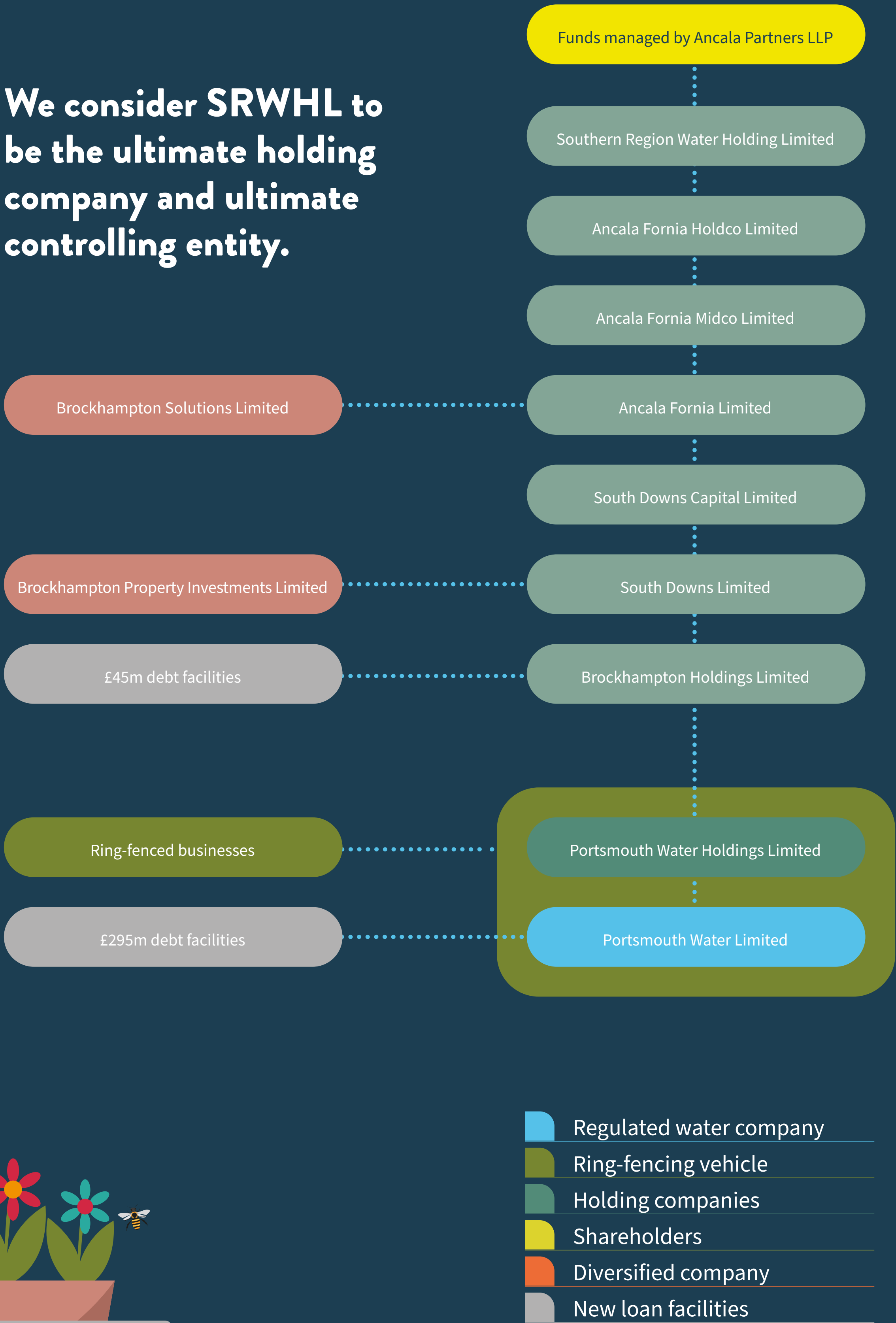

BOARD OF DIRECTORS

Independent Non-Executive Directors

Appointed: 01 May 2020

Christopher Deacon
Independent Chair

MA

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 the 1980s 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.

Appointed: 01 July 2020

Angela Wilson
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. Angela is also a Non-Executive Director at the Greyhound Board of Great Britain.

Appointed: 17 January 2022

Dr.Lara Stoimenova
Independent Non-Executive Director

BSc, PhD, FCA, MA

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. 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).

Executive Directors

Colin Robert Taylor

Chief Executive Officer

Appointed: 01 November 2018

BSc, MSc, MBA, CEng, FICE

With nearly 40 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, past president and Director of the Institute of Water, and a Director of UKWIR.

John Christopher Milner

Chief Financial Officer

Appointed: 01 October 2021

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

Christopher Loughlin

Investor Representative

Appointed: 01 April 2021

BSc, 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.

BOARD OF DIRECTORS

Name of Director	Board Meeting (8)	Audit Meeting (4)	Nomination Meeting (1)	Remuneration Meeting (3)
Chair				
Christopher Deacon	8/8	-	1/1	3/3
Independent Non-Executive Directors				
Angela Wilson	8/8	4/4	0/1	3/3
Dr. Lara Stoimenova	8/8	4/4	0/1	3/3
Executive Directors				
Bob Taylor	8/8	-	1/1	-
Christopher Milner	8/8	-	-	-
Investment Director				
Christopher Loughlin	7/8	-	1/1	-

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 74 and 75 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(1), 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 48 of the accounts. The Board comprises 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 undertook an extensive review of the Company's Purpose, Values and Strategy in partnership with the new Senior Executive Team in the Company. This has now been launched and 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 a 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 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 which is being introduced during 2023 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.

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 76 to 84 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. Havant Thicket Project and also the preparation for PR24 continue to be viewed as such significant projects that they 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 number of changes in the Board composition in the last three 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.

The appointment of Dr. Lara Stoimenova in 2022, 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 two years:

- **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.

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. 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 2023 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.

The Board recently decided that the Audit Committee should take an active role in risk management 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.	Over the past two years 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 2023 we started to introduce 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 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 67 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 36 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 70.
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 78 to 84, 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 page 71. 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 71.
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 71.
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 72. 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 77.
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 77. All new non-executive appointments over the past two years have 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 68 and 69 and in the sections covering the Audit, Nomination and Remuneration Committees.

AUDIT & RISK COMMITTEE

Dr. Lara Stoimenova
Chair of Audit and Risk Committee

June 2023

Audit & Risk Committee Members
Dr. Lara Stoimenova (Chair)
Angela Wilson

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.

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 identified by the Auditors in the course of their work on the audit of 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.

Over the past two years 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 four 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.
- Investigation of social engineering fraud incident and review of financial control environment
- 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.

There has been a conscious effort to reduce the amount of non-audit services procured from KPMG, with much of this work now being undertaken by alternative audit firms.

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 six years.

Following the investigation into the social engineering fraud and review of financial controls the Committee is reviewing options to establish an internal audit function that is reflective of the size and nature of the business and the level of assurance on operational controls and data that is already provided by the external Reporter.

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

Nomination Committee Members

Christopher Deacon (Chair)

Angela Wilson

Bob Taylor

Christopher Loughlin

Dr. Lara Stoimenova

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 once during the year to consider equal opportunities and how to narrow the gender pay gap that exists within the business. In addition the succession plans within the business were also discussed and these will be considered further in 2023.

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

June 2023

Audit & Risk Committee Members

Angela Wilson (Chair)

Christopher Deacon

Dr. Lara Stoimenova

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.

In addition, the Chair of the Committee held constructive discussions with Ofwat around the individual elements of the performance targets and how they align with customer priorities. In light of that discussion the Committee will be changing future targets to reduce the weighting of financial targets so the link to focusing on customer priorities is clear.

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, and of UKWIR, an industry research and development body.

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.	10% of salary into a defined contributions scheme, or equivalent amount paid as salary, increased to 15% from 1 April 2023.	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 maximum bonus potential will increase to 65% (CEO) / 35% (CFO) from 1 April 2023	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 out-performance 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 was one property sale within Portsmouth Water during 2022/23 which realised £0.45m.

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. The table below details the targets for 2022/23. This will be amended for 2023/24 to ensure a clear focus on key customer priorities.

Components of the variable bonus element	Total maximum variable element (Executive Directors)	Total maximum variable element (Senior Leadership Team)	Objective	Percentage of variable bonuses element awarded
Service objectives	20%	6.70%	Achievement of the 10 stretching performance measures (See Service metric targets table below with further information on targets.	10 measures met 100% 8 measures met 75% 6-7 measures met 50% <6 measures 0%
Financial Objective	20%	6.70%	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 up to 40% Capex up to 40% Cash flow up to 20%
Personal objectives	20%	6.70%	Personal objectives (approved by the Remuneration Committee) linked directly to strategic business objectives.	Full or substantial 100% Partial 75% Some progress 50% Incomplete 0%
Total	**60%**	**20%**		

Service metric targets	Ofwat AMP7 Target	Company AMP7 Target	2022/23 spot target
Compliance Risk	0	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	5 mins 45 secs per property
Leakage	15.2% reduction over AMP7	15.2% by year 2022/23	9.2% reduction from 2019/20 base year
PCC	6.3% reduction over AMP7	3.6% reduction over AMP7	3.8% reduction from 2019/20 base year
Mains repairs	73.8 repairs reducing to 68.6 over AMP7	68.3 repairs reducing to 67.3	71.2 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	7.3%
Severe Drought	84% reducing to 32% over AMP7	84% reducing to 32% over AMP7	80%

Financial objectives	Target
EBITDA (before exceptional items)	£16.2m
Capex - programme	£16m
Capex - efficiency	3%
Cash generated from operations - half year	Greater than £6.6m
Cash generated from operations - full year	Greater than £13.5m

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/Fee £000	Benefits £000	Bonus Scheme £000	Sub-total £000	Pension £000	**Total 2023 £000**	**Total 2022 £000**
Executive:							
C. R. Taylor	201	8	-	209	-	**209**	**303**
J. C. Milner (Appointed October 2021)	133	28	-	161	15	**176**	**98**
H. M. G. Orton (Resigned September 2021)	-	-	-	-	-	-	**91**
Non-Executive:							
C. Deacon	52	-	-	52	-	**52**	**47**
Dr. L. Stoimenova (Appointed January 2021)	29	-	-	29	-	**29**	**7**
A. Smith (Wilson)	29	-	-	29	-	**29**	**27**
M. Coffin (Resigned December 2021)	-	-	-	-	-	-	**20**
	444	**36**	-	**480**	**15**	**495**	**593**

The executive Directors have reflected on the fraud incident detailed on page 65 and agreed with Board and Investors that given the loss to investors and the current external concerns on executive pay that it is appropriate for them to forgo the bonus payable for 2022/23 in relation to the annual bonus (variable pay) element and the LTIP1 scheme set out below.

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

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.

	2023 £000	2022 £000
Car benefit	**12**	15
Medical insurance	**2**	3
Other	**22**	7
Total	**36**	25

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.

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.

REMUNERATION COMMITTEE

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	-	60 (6/10 ODIs)	50%	-
Financial objectives:				
EBITDA (before exceptional items)	40%	93%	100%	40%
Capex - programme	20%	103%	100%	20%
Capex - efficiency	20%	0%	0%	0%
Cash generated from operations	20%	0%	0%	0%
				60%
Personal objectives:				
J. C. Milner (Appointed October 2021)	-	95%	100%	-
C. R. Taylor	-	94%	100%	-

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

Performance related bonus amounts earned and potentially payable in 2022/23:

	% of base salary achievable	% of base salary	Potential bonus payable £000
J. C. Milner	30%	21%	28
C. R. Taylor	60%	42%	84

Annual bonus (Variable pay)

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

	Service Objectives %	Financial Objectives %	Personal objectives %	Bonus %
J. C. Milner	33%	33%	33%	100%
C. R. Taylor	33%	33%	33%	100%

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

	Service Objectives %	Financial Objectives %	Personal objectives %	Total %
J. C. Milner	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 £000	Target %	Financial Objectives £000	Target %	Personal objectives £000	Maximum Annual bonus (Variable pay) £000
J. C. Milner	6.7%	9	6.7%	9	6.7%	9	27
C. R. Taylor	13.3%	27	13.3%	27	13.3%	27	80

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

	Target %	Service objectives £000	Target %	Financial Objectives £000	Target %	Personal objectives £000	Annual bonus (Variable pay) Earned £000
J. C. Milner	3.3%	4	4.0%	5	6.7%	9	19
C. R. Taylor	6.7%	13	8.0%	16	13.3%	27	56

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	3.3%	3.3%	3.3%	10%	50%
C. R. Taylor	6.7%	6.7%	6.7%	20%	100%

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

	Target %	Service objectives £000	Target %	Financial Objectives £000	Target %	Personal Objectives £000	Maximum Annual bonus (Variable pay) £000
J. C. Milner	3.3%	4	3.3%	4	3.3%	4	13
C. R. Taylor	6.7%	13	6.7%	13	6.7%	13	40

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

	Achieved %	Service objectives £000	Target %	Financial Objectives £000	Target %	Personal Objectives £000	Annual bonus (Variable pay) Earned £000
J. C. Milner	1.7%	2	2.0%	3	3.3%	4	9
C. R. Taylor	3.3%	7	4.0%	8	6.7%	13	28

All variable pay earned has been calculated 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 at the end of the current AMP period in 2025 and is 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 out-performance £000	Maximum Bonus %	Projected Bonus for 5 Year Period £000
Totex	8,000	4,400	30%	891
Non Regulated EBITDA	4,750	0	30%	0
Total				891

The projected bonus is set out below:

	Maximum %	Project 5 Year Period £000	LTIP2 - earned in year £000
J. C. Milner	25%	231	46
C. R. Taylor	50%	660	132

(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 payable or earned in year

	Annual bonus (Variable pay) payable £000	LTIP1 (Variable pay) payable £000	LTIP2 earned in year £000	Total Bonus £000
J. C. Milner	0	0	46	46
C. R. Taylor	0	0	132	132

The executive Directors have reflected on the fraud incident detailed on page 65 and agreed with Board and Investors that given the loss to investors and the current external concerns on executive pay that it is appropriate for them to forgo the bonus payable for 2022/23 in relation to the annual bonus (variable pay) element and LTIP1 scheme set out above.

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 and Mr. C. R. Taylor are members of the defined contribution scheme. Contributions amounting to £15,000 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:	2018	2019	2020	2021	2022	**2023**
Total remuneration excluding pension (£000)	164	167	240	275	287	**209**

Percentage Change in Remuneration of the Chief Executive Officer

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

% change in:	Chief Executive Officer	Average for all employees
Base Salary[1]	1.5%	6.8%
Benefits[2]	0%	0%

[1]This increase represents the impact of the annual pay award on the average employee salary and includes impact from individual's promotions.

[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 ratio of the following	2023	2022
25th percentile	1:7.91	1:6.31
50th percentile	1:12.02	1:8.61
75th percentile	1:19.86	1:11.48

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 adjust the key performance metrics to reflect Ofwat feedback and ensure that 60% of performance related pay can be transparently linked to performance for customers. Performance will be assessed against stretching targets set in relation the performance levels set out in the business plan for 2020 to 2025.

Approval

This report was approved by the Board on 29 June 2023 and will be subject to shareholder approval at the Annual General Meeting to be held on 26 July 2023.

Angela Wilson

Angela Wilson
Chair of the Remuneration Committee

DIRECTORS REPORT

The Directors have pleasure in presenting their Directors Report for the year ended 31 March 2023.

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 4 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 52 and 53.

Financial Results and Dividends

The Company's loss before taxation amounts to £(6.5)m (2022 - £(3.8)m). After deducting the tax credit of £1.5m (2022 - tax charge of £1.2m), a loss of £(5.0)m has been transferred to reserves (2022 - loss of £(5.3)m).

The Directors have proposed a final dividend in respect of the year ended 31 March 2023 of £2.3m (final dividend in respect of the year ended 31 March 2022 - £3.4m).

Fixed Assets

Capital expenditure on tangible fixed assets was £39.5m (2022 - £16.8m). 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 charge of £0.8m has been reported relating to costs arising from the agreement to close the defined benefit pension scheme to future accrual, which became effective from 31 March 2023. In the year to 31 March 2022, an exceptional charge of £4.5m was recorded relating to 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 items are material, non-recurring and outside the normal course of our business.

Share Capital

In March 2023 the company issued £20.0m of new 'A' ordinary shares to its immediate parent company Portsmouth Water Holdings Limited, as part of a wider refinancing of the company. This was funded from the conversion of £20.0m of loans previously provided by the parent company. Full details of the current issued capital and the details of the current issued capital can be found in note 23 on page 112.

Board of Directors

The Directors who held office at the date of signing of these financial statements are shown on pages 68 and 69.

Mr. C. Deacon, Mrs. A. Wilson, Mr. C. R. Taylor, Mr. C. Loughlin, Mrs. L. Stoimenova and Mr. J. C. Milner who retire by rotation, offer themselves for re-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 2023, 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 a weekly management blog and a series of staff presentations. In addition, the Joint Information and Consultative Committee met regularly and ensured effective communication with employee representatives. The executive Directors review the minutes from the meetings.

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

The Company's policy regarding the employment of disabled persons is included on page 44.

DIRECTORS REPORT

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 6,149 tCO^2e (2022 - 5,108 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

C. Hardyman ACIS Secretary
PO Box 8, West Street,
Havant, Hampshire

29 June 2023

Registered Office

PO Box 8
West Street
Havant
Hampshire
PO9 1LG

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

Company Number: 2536455

Company Secretary: Christopher Hardyman ACIS

Registered Address of the Ultimate Holding Company

Southern Region Water Holding Limited
3001A, 30th Floor
118 Connaught Road West
Sai Ying Pun
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Auditor

KPMG LLP, Gateway House, Tollgate,
Chandlers Ford SO53 3TG

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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 2023 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 2023 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 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 86, 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

29 June 2023

INCOME STATEMENT

For the year ended 31 March 2023

	Notes	**2023 £000**	2022 (restated) £000
Turnover	3	**45,446**	42,670
Cost of sales	-	**(27,176)**	(25,864)
Gross profit	-	**18,270**	16,806
Net operating expenses	4,5	**(9,467)**	(8,316)
Operating profit before profit/(loss) on disposal of fixed assets and exceptional items	-	**8,803**	8,490
Profit/(loss) on disposal of fixed assets and investment properties	6	**142**	(62)
Exceptional items - Financing restructure fees	19	**-**	(4,519)
- Settlement and related costs on pension scheme	25	**(820)**	-
Operating profit after profit/(loss) on disposal of fixed assets and exceptional items	-	**8,125**	3,909
Investment income	7	**1,920**	686
Other finance income	25	**427**	448
Interest payable and similar charges	8	**(16,931)**	(8,883)
Loss on ordinary activities before tax	6	**(6,459)**	(3,840)
Taxation on loss on ordinary activities	9	**1,462**	(1,484)
Loss for the financial year	-	**(4,997)**	(5,324)

The accompanying notes form part of these financial statements.
The income statement has been prepared on the basis that all operations are continuing.
The prior year balances have been restated for the impact from the change in accounting policy as detailed in Note 1.3.

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2023

	Notes	**2023 £000**	2022 (restated) £000
Loss for the financial year	-	**(4,997)**	(5,324)
Remeasurement of net defined benefit pension scheme asset	25	**(14,142)**	(7,174)
Gain on deferred tax relating to pension asset	21	**3,535**	489
Total comprehensive loss for the year	-	**(15,604)**	(12,009)

The accompanying notes form part of these financial statements.
The prior year balances have been restated for the impact from the change in accounting policy as detailed in Note 1.3

STATEMENT OF FINANCIAL POSITION

For the year ended 31 March 2023

	Notes	**2023 £000**	**2023 £000**	2022 (restated) £000	2022 (restated) £000
Fixed assets					
Intangible fixed assets	11	**5,032**	-	1,575	-
Investment properties	12	-	-	325	-
Tangible fixed assets	13	**211,244**	-	174,569	-
Investments	14	**55,484**	-	55,484	-
	-	-	**271,760**	-	231,953
Current assets					
Investments	15	**2**	-	2	-
Stock	-	**659**	-	575	-
Debtors	16	**15,264**	-	11,296	-
Cash at bank and in hand	17	**54,073**	-	25,694	-
	-	**69,998**	-	37,567	-
Creditors: Amounts falling due within one year	18	**(24,944)**	-	(37,323)	-
Net current assets			**45,054**	-	244
Total assets less current liabilities	-	-	**316,814**	-	232,197
Creditors: Amounts falling due after more than one year	19	-	**(222,335)**	-	(148,155)
Deferred income	20	-	**(34,510)**	-	(34,737)
Provisions for liabilities	21	-	**(9,047)**	-	(10,378)
Net assets excluding pension asset	-	-	**50,922**	-	38,927
Pension asset	25	-	-	-	10,996
Net assets including pension asset	-	-	**50,922**	-	49,923

Capital and reserves					
Called up share capital	23	-	**21,078**	-	1,078
Share premium account	23	-	**9,382**	-	9,382
Capital redemption reserve	-	-	**3,250**	-	3,250
Profit and loss account	-	-	**17,212**	-	36,213
Shareholder' funds	-	-	**50,922**	-	49,923

The accompanying notes form part of these financial statements.
The prior year balances have been restated for the impact from the change in accounting policy as detailed in Note 1.3.
The accounts were authorised for issue and approved by the Board on 29 June 2023 and signed on its behalf by

J. C. Milner
Director
Company Number: 2536455

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2023

	Called up share capital £000	Share Premium account £000	Capital redemption reserve £000	Retained earnings £000	Total £000
Balance at 31 March 2021 (as previously reported)	1,078	9,382	3,250	52,598	66,308
Prior year adjustment (see Note 1.3)	-	-	-	739	739
Balance at 31 March 2021 (as restated)	1,078	9,382	3,250	53,337	67,047
Loss for the year (restated)	-	-	-	(5,324)	(5,324)
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	-	-	-	(12,009)	(12,009)
Dividends	-	-	-	(5,115)	(5,115)
Balance at 31 March 2022 (as restated)	**1,078**	**9,382**	**3,250**	**36,213**	**49,923**
Loss for the year	-	-	-	(4,997)	(4,997)
Remeasurement of net defined benefit asset	-	-	-	(14,142)	(14,142)
Movement on deferred tax relating to pension scheme	-	-	-	3,535	3,535
Total comprehensive loss for the year	-	-	-	(15,604)	(15,604)
Share issue in the year	20,000	-	-	-	20,000
Dividends	-	-	-	(3,397)	(3,397)
Balance at 31 March 2023	**21,078**	**9,382**	**3,250**	**17,212**	**50,922**

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 2023

	Notes	**2023 £000**	**2023 £000**	2022 (restated) £000	2022 (restated) £000
Cash generated from operations	24	-	**11,022**	-	10,654
Tax paid for group relief	-	**(23)**	-	-	
Net cash inflow from operating activities	-	-	**10,999**	-	10,654
Cash flows from investing activities					
Purchase of tangible fixed assets (including borrowing costs)	-	**(43,329)**	-	(17,851)	-
Purchase of intangible fixed assets (including borrowing costs)	-	**(3,151)**	-	(981)	-
Capital contributions received	-	**453**	-	865	-
Sale of tangible fixed assets and investment properties	-	**467**	-	3	-
Interest received	-	**686**	-	240	-
Net cash used in investing activities		-	**(44,874)**	-	(17,724)
Cash flows from financing activities					
Receipts from external borrowings	-	**75,000**	-	23,500	-
Repayment of external borrowings	-	**(22,500)**	-	(10,500)	-
Repayment of subordinated inter-group loan	-	**(4,000)**	-	-	-
Receipts from issue of new ordinary share capital	-	**20,000**	-	-	-
Equity dividends paid	-	**(3,397)**	-	(5,115)	-
Interest paid (excluding borrowing costs capitalised)	-	**(2,849)**	-	(3,498)	-
Net cash generated in financing activities	-	-	**62,254**	-	4,387
Net increase / (decrease) in cash and cash equivalents	-	-	**28,379**	-	(2,683)
Cash and cash equivalents at beginning of year	-	-	**25,694**	-	28,377
Cash and cash equivalents at end of year	17	-	**54,073**	-	25,694

The accompanying notes form part of these financial statements.
The prior year balances have been restated for the impact from the change in accounting policy as detailed in Note 1.3.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023

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. To this, core business downsides have been considered, including customer debt problems arising from the cost of living crisis, water quality events, together with cost inflation pressures on a number of key inputs including specific commodity prices. 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, including additional financing secured in 2023. Scenarios have been assessed for increased costs to the HTWSR scheme with the assumption that reasonably likely increases in costs would be supported by Ofwat through the ongoing cost adjustment mechanism and the parent shareholder Ancala would provide further capital support through additional equity.

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 additional draw down of the Company's available financing facilities, reduction in infrastructure renewals and related capital activities, and management of staff related costs including training, overtime and recruitment.

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 2023

1. Accounting policies (continued)

1.3 Change in accounting policy – capitalisation of borrowing costs

During the year, the Directors have assessed the accounting policy previously applied to the recording of costs incurred relating to the acquisition and construction of tangible and intangible fixed assets. FRS102 allows a choice as to whether borrowing costs incurred by an entity during the period when the fixed asset is undergoing development and construction should be capitalised as part of the carrying value of the asset.

Historically, the level and nature of the assets held and the borrowing costs incurred, that would meet the required FRS102 criteria for such capitalisation to take place, was not considered to be material. Accordingly no borrowing costs were capitalised. Following the significant progress and developments made during the year to 31 March 2023 on the Havant Thicket Winter Storage Reservoir ('HTWSR'), as set out in the Strategic Report, it was clear that the costs to be incurred on the HTWSR will be significant, including material levels of borrowing costs required to fund the asset development and construction before it becomes operational. Accordingly, in order for the HTWSR asset value to better reflect the full cost of the asset over this development and construction period, the company has amended its accounting policy such that borrowing costs incurred in the development and construction period of all tangible and intangible fixed assets that meet the FRS102 criteria, should be capitalised. The FRS102 criteria is set out in Note 1.6 and 1.7.

In line with the requirements of FRS102, this change in accounting policy has resulted in the restatement of prior year balances reported, and has amended the current year balances reported. The adjustments required impact the following account balances:

- Tangible fixed assets: additional costs to be recorded in the carrying value of assets under construction. For the HTWSR asset, this impacts the asset value reported as at 31 March 2021, 31 March 2022 and 31 March 2023;
- Intangible fixed assets: additional costs to be recorded in the carrying value of certain long term development assets under construction. This has no impact on the asset values reported as at 31 March 2021 or 31 March 2022, but has impacted the asset values as at 31 March 2023;
- Borrowing costs written off: reduced borrowing costs recorded in the income statement for periods ending up to 31 March 2021, and for the year ended 31 March 2022 and 31 March 2023; and
- Taxation balances: amended deferred taxation charges/credits recorded in the income statement for periods ending up to 31 March 2021, and for the year ended 31 March 2022 and 31 March 2023, as well as the deferred taxation balances carried at each of these year end dates.

As a result of this change in accounting policy, the Retained Earnings Reserve and Net Equity of the company as at 31 March 2021 increased by £739k, with an increase to Tangible Fixed Assets of £985k and an increase to the Deferred Tax liability provision of £246k. The tables below show the amount of adjustment for each financial statement account balance affected by this change in accounting policy for the years ended 31 March 2022 and 31 March 2023:

Impact on the Income Statement for Year Ended 31 March:

	2023 £000	2022 £000
Interest payable and similar charges (reduction)	**4,090**	1,190
Taxation on profit/(loss) on ordinary activities (reduction)	**(1,022)**	(298)
Loss for the financial year (reduction)	**3,068**	892

Impact on the Statement of Financial Position as at 31 March:

	2023 £000	2022 £000
Intangible fixed assets (increase)	**217**	-
Tangible fixed assets (increase)	**6,048**	2,175
Deferred tax provision (increase)	**(1,566)**	(544)
Total impact on net assets (increase)	**4,699**	1,631
Retained earnings (increase)	**4,699**	1,631
Total impact on net equity (increase)	**4,699**	1,631

1. Accounting policies (continued)

1.4 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.

1.5 Investment properties

The Directors consider certain holdings of freehold land and buildings to be investment properties. In accordance with FRS102, 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. The only remaining investment property held by the Company was sold during the year to 31 March 2023.

1.6 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. Where the asset concerned is considered to be a qualifying asset, incidental expenses now also include attributable borrowing costs incurred during the period by the company, relating to the acquisition and construction of the asset. A qualifying asset is one that necessarily takes a substantial period of time to be acquired and constructed ready for its intended use, which is normally well in excess of one year.

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.

1. Accounting policies (continued)

Those lives are estimated as follows:

- Building and reservoirs: 100 – 150 years
- Reservoir inspections: 10 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
- Metering equipment: 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.

1.7 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.

Costs incurred relating to the development of longer term projects and related assets, that meet all of the criteria below, are capitalised as intangible fixed assets. These include the costs of direct materials, supplier services and incidental expenses, as well as the costs of employees directly involved in the project and the generation of the intangible asset. Development projects include those involving the design and development of specific new and improved processes, systems and services used throughout the company.

The criteria used for capitalisation of a development project as an intangible asset is as follows:

- there is technical feasibility of completing the project so that it will be available for use;
- there is an intention to complete the project so that it is available for use;
- it is probable that the project will generate economic benefits for use in the future;
- there are adequate technical, financial and other resources available to complete the development; and
- the company is able to reliably measure the expenditure attributable to the project.

Where the intangible asset concerned is considered to be a qualifying asset, incidental expenses capitalised also include attributable borrowing costs incurred during the period by the company, relating to the acquisition, design and development of the asset. A qualifying asset is one that necessarily takes a substantial period of time to be acquired and developed ready for its intended use, which is normally well in excess of one year. Amortisation is recognised to write off the cost of intangible assets over their useful lives on the following basis:

Software: 3-5 years
Other development projects: 3-7 years

1.8 Capital contributions

In certain circumstances third parties make non-returnable contributions towards the cost of specific infrastructure assets. In accordance with the FRS 102 requirement 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.

1.9 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 amortise 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.

1.10 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.

1.11 Stocks

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

1.12 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 can be found on pages 38 and 39 'Tax Strategy'.

1.13 Pension costs and other post-retirement benefits

Portsmouth Water Limited, a subsidiary undertaking, is the principal employer and its parent company, Brockhampton Holdings Limited, is the participating employer in the Brockhampton Pension Scheme. This scheme is a defined benefit scheme. The assets of the scheme are held in a separate trustee administered fund. As principal employer, Portsmouth Water 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 FRS102, the level of defined benefit asset recognised is restricted to the extent which future benefits can be recovered by the Company.

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.

During the year to 31 March 2023, changes to the scheme were agreed with the remaining active employees, such that accrual for future benefits earned by active employees will cease with effect from 31 March 2023, and the existing active employees will become members of the defined contribution pension scheme, with enhanced company contributions payable for a period of time. As a result of this change, the company is expected to cease to need to make future contributions into the pension scheme in the next financial year. Further detailed information regarding the surplus and actuarial position of the scheme as at 31 March 2023 is given in note 25 to the accounts.

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

1.14 Provisions

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023

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 Tangible Fixed Assets

i) Mains Infrastructure Assets

Judgement is used in determining the extent to which work on existing mains infrastructure represents 'economic enhancement', and should therefore be 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 assets, with a UEL of 40-100 years, were to be extended by a further 10 years, this would generate a £90,000 saving on depreciation charge d in the year. If the useful economic life of these assets were to be reduced by 10 years, the impact on the 2022/23 depreciation would have been an additional charge of £121,000.

ii) Havant Thicket Winter Storage Reservoir

As a result of the programme to begin construction of the Havant Thicket Winter Storage Reservoir, the Company has currently incurred £53.3m of expenditure, including £6.0m of related borrowing costs incurred, which have been capitalised as a tangible fixed asset (asset under construction). These costs will ultimately be recovered through the operation of the reservoir asset in the business, and through a long term third party contractual bulk supply arrangement in place with Southern Water Services and in line with an allowed separate price control mechanism.

Whilst the related commercial bulk supply agreement was signed back in 2021, 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 incurred in the construction of the Havant Thicket Winter Storage Reservoir will be recovered in full and within the allowance set out in the price control due to the following factors;

- The project is progressing well, with the signing of key construction contracts during the year to 31 March 2023, and agreement of revised project budgets and contractual cost adjustment mechanism with both Ofwat and Southern Water Services during the year.
- The cost adjustment mechanism provides a mechanism to mitigate adverse cost implications arising as a result of the planning and procurement process.

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.

Long term contract arrangement – Havant Thicket Winter Storage Reservoir

The long term bulk supply contract with Southern Water Services allows for the company to receive an appropriate return on the investment being made into the Havant Thicket Winter Storage Reservoir project, with amounts billable from contract commencement in 2021. Significant progress has been made during the year to 31 March 2023 that effectively removes any doubt relating to the construction of the reservoir by the company, and the ability of the company to recover the contractual amounts due to it from Southern Water Services.

As water from the Havant Thicket Winter Storage Reservoir is not expected to actually be supplied to Southern Water Services under the bulk supply agreement until the reservoir becomes fully operational, revenues arising from the contract will not be recognised in Turnover until this occurs, which is expected to be around 2029. The contract with Southern Water Services covers the period from 2021 through to 2100 (80 years). Amounts billable under the contract before supply commences will therefore be held as deferred revenue balances (see Note 20). The company had billed and received £6.5m in total under the contract to 31 March 2023 (31 March 2022: £6.5m).

3. Turnover

	2023 £000	2022 £000
Unmeasured household supplies	**20,666**	19,988
Measured household supplies	**12,162**	11,110
Non-household supplies	**9,721**	8,099
Bulk supply, including amortisation of bulk supply revenues previously deferred	**997**	462
Amortisation of developer contributions (note 20)	**707**	672
Chargeable work	**1,079**	2,183
Deferred meter reading revenue	**114**	156
	45,446	42,670

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 activities of the non-household retail business.

4. Net operating expenses

	2023 £000	2022 £000
Administrative expenses	**9,924**	8,764
Other operating income	**(457)**	(448)
	9,467	8,316

5. Directors and employees

	2023 £000	2022 £000
Employment costs		
Wages and salaries	**10,268**	9,408
Social security costs	**1,165**	906
Defined benefit pension costs (note 25)	**1,656**	1,651
Defined contribution pension costs (note 25)	**554**	436
	13,643	12,401
Costs transferred to capital schemes	**(4,029)**	(2,685)
Ordinary net employment costs charged to the income statement	**9,614**	9,716

Average number of employees	**2023 Number**	**2022 Number**	**2021 Number**
Operations	147	**136**	138
Administration	120	**118**	113
	267	**254**	251

Director Remuneration	**Highest paid Director 2023 £000**	Highest paid Director 2022 £000	**Total Directors Remuneration 2023 £000**	Total Directors Remuneration 2022 £000
Total remuneration	**208**	287	**479**	451
Pension contributions	-	16	**15**	41
	208	303	**494**	492

One Director (2022 - 2) is accruing benefits under a defined contribution pension scheme. No benefits are accruing to Directors under defined benefit pension schemes.

During the year to 31 March 2022, an amount of £123k was paid to Mrs H Orton relating to her service and previous accrued bonus.

Further details relating to Directors' remuneration are set out in the Remuneration Committee Report on pages 78 to 84. The information set out in that Report which is subject to audit, forms part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023

6. Loss on ordinary activities before taxation

		2023 £000	2022 £000
Depreciation	- infrastructure assets	**1,202**	1,182
	- non infrastructure assets	**4,990**	4,553
Amortisation of intangible assets		**155**	255
(Gain)/loss on disposal of fixed assets and investment properties		**(142)**	62
Business rates		**2,424**	2,422
Water abstraction charges		**1,507**	1,322
Hire of plant and machinery		**3**	13
Auditors' remuneration			
Fees payable to the Company's current auditor for the audit of the Company's annual accounts		**185**	70
Fees payable to the Company's current auditor for other services:			
Audit related assurance services - Annual Performance Review		**66**	43
Taxation compliance services		**12**	16
Other non-audit services (including advice for refinancing)		-	35
Fees in respect of Portsmouth Water Holdings Limited - Audit and Tax		**13**	7
Fees in respect of the Brockhampton Pension Scheme: Audit*		**15**	15
*Not paid by the Company			

7. Investment income

	2023 £000	2022 £000
Interest receivable on loan to group company	**1,920**	686
	1,920	686

8. Interest payable and similar charges

		2023 £000	2022 £000
Bank RPI Artesian loan:	- Interest	**4,583**	4,161
	- Indexation	**14,384**	4,311
	- Amortisation of fees	**57**	57
	- Administration fees	**113**	89
Revolving loan facility:	- Interest	**484**	331
	- Amortisation of fees	**299**	297
Inter-company loans:	- Interest	**994**	690
Other revolving credit facility loans		**102**	123
Debenture stock		**5**	10
Other interest payable		-	4
Gross interest payable and similar charges		**21,021**	10,073
Less: borrowing costs capitalised:	- Tangible fixed assets (Note 13)	**(3,873)**	(1,190)
	- Intangible fixed assets (Note 11)	**(217)**	-
Net interest payable and similar charges reported in the Income Statement		**16,931**	8,883

For information, the indexation charge is based on RPI (July 2022 – 343.2 and July 2021 – 305.5).

9. Taxation

	2023 £000	2022 (restated) £000
Current tax		
United Kingdom corporation tax at 19% (2022 - 19%)	-	-
Adjustment in respect of prior periods	-	(143)
	-	(143)
Deferred tax		
Origination and reversal of timing differences	**(1,578)**	(2,339)
Adjustment in respect of prior periods	**116**	(24)
Effect of tax rate change on opening balance	-	3,990
	(1,462)	1,627
Tax (credit)/charge on loss on ordinary activities	**(1,462)**	1,484
Factors affecting the tax charge for the year		
Loss on ordinary activities before tax	**(6,459)**	(3,840)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2022 - 19%)	**(1,227)**	(730)
Effect of:		
Fixed asset differences	**27**	(57)
Change in tax rates	**(378)**	3,240
Other tax adjustments	-	(802)
Prior year adjustment - current tax	-	(143)
Prior year adjustment - deferred tax	**116**	(24)
Total tax (credit)/charge for year	**(1,462)**	1,484

Current Tax - United Kingdom corporation tax at 19% (2022 - 19%)

Due to the company's trading losses, no current tax charges have been incurred for the year (2022 - £(143)k). The adjustment in respect of prior periods arose from the alignment of the group loss position.

Deferred Tax

Total deferred tax credited to the income statement was £(1,462)k (2022 restated - £1,627k charge). The prior year charge was largely driven by the effect of the change in the corporation tax rate from 19% to 25% for future years impacting the required deferred tax calculation.

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 £13.2m (2022 restated - £14.2m). Offset against this is the deferred tax benefit of other timing differences – these primarily relate to unutilised tax losses. A deferred tax asset of £4.1m (2022 - £2.8m) 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 £9.1m (2022 restated - £10.4m). In addition, a deferred tax liability of £Nil (2022 - £3.7m) has also been recognised in relation to the pension scheme asset (see note 25). Details of the overall deferred tax net liability are set out in Note 21.

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantially enacted in May 2021. This will increase the company's future current tax charge rate accordingly. The deferred tax liability at 31 March 2023 has been calculated based on these rates, reflecting the expected timing of reversal of the related timing differences (2022: 25%).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023

10. Dividends

	2023 £000	2022 £000
Equity: Ordinary		
Interim paid	-	-
Final paid	**3,397**	5,115
	3,397	5,115

Dividend policy is set to align with the 5-year business plan agreed with the Water Regulator Ofwat. The policy was set in line with regulatory guidance in Ofwat's PR19 Final Methodology and the Draft Determination. The policy was updated in 2022 to reflect additional guidance provided in Ofwat's PR19 Final Determination to reflect a yield of 4% on regulated equity, compared to 5% in the previous published dividend policy.

Historically dividends have been 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 inter-company loans receivable to be serviced.

This second element is received by the Company in the form of interest payments from its parent company and does not result in any net cash outflow from the wider group. This recirculating element has been stopped from 31 March 2023, as the company intends to payback the related inter company loan balances, including interest accrued from 2002/23, in July 2023 as part of a new shareholder equity investment.

Our normal equity dividend reflect a 4% return on the average RCV of the company in the year, 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 compliance with financeability tests to ensure sufficient liquidity for the medium term and testing the financial viability of the company; and
- Recognising Regulatory requirements, in particular Licence Condition F.

Proposed dividend for financial year 2021/22 (paid in 2022/23):

The Directors recommended a total dividend of £3,397k, being an equity return dividend of £2.711m and a recirculating dividend of £0.686m for the financial year 2021/22. This was paid in June 2022. The £2.711m equity return dividend included a £0.5m adjustment reflecting the strong performance against the 2021 ODI's. This total dividend was paid in June 2022.

No additional interim dividends where paid in the year to 31 March 2023 (year to 31 March 2022: £nil).

Proposed dividend for financial year 2022/23 (to be paid in 2023/24):

The Directors are proposing a total dividend of £2.3m, all being related to an equity dividend. As noted above, no recirculating dividend will now be paid. The full proposed dividend is anticipated to paid in July 2023.

Further analysis supporting the dividend paid for financial year 2022 and proposed for financial year 2023 is included in our Annual Performance Report (APR) including our regulatory accounts. The APR will be published in July 2023.

11. Intangible fixed assets

	Development Projects £000	Software including Consultancy £000	Total £000
Cost			
At 1 April 2022	123	4,542	4,665
Additions	2,316	618	2,934
Transfer from tangible fixed assets	461	-	461
Borrowing costs capitalised	183	34	217
Disposals	-	-	-
At 31 March 2023	3,083	5,194	8,227
Amortisation			
At 1 April 2022	-	3,090	3,090
Charge for the year	-	155	155
Disposals during the year	-	-	-
At 31 March 2023	-	3,245	3,245
Net book value			
At 31 March 2023	**3,083**	**1,949**	**5,032**
At 1 April 2022	123	1,452	1,575

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

	Development Projects £000	Software including Consultancy £000	Total £000
Cost & Net Book Value			
At 1 April 2022	123	966	1,089
Additions	2,316	618	2,934
Transfer from tangible fixed assets	461	-	461
Borrowing costs capitalised	183	34	217
Transfers into completed intangible fixed assets	-	-	-
At 31 March 2023	3,083	1,618	4,701

12. Investment properties

	Investment properties £000
At 1 April 2022	325
Disposals	(325)
At 31 March 2023	-

The historic cost of the investment properties at 31 March 2023 was £nil (2022: £195k).
The company sold its remaining investment property during the year to 31 March 2023.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023

13. Tangible fixed assets

	Freehold land buildings and reservoirs £000	Mains £000	Pumping plant £000	Vehicles, mobile plant and office equipment £000	Total £000
Cost					
At 1 April 2022, as previously reported	78,229	74,227	72,039	30,530	255,025
Impact of prior year adjustment (Note 1.3)	2,175	-	-	-	2,175
At 1 April 2022, as restated	80,404	74,227	72,039	30,530	257,200
Additions	28,833	4,744	2,953	2,926	39,456
Borrowing costs capitalised	3,873	-	-	-	3,873
Transfer to intangible fixed assets	-	-	(461)	-	(461)
Disposals	-	-	-	(188)	(188)
At 31 March 2023	113,110	78,971	74,531	33,268	299,880
Depreciation					
At 1 April 2022, as previously reported	15,671	9,266	36,670	21,024	82,631
Impact of prior year adjustment (Note 1.3)	-	-	-	-	-
At 1 April 2022, as restated	15,671	9,266	36,670	21,024	82,631
Charge for the year	563	1,202	2,300	2,127	6,192
Disposals during the year	-	-	-	(187)	(187)
At 31 March 2023	16,234	10,468	38,970	22,964	88,636
Net book value					
At 31 March 2023	**96,876**	**68,503**	**35,561**	**10,304**	**211,244**
At 1 April 2022, as previously reported	62,558	64,961	35,369	9,506	172,394
Impact of prior year adjustment (Note1.3)	2,175	-	-	-	2,175
At 1 April 2022, as restated	64,733	64,961	35,369	9,506	174,569

Tangible fixed 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 and net book value					
At 1 April 2022, as previously reported	21,063	4,802	3,932	178	29,975
Impact of prior year adjustment (Note 1.3)	2,175	-	-	-	2,175
At 1 April as restated	23,238	4,802	3,932	178	32,150
Additions	28,833	4,744	2,953	1,896	38,426
Borrowing costs capitalised	3,873	-	-	-	3,873
Transfer to intangible fixed assets	-	-	(461)	-	(461)
Transfers into completed tangible fixed assets	(224)	(1,865)	(182)	(508)	(2,779)
At 31 March 2023	55,720	7,681	6,242	1,566	71,209

Of the balance of assets in the course of construction, £53.3m (2022 restated - £22.3m) relates to Havant Thicket Winter Storage Reservoir which includes capitalised borrowing costs of £6.0m (2022 restated - £2.2m).

14. Fixed asset investments

	Loans to Group undertakings £000
As at 31 March 2023 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 31 March 2023 and 31 March 2022	**2**

16. Debtors

	2023 £000	2022 £000
Trade debtors	**4,635**	4,099
Amounts owed by Group companies	**2,982**	2,071
Prepayments	**552**	866
Accrued income	**3,837**	3,206
Other debtors	**3,258**	1,054
	15,264	11,296

All of the above amounts fall due within one year. As at 31 March 2023, trade debtors had a carrying value of £9,110k (2022 - £7,881k) before provision for bad debt. Trade debtors in arrears are provided for on a sliding scale depending on age of debt. The amount of the provision was £4,475k as at 31 March 2023 (2022 - £3,782k) as noted further below.

The ageing of these debtors was as follows:	**2023 £000**	2022 £000
Up to 12 Months	**6,250**	5,042
Over 12 Months	**2,860**	2,839
	9,110	7,881

Debtors provided for relate to water charges for household and non-household customers - where experience in the water industry has shown, over time, it is likely that there will be difficulties in recovering the water charges for the periods concerned. Of the total £4,475k provision (2022 - £3,782k) £419k (2022 - £257k) relates to non-household debtors and £4,056k (2022 - £3,525k) relates to household debtors.

	2023 £000	2022 £000
At 1 April 2022	**3,782**	4,440
Provision for bad debt required in the year - charged to income statement	**1,500**	138
Provisions released in year	**(413)**	(409)
Debt written off in the year as uncollectable includes fully provided debt over 6 years old	**(394)**	(387)
At 31 March 2023	**4,475**	3,782

The other classes within debtors 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023

17. Cash at bank and in hand	**2023 £000**	2022 £000
Cash at bank and in hand	**54,073**	25,694

18. Creditors: amounts falling due within one year	**2023 £000**	2022 £000
Trade creditors	**12,159**	6,755
Payments received on account	**1,244**	1,426
Amounts owed to group companies	**2,488**	2,711
Accruals	**1,082**	1,042
Other creditors	**544**	482
Social security and other taxation	**424**	384
Bank RCF loan facility drawn down	-	17,500
Less: deferred arrangement costs	**(1,205)**	(356)
Accrued bank loan refinance fees (note 19)	**627**	309
Water rates paid by customers in advance	**7,581**	7,070
	24,944	37,323

19. Creditors: amounts falling due after more than one year	**2023 £000**	2022 £000
Bank RPI Artesian loan	**130,940**	116,556
Accrued bank loan refinance fees	**2,512**	2,830
Bank RCF loan facility drawn down	-	5,000
CPI Bond	**75,000**	-
Less: deferred arrangement costs	**(7,023)**	(1,137)
3% Perpetual debenture stock	**60**	60
3½% Perpetual debenture stock	**185**	185
4% Perpetual debenture stock	**38**	38
Intra-group subordinated loan	**20,623**	24,623
	222,335	148,155

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

Bank loan

The bank RPI Artesian loan of £130.94m (2022: £116.556m) relates to a thirty year £66.5m index-linked bank loan which was issued in June 2002 and is repayable in September 2032, and which is secured over the assets of the company. The capital value of the loan is adjusted by the change in the Retail Prices Index from year to year. The fees associated with the loan issue of £1.722m are amortised over the life of the loan. The balance shown above is net of deferred arrangement costs of £0.539m (2022 - £0.596m). 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 charge of £NIL (2022: £4.519m) was incurred relating to fees associated with the restructuring of the index linked funding. These costs were recorded as an exceptional charge in 2022 on the basis that these fees were material, non-recurring, outside the normal course of business and do not give rise to a financial asset/liability through an amended term or interest on the facility. Of this exceptional charge, £2.8m remains payable at 31 March 2023 (2022: £3.1m), with £2.5m falling due in over one year (2022: £2.8m).

CPI Bond

In March 2023, the company issued a new £75m 'CPI-linked' bond. This bond was issued through Assured Guarantee UK Limited, and placed privately with external UK investors. The bond matures in March 2037. Interest is chargeable on the bond by adjusting the value of the bond by the Consumer Prices Index ('CPI') and then charging interest on this amount at 2.63% per annum.

Other Bank and Inter-Group Facilities and Loans

Third Party Facilities and Loans

In March 2021, the company entered into a £55m bank revolving credit facility ('RCF'), with NatWest as the lead facility agent. This facility was originally due to mature in March 2025. Interest was payable based on the Sterling Overnight Index Average rate ('SONIA'), plus an adjustment dependent upon the term of any drawdowns, plus a 1.25% margin. This margin was 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.

In March 2023, the balances drawn down from this facility were fully repaid, when the company issued the new £75m 'CPI-linked' bond to external investors, as detailed above.

In March 2023 the £55m facility was replaced by a £155m Syndicated Facility Agreement, with NatWest as the lead facility agent. This new facility is made up of a separate £105m Revolving Credit Facility ('RCF'), which matures in March 2028, and a £50m Term Loan facility, which matures in March 2029. Interest is payable based on SONIA, plus an adjustment dependent upon the term of any drawdowns, plus a 1.6% 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.

In March 2023 a further £50m bank facility was entered into with Lloyds Bank. This facility matures in March 2028. Interest is payable based on SONIA, plus an adjustment dependent upon the term of any drawdowns, plus a 1.5% margin. This margin is subject to an assessment of sustainability, with an adjustment of up to +/- 2.5 basis points depending on the Company's performance against five sustainability linked ODIs.

No balances had been drawn down on the March 2023 new facilities as at 31 March 2023 (2022: £nil).

Fees associated with the bond issued and the bank facilities are deferred and amortised over the duration of the bond or facility. The balance of fees deferred at the year end date are off-set against the related bond or loan balance, as shown above.

Inter-group Facilities

In March 2021 the company entered into an inter-group loan agreement with Portsmouth Water Holdings Limited, its immediate parent company, permitting borrowing to a total facility value of £50m, initially drawing down £24.623m. During the year to 31 March 2023, a further £16m of additional group loans were provided via Portsmouth Water Holdings Limited. In March 2023, £20m of the loan balance was capitalised through the issue of £20m new ordinary shares (see Note 23). At the same time, the remaining group loan facility, having reduced from £50m to £30m following the £20m capitalisation, was increased from £30m to £45m.

Interest accrues daily at 3% p.a. on the amount drawn on inter-group loans, payable six monthly in arrears. The loan facility matures in March 2025.

20. Deferred income

	Capital contributions £000	Deferred bulk supply revenues £000	Total £000
At 1 April 2022	28,266	6,471	34,737
Additions	480	-	480
Release to Turnover (note 3)	(707)	-	(707)
At 31 March 2023	**28,039**	**6,471**	**34,510**

21. Provisions for liabilities

	2023 £000	2022 £000
Deferred taxation:		
At 1 April 2021, as previously reported	-	8,529
Impact from prior year adjustment (Note 1.3)	-	246
At 1 April 2022 & 1 April 2021, as restated	**10,378**	8,775
Movements during the year recorded in income statement	**(1,331)**	1,603
At 31 March	**9,047**	10,378

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 and other timing differences. The deferred taxation provision balance relating to the defined benefit pension scheme is off-set against the related net pension asset recognized (see Note 25).

	2023 £000	2022 (restated) £000
Total deferred taxation including deferred tax on pension asset:		
Accelerated capital allowances	**13,205**	14,175
Other timing differences	**(4,158)**	(3,797)
	9,047	10,378
Pension asset (note 25)	-	3,666
Total provision for deferred tax	**9,047**	14,044

	2023 £000	2022 (restated) £000
At 1 April, as restated	**14,044**	12,906
Deferred tax charged in income statement (note 9)	**(1,462)**	1,627
Deferred tax charged/(credited) to the statement of comprehensive income	**(3,535)**	(489)
At 31 March	**9,047**	14,044

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantially enacted in May 2021. This will increase the company's future current tax charge rate accordingly. The deferred tax liability at 31 March 2023 has been calculated based on these rates, reflecting the expected timing of reversal of the related timing differences (2022: 25%).

A deferred tax asset of £0.8m (2022 - £0.8m) 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 investments, cash at bank and in hand, inter-company balances and third party loans. The carrying values of the Company's financial assets and liabilities are summarised by category below:

	2023 £000	2022 £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)	**54,073**	25,694
	109,559	81,180

	2023 £000	2022 £000
Financial liabilities:		
Bank RPI Artesian loan	**130,401**	115,960
Intra-group subordinated loan	**20,623**	24,623
CPI Bond	**72,700**	-
Bank RCF facility loan net of deferred arrangement costs	**(4,790)**	21,603
Debenture stock	**283**	283
	219,217	162,469

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

	Fixed Rate 2023 £000	Fixed Rate 2022 £000	**Floating Rate 2023 £000**	Floating Rate 2022 £000	**Total 2023 £000**	Total 2023 £000
Liabilities						
Bank RPI Artesian loan	**130,401**	115,960	-	-	**130,401**	115,960
Intra-group subordinated creditor	**20,623**	24,623	-	-	**20,623**	24,623
CPI Bond	**72,700**	-	-	-	**72,700**	-
Bank RCF facility loan net of costs	-	-	**(4,790)**	21,603	**(4,790)**	21,603
Debenture stock	**283**	283	-	-	**283**	283
	224,007	140,866	**(4,790)**	21,603	**219,217**	162,469

Fixed Rate	**Weighted average interest rate % 2023**	Weighted average interest rate % 2022	**Weighted average period fixed Years 2023**	Weighted average period fixed Years 2022
Sterling				
Bank RPI Artesian loan	**3.6**	3.6	**9**	10
CPI Bond	**2.6**	-	**14**	-
Intra-group subordinated loan	**3.0**	3.0	**2**	3
	3.0	3.5	**11**	9

Interest on the floating rate financial liabilities are based on Sterling Overnight Index Average rates ('SONIA').

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023

22. Financial instruments (continued)

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

	2023 £000	2022 £000
In one year or less	-	17,500
In more than one year	**219,217**	144,969
	219,217	162,469

The Company had undrawn borrowing facilities at 31 March 2023, in respect of which all conditions precedent had been met, as follows:

	2023 £000	2022 (restated) £000
Expiring within one year	-	25,000
Expiring between one and two years	**24,377**	-
Expiring between two and three years	-	57,877
Expiring in over 5 years	**205,000**	-
	229,377	82,877

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

23. Called up share capital

	2023 £000	2022 (restated) £000
Authorised:		
Equity		
6,000,000 Ordinary Shares of 10p each	**600**	600
210,500,000 'A' Ordinary Shares of 10p each	**21,050**	1,050
	21,650	1,650
Non-equity		
3,250,000 Redeemable Preference Shares of £1 each	**3,250**	3,250
Total	**24,900**	4,900
Allotted, called up and fully paid:		
Equity		
4,265,197 Ordinary Shares of 10p each (2021 - 4,265,197)	**427**	427
206,509,162 'A' Ordinary Shares of 10p each (2021 – 6,509,162)	**20,651**	651
	21,078	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.

During March 2023, the company issued 20,000,000 new 'A' ordinary shares for a cash consideration of £20.0m.

24. Cash generated from operations

	2023 £000	2022 (restated) £000
Loss for the year before taxation	**(6,459)**	(3,840)
Adjustments for:		
Finance costs recognised in income statement	**16,931**	8,883
Investment income recognised in income statement	**(1,920)**	(686)
Exceptional items	**820**	4,519
Other finance income	**(427)**	(448)
Notional pension costs	**490**	352
(Gain)/loss on disposal of tangible fixed assets and investment properties	**(142)**	62
Depreciation and amortisation of tangible and intangible fixed assets	**6,347**	5,990
Amortisation of capital contributions	**(707)**	(672)
Amortisation of bulk supply and deferred meter reading revenue	-	(154)
Movements in working capital:		
Stock (increase)/decrease	**(84)**	(129)
Debtors (increase)/decrease	**(2,735)**	(1,680)
Creditors increase/(decrease)	**(1,092)**	(1,543)
Cash generated from operations	**11,022**	10,654

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 2019 the Brockhampton Pension Scheme Trustees entered into a 'Buy-In' arrangement with Just Retirement Limited. This buy-in arrangement covers the majority of the current pensioner liabilities and significantly reduces the risk within the Scheme.

During the year to 31 March 2023, agreement was reached with the remaining active employee members of the pension scheme to close the scheme to the future accrual of benefits for active members with effect from 31 March 2023. These active members will become members of the existing company defined contribution pension scheme, with effect from 1 April 2023, and will receive enhanced contributions from the company for a number of years. The closure of the Brockhampton pension scheme to future accrual will also significantly reduce the ongoing risks to Portsmouth Water Limited (the company) and the wider group. Future contributions payable by the company after 1 April 2023 are expected to cease. As a result, it is no longer considered appropriate, in line with the requirements of FRS102, to recognize any calculated net pension surplus on the balance sheet of the company.

The formal actuarial valuation as at 31 March 2021 was updated to 31 March 2023 accounting date by an independent qualified actuary in accordance with FRS 102. The value of the defined benefit liabilities has been measured using the projected unit method. The closure of the scheme to future accrual results in a 'one-off' settlement cost of £453k (2022: £Nil) that has been recorded in the year to 31 March 2023 by the company as an 'exceptional' expense.

As noted above, the estimated contributions expected to be paid to the Scheme by Portsmouth Water Limited for the year to 31 March 2024 year, commencing 1 April 2023, is £NIL (2023 actual - £1.2m). The contributions paid by the company during the year to 31 March 2023 were based on agreed contribution rates of 35.9% of employee earnings. Employees paid contributions at a rate of 5% of earnings, via a salary sacrifice mechanism.

The company also operates a defined contribution pension scheme. Contributions payable by the company in the year to 31 March 2023 were £554k (2022: £436k).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023

25. Pensions (continued)

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

	2023	2022	2021
	% per annum	% per annum	% per annum
RPI inflation	**3.3**	3.7	3.2
CPI inflation	**2.9**	3.3	2.7
Discount Rate	**4.7**	2.8	2.0
Pension increases	**2.9**	3.3	2.7
Salary growth	**3.0**	3.4	2.8

Assumption	31 March 2023	31 March 2022	Comments on assumptions
RPI inflation	3.3% pa	3.7% 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 3.6% 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	2.9% pa	3.3% 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.
Discount rate	4.7% pa	2.8% pa	• Discount rate is set based on yields of high quality corporate bonds at the year end date, and a yield curve is constructed from this. To derive the discount rate, the yield curve is weighted according to the expected scheme cash flows, which have a duration of about 14 years (2022: 17 years) • Bonds are included in the data set if they are classified as 'AA' and 'Corporate', as rated by either Fitch, Moodys or Standard & Poors. A yield curve is fitted to the data using least squares optimization techniques and is extrapolated beyond 30 years in line with the gilt yield curve, and a single discount rate is calculated from this.

Life expectancy of a male aged 65 at the accounting date is 21.8 years (2022: 22.0 years) and for a female is 24.4 years (2022: 24.5years).

The assumption for future improvements to mortality is made via the CMI's mortality projections model, which is published each year. The model is fitted to the mortality experience of the general population of England & Wales, and requires various parameters to be set. The projections model has been updated from 31 March 2022 year end to use a more recent model, CMI2021, continuing with the previous core approach to the smoothing factor and initial improvement addition.

The CMI 2021 projections model also includes a weighting (or 'w') parameter, referred to as w2021, in addition to retaining the similar w2020 parameter introduced in CMI 2020. These parameters are used to vary the weight that is placed on the nation's mortality experience for 2020 and 2021 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 and 2021. In our view, some weight can be given to allow for the direct and indirect impact of the pandemic.

It is evident that 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 have seen 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 at 31 March 2022), and a further w2021 parameter of 10% given the developing mortality trends seen over the last year.

25. Pensions (continued)

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 and 0.5% per annum would increase the defined benefit obligation by around £1.3m and £7.1m respectively.
- An increase in the CPI inflation rate of 0.1% per annum and 0.5% per annum would increase the defined benefit obligation by around £1.2m and £6.5m respectively.
- A 5% fall in performance asset values would reduce the assets by around £0.3m.
- A one year increase in life expectancies would increase the defined benefit obligation by around £3.4m.

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:

	%	**2023 Fair Value £000**	%	2022 Fair Value £000	%	2021 Fair Value £000
Equities	-	-	25	41,752	24	38,643
Absolute Return Bonds	-	-	13	21,108	11	18,875
Leveraged Liability Driven Investments	**19**	**23,679**	11	18,896	9	14,106
Unleveraged index-linked gilt LDIs	**22**	**27,941**	-	-	-	-
Property	**5**	**5,988**	5	8,487	8	12,892
Credit fund	**6**	**8,274**	-	-	-	-
Cash and other	**6**	**8,270**	4	6,845	4	5,938
Buy-in policy	**42**	**53,593**	42	68,773	44	71,867
	100	**127,745**	100	165,861	100	162,321

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 £5.988m (2021 - £77.260m) 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.

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.

Following the UK government's mini-budget in September 2022 there was a period of volatile market conditions, particularly in UK gilt and bond markets and in the value of Sterling. In addition, RPI and CPI inflation has been trending significantly above expected long term levels during the year to 31 March 2023. The period of volatile market conditions may have had an impact on the investment asset allocation, hedging strategy and funding level going forward. However the pension scheme assets and the overall pension funding position has limited exposure to market volatility, given the risk mitigation policies put in place in recent years, including the purchase of the buy-in insurance policy for pensioner liabilities and the reallocation of investments held away from potentially more volatile Equity investments.

Method of valuation

The pension benefits payable 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 date. This roll-forward allows for changes in market conditions, changes in demographic assumptions and certain experience adjustments – including inflation and benefits paid out.

25. Pensions (continued)

	2023 £000	2022 £000
Total fair value of scheme assets	**127,745**	165,861
FRS 102 value of scheme defined benefit obligation	**(98,853)**	(128,606)
Impact of asset ceiling	**(28,892)**	(22,593)
Pension asset	-	14,662
Related deferred tax liability	-	(3,666)
Net pension asset recognised	-	10,996

Under FRS 102, the scheme is represented on the statement of financial position at 31 March 2023 by an asset of £Nil (2022 -£14.662m), which amounts to £NIL net of deferred tax (2022 - £10.996m). Deferred tax relating to the pension asset is off-set directly against the net pension asset balance, as permitted by FRS102, rather than being shown as part of the company's overall deferred tax liabilities.

Movement in the net balance sheet position

The FRS 102 value of scheme assets moved over the period as follows:	2023 £000	2022 £000
Opening asset	**14,662**	21,740
Expense charged to profit and loss	**(1,682)**	(1,203)
Gain/(loss) recognised outside of profit and loss	**(14,142)**	(7,174)
Employer contributions	**1,162**	1,299
Closing asset	-	14,662

Movement in present value of defined benefit obligation

The FRS 102 value of scheme defined benefit obligation moved over the period as follows:	2023 £000	2022 £000
Opening scheme liabilities	**128,606**	138,348
Employer's part of current service cost	**1,656**	1,651
Settlement exceptional cost	**453**	-
Interest on scheme liabilities	**3,528**	2,719
Benefits paid and running costs	**(5,217)**	(4,798)
Actuarial loss/(gain)	**(30,173)**	(9,314)
Closing scheme defined benefit obligation	**98,853**	128,606

Movement in fair value of scheme assets

The FRS 102 value of scheme assets moved over the period as follows:	2023 £000	2022 £000
Opening fair value of scheme assets	**165,861**	162,321
Interest on scheme assets	**4,588**	3,212
Contributions by Portsmouth Water Limited, including employee contributions under the SMART arrangement	**1,162**	1,299
Benefits paid and running costs	**(5,217)**	(4,798)
Actuarial gain/(loss)	**(38,649)**	3,827
Closing fair value of scheme assets	**127,745**	165,861

25. Pensions (continued)

Expense recognised in income statement

	2023 £000	2022 £000
The following amounts have been included within operating profit:		
Current service cost (employer's part only)	**(1,656)**	(1,651)
Total operating charge	**(1,656)**	(1,651)
The following amounts have been included within exceptional charges in the year:		
Pension settlement charge	**(453)**	-
Other costs and fees relating to closure of the pension scheme to future accrual	**(367)**	-
Total exceptional charge	**(820)**	-
The following amounts have been included as other finance income under FRS 102:		
Interest on pension scheme assets	**4,588**	3,212
Interest on asset limit	**(633)**	(45)
Interest on pension scheme defined benefit obligation	**(3,528)**	(2,719)
Total other finance income	**427**	448
Total expense recognised in the income statement	**(2,049)**	(1,203)

Amounts recognised outside income statement

The following amounts have been recognised within the statement of changes in equity:	2023 £000	2022 £000
Actual return less interest	**(38,649)**	3,827
Experience gains arising on scheme defined benefit obligation	**(10,068)**	1,288
Gain/(loss) due to changes in assumptions	**40,241**	8,026
Change in asset limit other than interest	**(5,666)**	(20,315)
Remeasurement (loss) on net defined benefit asset	**(14,142)**	(7,174)

26. Lease commitments

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

27. Ultimate controlling party

In September 2019, the Company's shareholders incorporated Southern Region Water Holding Limited ('SRWHL') in Hong Kong and transferred 100% of the investment held in Ancala Fornia Holdco Limited to SRWHL.

The group structure is set out on page 67.

We consider SRWHL to be the ultimate holding company and ultimate controlling entity. Consolidated group financial statements for the year ended 31 March 2023 will be prepared for Ancala Fornia Holdco Limited and this will be the largest Group for which consolidated financial statements are prepared.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023

28. Capital commitments

	2023 £000	2022 £000
Relating to fixed assets	**291,800**	2,531

Of the capital commitments noted above, £291m of this, (2022: £1.3m) is attributable to the Havant Thicket Winter Storage Reservoir ('HTWSR') project. During the year to 31 March 2023, approval of the HTWSR construction budget expenditure of up to £339m was received from OFWAT, the Water Industry Regulator. This is considered to be the current capital commitment for the Company relating to HTWSR. Up to 31 March 2023, and excluding capitalised borrowing costs, £47.3m of this approved budget amount had been incurred as capital expenditure on the project (2022 - £20.1m), as set out in Note 13.

Contracts relating to the construction of the HTWSR have been placed with major sub-contractors with a total value of £209m as at 31 March 2023 (2022 - £nil).

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 67 and have the same Registered Office as stated on page 87.

30. Post Balance Sheet Events

There are considered to be no events which occurred after 31 March 2023 that need to be disclosed in line with the FRS102 requirements.

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 26th day of July 2023, on the following business:

1.To receive and consider the Directors' Report and Accounts for the year ended 31 March 2023 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 re-elect Dr. L. Stoimenova a Director of the Company.

8. To re-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
23 June 2023

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 (pre-CAM agreement relating to HTWSR).

Debt	**2023 £000**	2022 £000
Bank RPI Artesian loan (note 19)	**130,940**	116,556
Intra-group subordinated loan (note 19)	**20,623**	24,623
Bank facilities drawn down (note 18 & 19)	-	22,500
CPI bond (note 19)	**75,000**	-
Debenture stock (note 19)	**283**	283
Cash at bank and in hand	**(54,073)**	(25,694)
Net debt	**172,773**	138,268
(ii) Regulatory capital value indexed to 31 March	**220,415**	189,444
(iii) Gearing - Debt: RCV ratio (i) ÷ (ii)	**78.4%**	73.0%

a) Gearing - Net Debt: RCV - As defined by Ofwat (post-CAM agreement relating to HTWSR).

Debt	**2023 £000**	2022 £000
Bank RPI Artesian loan (note 19)	**130,940**	116,556
Intra-group subordinated loan (note 19)	**20,623**	24,623
Bank facilities drawn down (note 18 & 19)	-	22,500
CPI bond (note 19)	**75,000**	-
Debenture stock (note 19)	**283**	283
Cash at bank and in hand	**(54,073)**	(25,694)
Net debt	**172,773**	138,268
(ii) Regulatory capital value indexed to 31 March	**268,376**	189,444
(iii) Gearing - Debt: RCV ratio (i) ÷ (ii)	**64.4%**	73.0%

b) Gearing - Net Debt: RCV - As defined for banking covenant purposes. (pre-CAM agreement relating to HTWSR).

Debt	**2023 £000**	2022 £000
Bank RPI Artesian loan (Note 19)	**130,940**	116,556
Bank facilities drawn down (note 18 & 19)	-	22,500
CPI bond (note 19)	**75,000**	-
Debenture stock (note 19)	**283**	283
Cash at bank and in hand	**(54,073)**	(25,694)
Net debt	**152,150**	113,645
(ii) Regulatory capital value indexed to 31 March	**220,415**	189,444
(iii) Gearing - Debt: RCV ratio (i) ÷ (ii)	**69.0%**	60.0%

Deferred finance arrangement costs of £5.571m (2022 - £1.493m) are excluded from the above calculations.
Current asset investments of £0.002m (2022 - £0.002m) are also excluded from the total value of debt in this ratio.

b) Gearing - Net Debt:RCV - As defined for banking covenant purposes (post-CAM agreement relating to HTWSR)

Debt	**2023 £000**	2022 £000
Bank RPI Artesian loan (Note 19)	**130,940**	116,556
Bank facilities drawn down (note 18 & 19)	-	22,500
CPI bond (note 19)	**75,000**	-
Debenture stock (note 19)	**283**	283
Cash at bank and in hand	**(54,073)**	(25,694)
Net debt	**152,150**	113,645
(ii) Regulatory capital value indexed to 31 March	**268,376**	189,444
(iii) Gearing - Debt: RCV ratio (i) ÷ (ii)	**56.7%**	60.0%

Deferred finance arrangement costs of £5.571m (2022 - £1.493m) are excluded from the above calculations.
Current asset investments of £0.002m (2022 - £0.002m) are also excluded from the total value of debt in this ratio.

c) Cash interest cover	**2023 £000**	2022 £000
Operating profit before profit/(loss) on disposal of fixed assets and exceptional items	**8,803**	8,490
Gain/(loss) on disposal of fixed assets (below operating profit)	**142**	(62)
Notional pension costs (note 25)	**494**	352
Depreciation and amortisation charges (notes 12 and 13)	**6,347**	5,991
Capital expenditure (net of contributions, and excluding borrowing costs capitalised)	**(41,910)**	(16,774)
Amortisation of deferred capital contributions	**(707)**	(672)
Amortisation of deferred bulk supply and meter reading revenues	-	(156)
Cash received from sale of fixed assets and investment properties	**467**	-
Loan draw-down to Operating Account	**75,000**	15,000
Repayment of loan draw-down from Operating Account	**(22,500)**	(2,000)
Repayment of inter-company loan	**(4,000)**	-
	22,136	10,169
(ii) Interest paid (including borrowing costs capitalised into fixed assets)	**5,230**	4,688
(iii) Cash interest cover ratio (i) ÷ (ii)	**4.23**	2.17

d) Return on regulatory equity (RoRE)	**2023 £000**	2022 £000
Revenue	**45,446**	42,670
HTWSR capacity charges earned	**874**	583
ODI reward/(penalty) earned	**209**	600
Operating costs, excluding Employee Benefit Trust payments depreciation and amortisation and exceptional items	**(30,296)**	(28,190)
Regulatory depreciation (run off rate)	**(7,267)**	(6,491)
Infrastructure depreciation	**(1,202)**	(1,182)
Earnings before interest and tax	**7,764**	7,990
Current tax credit/(charge)	-	-
Interest payable, excluding indexation and amortisation	**(6,280)**	(4,688)
(i) Return	**1,484**	3,302
(ii) Average Regulatory Capital Value, equity element only (adjusted gearing)	**49,409**	54,542
(iii) Return on regulatory equity (i) ÷ (ii)	**3.00%**	6.05%

*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)

	2023 £000	2022 £000
Operating profit before loss on disposal of fixed assets and exceptional items	**8,803**	8,490
Depreciation	**6,192**	5,735
Amortisation	**155**	255
EBITDA	**15,150**	14,480

The prior year balances have been restated for the impact from the change in accounting policy as detailed in Note 1.3.

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