Portsmouth Water

PORTSMOUTH WATER LIMITED

Annual Report and Accounts 2024

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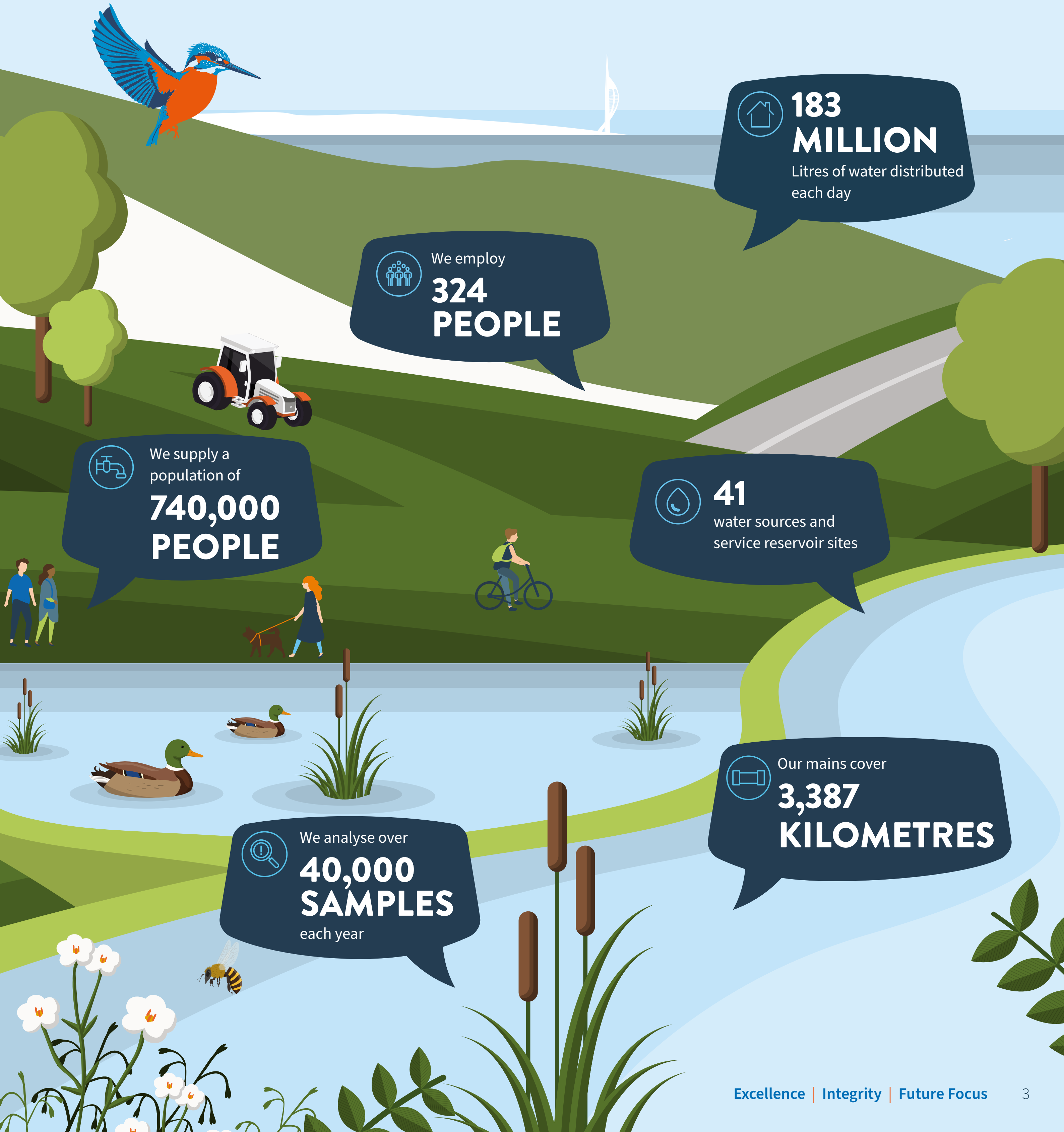
PORTSMOUTH WATER AT A GLANCE



OVERVIEW

Explore the highlights of the past year from our operational delivery and strategic programmes, understand the challenges we have faced and our ongoing investments.

CHAIRMAN'S OVERVIEW

This has been a significant year for Portsmouth Water. In 2023-24 we made good progress on delivering our current five-year plan but also outlined our vision and priorities for the next 25 years and submitted our next business plan for 2025-30 to Ofwat.

Our 2025-30 plan sets out significant increases in investment across our business, including the planned completion of Havant Thicket Reservoir, to maintain and improve our water supply services and help protect our environment. At the same time, we are committed to keeping our bills the lowest in England and Wales and supporting more customers who are struggling financially.

At the heart of our future planning is increasing our resilience to the effects of climate change, catering for a growing population, reducing the likelihood of extreme drought restrictions and making significant changes to the way we source water to protect our environment. We also have a strong commitment to maintaining and improving the health of our assets for the benefit of current and future generations.

As a responsible community company, we recognise the world we operate in is changing and we are preparing now to be ready to meet those changes and challenges.

Water companies have been in the headlines in the past year, and not always for the right reasons, however, at Portsmouth Water we are honoured our customers continue to rate our dedication to service highly and demonstrate trust in us.

We were ranked first in the national C-MeX customer survey used by Ofwat to rate companies on their customer service. We also achieved an impressive score of 76 in the Institute of Customer Service's annual survey, well above the average score for all utilities of 69.5.

Christopher Deacon
Independent Chair

June 2024

Our business plan for 2025-30 developed during the year includes:

- **Installing smart meters for everyone by 2035;**
- **Reducing leakage by 16%;**
- **Delivering Havant Thicket Reservoir – the first reservoir in the UK in a generation;**
- **Looking after our assets and upgrading treatment works and pipes to secure the highest water quality and most reliable supplies in England and Wales;**
- **Upgrading our technology for extra security and efficiency;**
- **Supporting wildlife on our sites and in our communities and reducing our carbon footprint; and**
- **Investigating all our water sources to make sure the environment thrives in the long term .**

One our values is future focus. We recognise the importance of planning for the long term and, as well as a plan for the next five years, we developed longer term plans to assure safe secure water resources for generations to come. We developed a 25-year Long-Term Delivery Strategy during the year. As the future and challenges ahead are uncertain, this is an adaptable plan. This means we can change course if the future is more or less challenging than we have planned for, but the early investments we make will support all our future choices.

Our 50-year Water Resources Management Plan is at the heart of this long-term strategy and during the year we published a Statement of Response and revised draft plan following a public consultation in 2022-23. The most significant parts of this plan are our proposals to install smart meters for all our customers by 2035 and reduce leakage by 50% by 2040.

OUR 25-YEAR VISION PRIORITIES

PRIORITY ONE	**Secure and deliver water supplies which are high quality, reliable and sustainable.**
PRIORITY TWO	**Work in partnership with our customers, communities and stakeholders.**
PRIORITY THREE	**Invest in the future to meet growing environmental challenges.**
PRIORITY FOUR	**Achieve affordable water for all. Always.**

Havant Thicket Reservoir

We continue to make progress on the delivery of Havant Thicket Reservoir in Havant, in partnership with Southern Water, to secure vital new water storage resources for the wider South East.

Havant Thicket Reservoir is an environmentally-led project and will help protect world renowned chalk streams in Hampshire by supporting Southern Water to reduce its abstraction from the River Test and River Itchen.

During 2023-24 we have carried out detailed design for the reservoir and pipeline, held a public consultation on a new pipeline route, created an access road from the north and completed ground investigations.

We have worked hard to prepare the site and we are now ready to start construction of the reservoir, starting later in 2024, including creation of a wetland on the northern shore.

The south east needs to find new sources of water to support population growth and reduce the amount of water we abstract from the environment to protect habitats. During the year, we have been working with Southern Water on its plans to recycle highly-treated wastewater into the reservoir and build a pipeline connecting it to its treatment works in Hampshire. This could supply its customers with up to 90 million litres of extra water per day to further protect the precious chalk streams and create a sustainable, reliable source of water for the future.

We have agreed changes which will increase the resilience of our current design and ensure the reservoir is future proofed if Southern Water is successful in gaining planning permission for its recycling project, principally increasing our pipeline to two pipes. We have also altered the design of the reservoir embankment to increase ground conditioning and reduce the angle of the embankment to address risk of ground movement. The changes are expected to delay completion of the reservoir by two to three years and significantly increase the cost, but by carrying out this work now, rather than later, we can significantly reduce the carbon impact, disruption to our local community and cost of the works to Southern Water customers.

The outcome of the planning application for the pipeline is due in the second half of 2024 and we are in dialogue with Ofwat to agree the funding for any changes in scope through the business plan process for 2025-30.

Read more about the reservoir on pages 40-41.

In 2023-24 our interruptions greater than three hours totalled 1 minute, 31 seconds per customer on average. **This is the best performance we have achieved and significantly better than our target.**

During 2023-24 we have carried out detailed design, held a public consultation and created an access road. **We are now ready to build the reservoir, starting in 2024.**

Leading performance

We continue to maintain reliable supplies to our customers throughout the year, supported by exceptionally wet conditions which recharged the underground aquifers we rely on underneath the South Downs to very healthy levels. Rainfall was 45% above the long-term average during the year.

We know a reliable, constant supply of water is one of our customers' highest priorities so we were very pleased to have improved further on our already industry-leading position in avoiding interruptions to supply through incidents such as burst mains.

In 2023-24:

- We achieved our best ever-recorded interruptions performance.
- We saw a reduction in water quality enquiries from our customers, continuing as industry leaders in this area.
- We were first on the national C-MeX customer service measure.
- We have the lowest charges in England and Wales at £119 for the year.
- We helped over 13,000 customers in financial hardship through our social tariff.

Affordability and vulnerability

Our customers continued to face the ongoing cost of living crisis and escalating bills during the year and we prioritised our work to pro-actively support those who are struggling.

We supported 13,532 customers with our social tariff, far exceeding our year-end target of 9,500. We raised the eligibility threshold for our social tariffs to households with incomes lower than £21,000, so we could extend our support to more people and increased our efforts to identify and engage with more eligible customers.

We also listed the highest percentage of customers on our Priority Services Register in the water sector at 12.5%. These customers receive additional support during water-supply related incidents.

Delivering on our commitments

Overall we have 25 performance commitments (excluding Havant Thicket Reservoir), which we are measured on each year between 2020 and 2025. These cover every aspect of our business from customer service to leakage to biodiversity.

During 2023-24 we met, or exceeded, 19 of these 25 performance commitments, a step up from 17 in 2022-23. (See pages 49-50 for our performance commitments).

Seventeen of our performance commitments have financial incentives associated with them, so if we perform worse than the target, then we pay a financial penalty and, in some cases, if we beat the target we can earn a reward.

In the first three years of this business plan, we have earned £1.4m of rewards from our performance against financial incentives. We will give £1.0 million back to customers due to missing our leakage target and compliance failures on water quality in 2023-24. We have already developed a recovery path and are delivering on our plan to make significant strides in these areas over the next year, and into AMP8.

Overall we have 25 performance commitments, which we are measured on each year between 2020 and 2025. **These cover every aspect of our business from customer service to leakage to biodiversity.**

Robust Financial performance

Against a backdrop of high inflation and energy price increases, we delivered a robust set of financial results and met all our debt covenants. Revenues grew by 5% to £47.9m, but total operating costs increased by 8%, to £39.8m, due to increases in energy prices and increased expenditure to recover our leakage performance.

We reported an overall loss before tax of £3.4m, however this was largely due to the high inflation impact on our bonds that grow in line with inflation. This will be offset by the inflationary increase to the economic value of the business, the regulatory capital value and future increases in bills. Earnings before interest, tax, depreciation and amortization were £14.5m (a proxy for operating cash flows) while net cash paid on financing activities was £3.4m This meant we were comfortable to pay a £2.3m dividend to shareholders during July 2023.

We expect to return to profit as inflation falls back in line with government targets. We have declared a dividend of £3.2m for 2023-24 to be paid in July 2024. Our Board has reviewed the proposed dividend in line with new licence condition requirements and supports the dividend proposal after considering the performance delivered for customers and the environment.

We remain in a strong financial position with £115m of cash and short term deposits available at year end. Our investment plans continue to be supported by our investors Ancala. During the year we received £120m of new equity to support the delivery of the Havant Thicket Reservoir scheme in addition to the £340m of new group-wide debt facilities secured in March and May 2023. All operations and tax related liabilities for Portsmouth Water are generated and remain payable in the UK.

Where we need to improve

The areas where we need to improve include leakage, per capita consumption and the Compliance Risk Index (CRI) for water quality.

Reducing leakage is really important to our customers. Our leakage target is measured as a three-year average to even out fluctuations in the weather which affect our pipes and is measured in million litres of water lost (Ml/d). In 2023-24 our three-year average performance was 29.1 Ml/d compared to our target of 24.9 Ml/d.

It is the second year we have missed our three-year leakage target, following the very dry summer and harsh winter of 2022, which put significant stress on our mains network. We launched a recovery plan in 2023 with more resources and trialling new techniques and equipment and we increased the leaks we detected and repaired from 3,282 to 4,524. Our plan is working as if we consider leakage just for 2023-24, we reduced our annual level of leakage by 12%, from 32.2 Ml/d to 28.2 Ml/d.

Another area of challenge is our customers' personal water use, which at 154 litres per person per day is above the national average of 146 litres. Key to influencing how our customers use water in the future is our roll out of smart meters to all household and non-household customers from 2025.

We assess the risk of water quality issues using a measure called the Compliance Risk Index or CRI. This is a measure agreed with the Drinking Water Inspectorate. In 2023 our score was 15.6, compared to 0.9 in the previous year. This was due to sample pipework causing failures at our largest water treatment works. The failures were due to the equipment and did not reflect the quality of the water supplied to our customers. During the year we replaced the sample pipework and pumping equipment and no failures have been recorded since.

Investing for the future

During 2023-24, in addition to the Havant Thicket Reservoir project, we invested £21.8 million to further improve our water treatment works, networks and support services – our highest level of investment in a single year.

This investment expenditure includes:

- £3.9 million to renew 11km of water mains to help reduce bursts, loss of supply and water quality incidents;
- £3.6 million to improve our sites where we abstract, treat and pump water;
- £1 million to inspect, maintain and clean nine of our 35 service reservoirs and storage tanks; and
- £4.8 million to make sure we are ready to deliver the improvements outlined in our 2025-30 business plan to secure future resilience of our services, in particular smart metering.

We installed more than 3,000 meters for customers on a voluntary and change of occupier basis during the year and invested significantly in preparing for our universal smart metering programme.

We embarked on a significant digital transformation in April 2023, replacing our existing customer platform with Kraken – a leading Customer Relationship Management (CRM) system for utilities. This is already supporting us to tailor services to meet the different needs of our customers and will allow us to target water-saving advice and support effectively as more meters are installed.

OUR LONG-TERM AIM IS TO BE NET ZERO BY 2040

Environmental, Sustainability and Governance

Through our new business plan for 2025-30 we are developing a new framework for how we will approach our Environmental, Sustainability and Governance activities, which we will use to guide our reporting in the future. It is based on insights and learning from our customers and communities and aligns our outcomes, what we measure and how we report to Ofwat's six principles of public value and the United Nations Sustainable Development Goals, which are used globally.

It will be focused on three areas to make the region we operate in Greener, Fairer, Safer.

Climate and net zero

Transitioning towards net zero and preparing for the effects of climate change are significant aspects of our investment today and in the longer term.

Our key progress during 2023-24 was integrating the effects of climate change into the development of our business plan for 2025-30 and delivery plan, so we are prepared for the impact on our resources, operations and the resilience of our works to flooding.

In our transition to net zero, we increased our locally-sourced green renewable energy from 0.4MWp to 1.9MWp. Our gross emissions tCO2e were 7,971 and our net emissions tCO2e were 1,567.

Our emissions figures are higher in 2023-24 as we included additional emissions related to chemicals for the first time, to align with updated guidance. Not including these additional reported emissions, we have seen a reduction as we have generated more solar energy by expanding our solar assets, improved efficiency and reduced demand for water.

Our long-term aim is to be net zero by 2040.

Our environment and biodiversity

Improving biodiversity on our land and in our wider communities is also a key strategy to build resilience by protecting the quantity and quality of water in the sources we rely on for supply. Our work during the year has included vegetation and mammal monitoring, planting and maintaining trees and hedgerows to create and connect habitats and controlling non-native species.

With the help of volunteers, to date we have translocated more than 450 young trees, saplings and plants. In addition, we are growing another 200 young oaks from acorns collected from the Havant Thicket site.

The project alongside local community and campaigning group 'Stop the Chop' began in 2021. Working together, we developed a plan to save and relocate 80 trees before work began.

The work has delivered well in excess of the original target. The trees, saplings and plants we have relocated are now thriving in their new location on the edge of the reservoir site, in woodland soils moved from the Avenue.

Following the project, 'Stop the Chop' has transformed to 'Havant Thicket for Nature' and plays an active role in our Stakeholder Advisory Group and Environmental Subgroup that meets regularly.

Our People

Of course, none of these achievements would be possible without the support, hard work and expertise of our people. During the year we have re-shaped our policies to support employees, with on-the-spot recognition and company value awards and introduced new family friendly policies, including enhanced maternity, adoption and paternity leave, time off for fertility treatment and IVF support, paid parental bereavement leave and antenatal appointment support.

Our whole business has also benefitted from Equality, Diversity and Inclusion training and initiatives, from the Board and leadership team to all employees.

OUR PURPOSE, VISION AND VALUES

Our company's long-term vision and priorities have been developed in partnership with our people, our customers and our communities and our Board takes overall responsibility for our company's purpose and values.

Our purpose is Excellence in Water. Always – and we strive to deliver this through our values of Excellence, Integrity and Future Focus.

It is these values which have shaped the services our customers received in the past year and previous years, many of which are industry-leading.

During 2023-24 we also engaged and consulted with our customers to finalise our Vision and priorities which shape our approach and ambition for our 25-year Long-Term Delivery Strategy and business plan for 2025-30.

These set us on the right path to gear up for significant investment in our future services, protection and improvement for our environment and greater support for those struggling financially.

Clearly recognising the scale and pace of the challenges ahead, we are stepping up our investment and capabilities now to be ready to deliver from 2025 and our Vision and priorities are shaping our approach.

OUR VISION

Our Vision, against the backdrop of climate change and population growth, 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 generations to come.

At its core, our Vision means the experience our customers have will continue to lead the industry. It will also deliver on our purpose – Excellence in Water. Always – and be delivered in line with our values.

Considering the challenges ahead and opportunities for innovation and learning from others, we developed four key priorities in partnership with our customers, to deliver on our Vision. These are:

SECURE AND DELIVER WATER SUPPLIES WHICH ARE HIGH QUALITY, RELIABLE AND SUSTAINABLE

WORK IN PARTNERSHIP WTH OUR CUSTOMERS, COMMUNITIES AND STAKEHOLDERS

INVEST IN THE FUTURE TO MEET GROWING ENVIRONMENTAL CHALLENGES

ACHIEVE AFFORDABLE WATER FOR ALL. ALWAYS.

These priorities and the ambition within them, are rooted firmly in maintaining the excellence we already provide, building on the customer-first approach already within our culture.

They will support our plans from 2025 to 2030 as we transform the way we engage with our customers. Through smart programmes and innovative platforms we will support them to evolve their relationship with water.

The completion and operation of Havant Thicket Reservoir - the first reservoir in a generation - will be instrumental in delivering on many of these priorities, not only in our region, but for the wider South East.

Alongside this, as we invest for the future, we will continually strive to maintain the lowest bills in the sector, while staying aware of our customers' needs and challenges and extending our financial support to make sure water remains Affordable for all. Always.

SUSTAINABILITY OVERVIEW

In this section we set out our activities during the year, with a focus on the positive impacts for our environment and society, which lay the foundations for long-term value.

OUR ENVIRONMENTAL, SUSTAINABILITY AND GOVERNANCE APPROACH

During the year, we proposed a new framework as part of our Business Plan for 2025-30 for how we would approach our Environmental, Sustainability and Governance activities.

This was based on insights and learning from our customers and communities and aligns our outcomes, what we measure and how we report to Ofwat's six principles of public value and the United Nations, Sustainable Development Goals.

Engaging with our customers and communities

We made a significant shift in our approach to customer and community engagement during 2023-24.

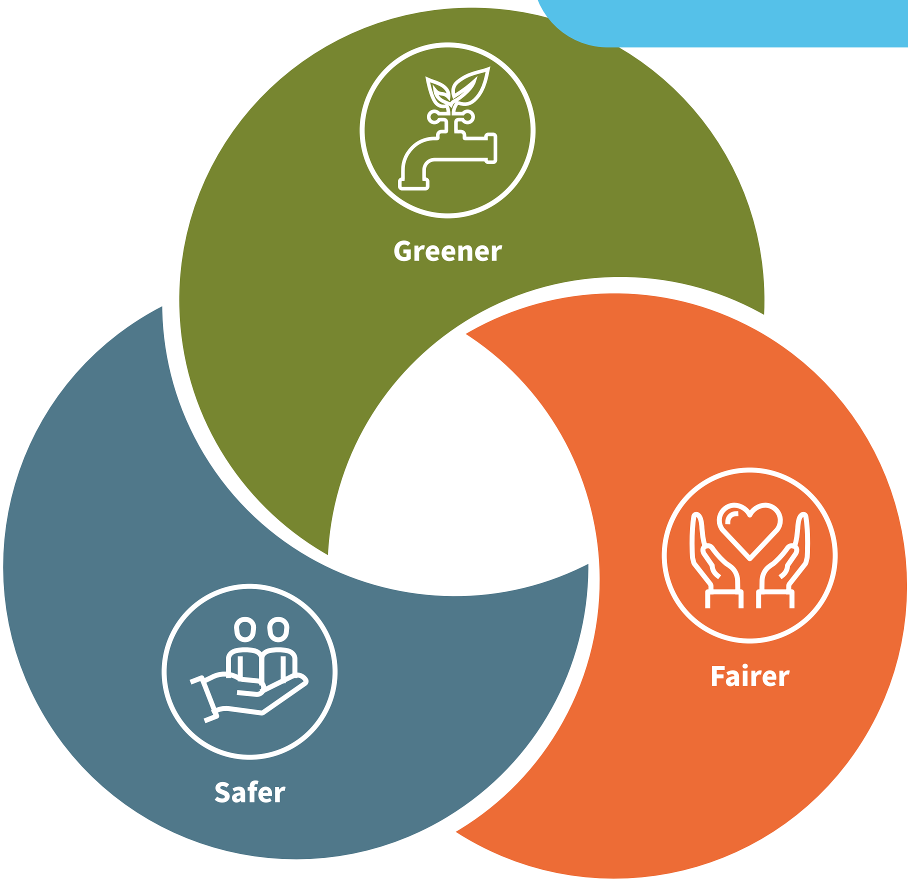
This included paid-for insight programmes, statutory consultations and day-to-day interactions to inform our future plans, understand our customers' priorities and shape delivery programmes as we gear up for significant change and investment in changes to the way we bill and interact with our customers.

We prioritised gathering a diverse range of views, spanning different generations, bill payer categories, non-household customers, vulnerable demographics and key community partners. Of particular importance has been understanding affordability, vulnerability and accessibility concerns.

Our overarching approach

Our Vision and Values are aligned to the United Nations Sustainable Development Goals – a set of 17 interlinked objectives used globally. We believe it is important to demonstrate how we will play our part in contributing and delivering these aims. We are committed to help our communities flourish whilst developing sustainably and responsibly as a business.

COMMUNITY PARTNERSHIPS AND INNOVATION WILL UNDERPIN ALL THESE ACTIVITIES.



We plan to implement this framework from 2024-25 to improve our reporting around delivery of public, social and environmental value. It will be focused on three areas to make the region we operate in **Greener**, **Fairer**, **Safer**. This year's report is a step towards this new mode of reporting.

OUR ENVIRONMENTAL, SUSTAINABILITY AND GOVERNANCE APPROACH

Greener

This segment focuses on delivering reliable and secure water supplies – a top priority for our customers. We will report on the following key aspects of our delivery plan on how we are delivering a greener region:

- Accessing new water
- Reducing leaks and bursts
- Helping reduce customer demand
- Our net zero performance
- Improving biodiversity

Read more detail about our new framework for Environmental, Sustainability Governance in our business plan chapter: **Delivering for our customers and communities.**

Fairer

This aspect of our framework will focus on:

- Supporting the local economy as well as improving community resilience
- Promoting equality and inclusion
- Working with the community through partnerships and collaborations to promote the value of water and ensure trust in our services

Affordable bills for all

Tackling water poverty

Helping customers use less water

Creating a fair and inclusive workplace

Investing in our people

Safer

This element of our framework will focus on:

- Keeping the vulnerable safe
- Health and wellbeing
- Building partnerships and collaborations

Supporting our vulnerable community

Lead Pipe Replacement

Management of Incidents

WATER RESILIENCE

Our water resources

Following the hot, dry summer of 2022, we saw exceptionally wet conditions in 2023-24, with recorded rain 45% above the long-term average.

We get most of our water for supply from the chalk aquifer underneath the South Downs. The volume of rain we received over the year meant that whilst we started the year with average groundwater levels for supply, we ended it with a very healthy groundwater recharge. Levels ended the year significantly above the 30-year long-term average. This meant there was no significant pressure on our ability to maintain reliable supplies to our customers.

Delivering our Water Resources Management Plan

While maintaining our day-to day supplies, we also continued delivery of the actions outlined in our 2020-2045 Water Resources Management Plan to secure resilient supplies for our customers in the future, while protecting and improving our environment.

Our plan describes how we will meet the increasing demands for water arising from population growth, climate change and tightening environmental requirements.

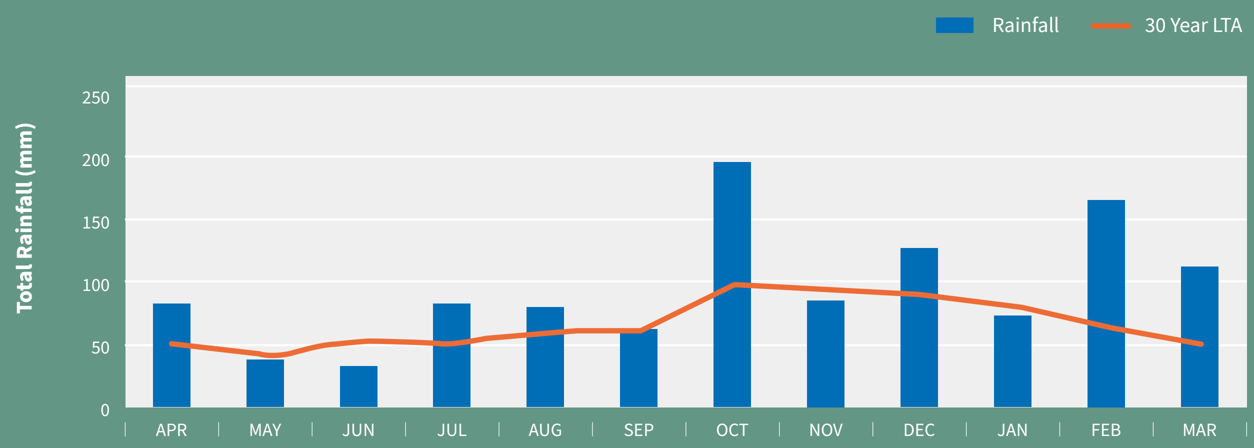
The key option identified to supply more water is the development of Havant Thicket Reservoir, an environmentally-led project to create a new sustainable source of water. When completed, it will allow us to share water with neighbouring Southern Water so it can reduce abstraction from some of our country's rarest chalk streams– the River Test and the River Itchen.

We have made significant progress on delivering the reservoir this year, as outlined on pages 40-41.

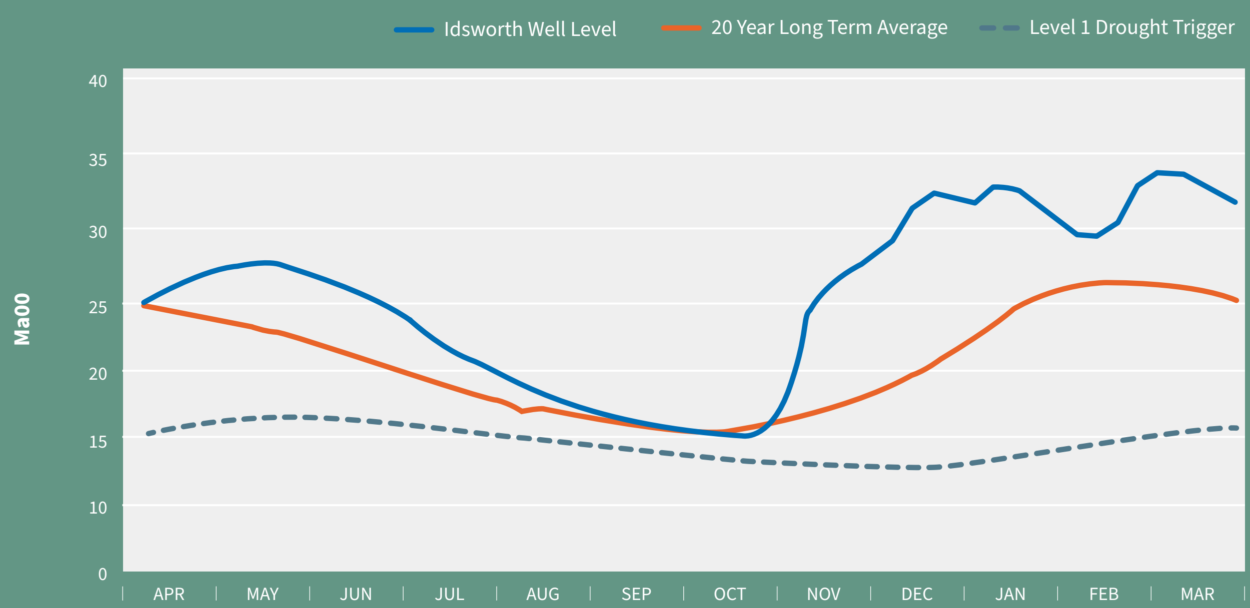
Our plan also requires us to make sure sufficient water is available for our customers in extreme droughts. This is planned through an ambitious programme of reducing leaks from our network and helping our customers use less water.

The year to 31 March 2024 had well above average levels of rainfall across our region, resulting in higher levels of underground water.

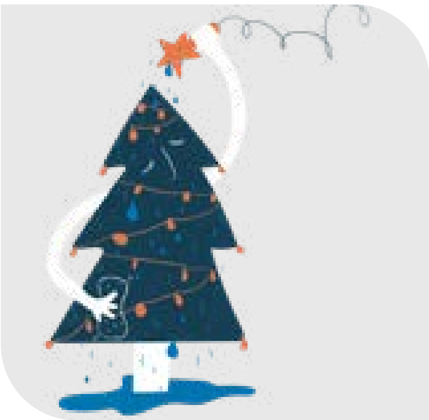
Total Monthly Rainfall 2023-24



Idsworth Well Levels 2023-24



WATER RESILIENCE



Demand management

Our customer use an average of 154 litres per person per day, which is above the national average of 146 litres. We believe installing meters for our customers has the greatest potential to influence how they use water.

During the year we have installed 3,290 meters for customers on a voluntary and change of occupier basis to increase the numbers who pay for their water through a metered charge. We have been working with our customers to understand their needs, offer water-saving devices and support those who use a lot of water.

We have also been preparing for the rollout of smart meters to all our household and non-household customers from 2025, which will allow us to provide a better service, help us understand and influence water use and find more leaks. See pages 32-35 for more detail (Customers and Local Communities)

We have also continued to promote water efficiency messages and advice, supported by free water-saving devices and challenges, on our online Get Water Fit platform. During the past year, customers who have signed up to the platform have saved on average 4,704 litres daily, through action and free devices.

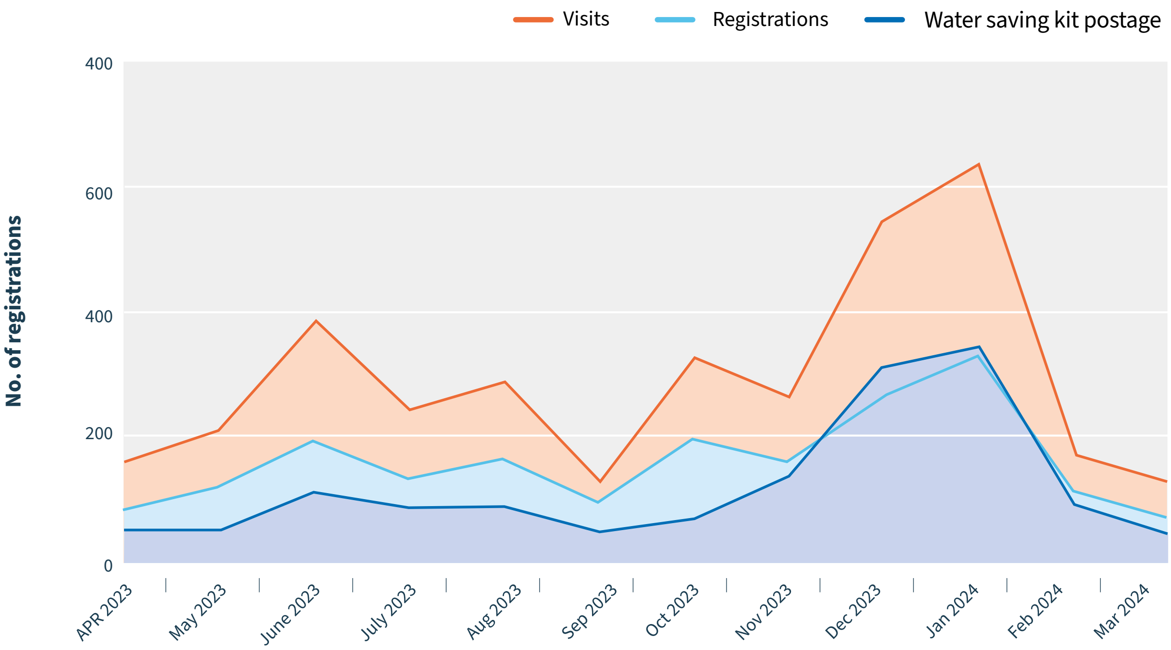
Reducing leaks

During 2023-24 the average volume of water lost to leaks from our network was 28.2 million litres per day (Ml/d). This is a reduction of 4 Ml/d on 2022-23 but still not as low as we need it to be. (See page 52 for our more information on our performance on leakage)

Reducing leakage is a priority. We have a recovery action plan in place and have increased resources to tackle the issue. We continue to use new and innovative techniques to locate more leaks, including satellite imagery and mobile electronic acoustic devices, teamed with AI tools.

These techniques, paired with our previous successful techniques such as creating an Acoustic Fixed Network (which now covers nearly 50% of our network) and our progress on enhanced network monitoring, will support us to return our performance to target levels.

Get Water Fit Registrations per day 2023-24



Planning for the future

During the year we also consulted with our customers and communities on our next Water Resources Management Plan (WRMP) for 2025-75, as part of our statutory five-yearly review.

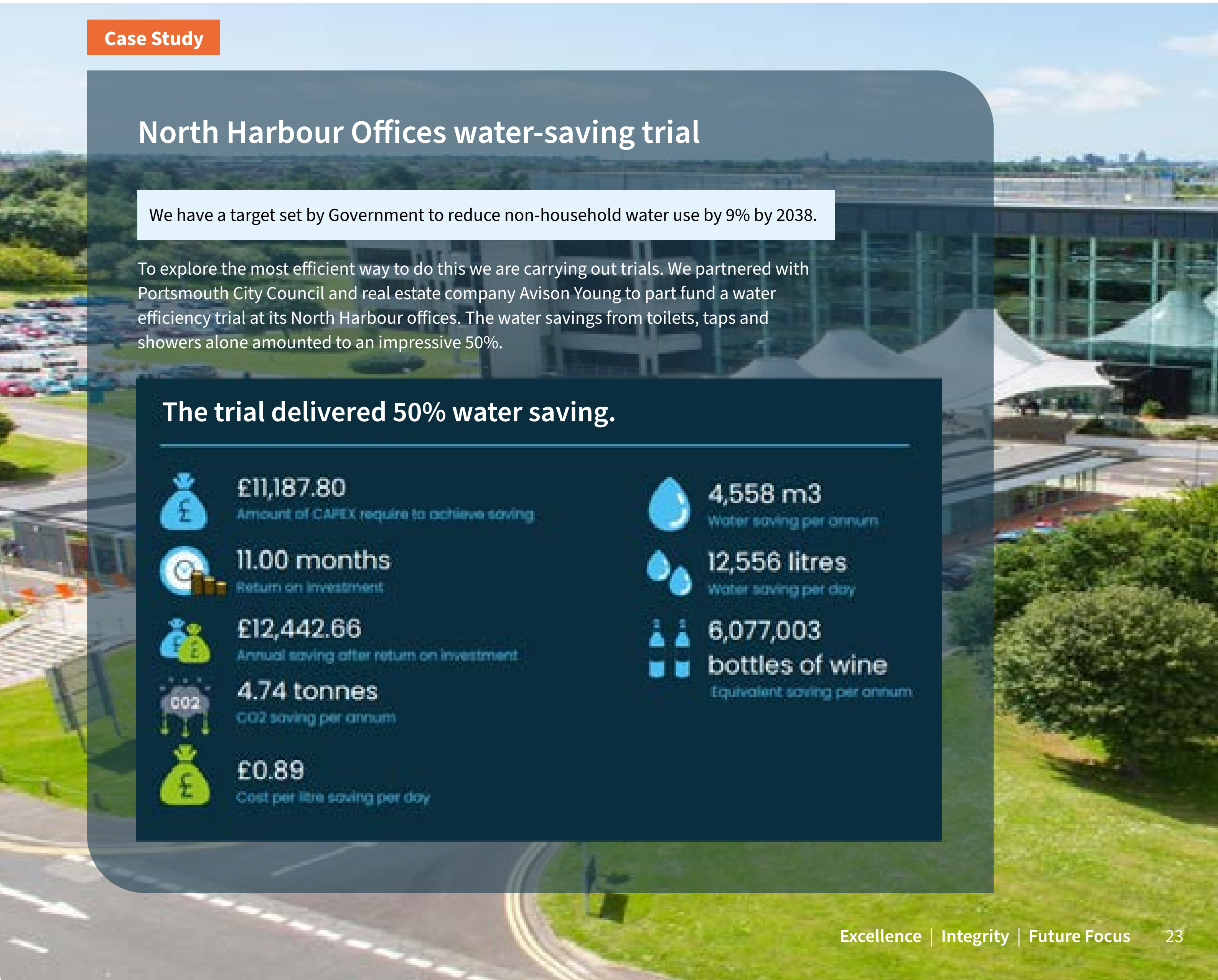
The Water Resources national framework published by the Environment Agency in 2020 required water companies to co-ordinate their water resource planning in five regional groups. We are a member of the Water Resources in the South East (WRSE) group and our plan is an integral part of the regional plan, which seeks to secure a sustainable water supply for the wider region. A consultation was also carried out on the regional plan during the year.

OUR PLAN FOR 2025-2075 HAS SIGNIFICANT CHANGES:

- It looks 50 years ahead, a further 25 years more than our previous plan;
- It is adaptive so we have planned for several future scenarios and can flex to meet our needs; and
- It increases our resilience to drought to 1:500-year droughts (0.002% chance of occurrence in any given year) from 1:200 (0.005% chance of occurrence in any given year). We have not experienced a drought of this scale so we used complex statistics to generate a view of what it would be like and how we would maintain supplies.

Having listened to the feedback we received through our consultation and on the regional plan, we published a Statement of Response and revised our draft WRMP in August 2023. We hope to publish our final WRMP later in 2024, once we receive permission from the Secretary of State.

Our draft WRMP played a key role in the development of our 25-year Long-Term Delivery Strategy during the year and the first five years fed into our draft Business Plan for 2025-30. The most significant aspect of this is our proposal to install smart meters for all our customers and reduce leakage by 50% by 2040.



Case Study

North Harbour Offices water-saving trial

We have a target set by Government to reduce non-household water use by 9% by 2038.

To explore the most efficient way to do this we are carrying out trials. We partnered with Portsmouth City Council and real estate company Avison Young to part fund a water efficiency trial at its North Harbour offices. The water savings from toilets, taps and showers alone amounted to an impressive 50%.

The trial delivered 50% water saving.

£11,187.80
Amount of CAPEX require to achieve saving

11.00 months
Return on investment

£12,442.66
Annual saving after return on investment

4.74 tonnes
CO2 saving per annum

£0.89
Cost per litre saving per day

4,558 m3
Water saving per annum

12,556 litres
Water saving per day

6,077,003 bottles of wine
Equivalent saving per annum

LOCAL GROUNDWATER FLOODING IN RURAL SUSSEX COUNTRYSIDE

CLIMATE TRANSITION

LOCAL GROUNDWATER FLOODING, WEST SUSSEX

Climate change affects the sufficiency of water available to supply, demand for water, the quality of the water we abstract and the resilience of our assets.

We recognise that understanding and adaptively planning for climate change is an important part of our long-term strategic approach to maintaining high levels of service and playing our part to reach net zero.

Climate Change resilience

We identify and manage climate change risks through resilience planning. Our industry-leading network connectivity stands us in good stead to meet the challenges of extreme weather, such as droughts and freeze and thaw events.

We report climate change risks and adaptation plans through the climate change adaptation reporting process created by the Climate Change Act 2008. We published our first adaptation report to Defra in 2011 and submitted updates in 2015 and 2021.

Our report includes 18 actions to ensure continued supply, good water quality, resilience to natural hazards and addressing risk from cascading failures. We will submit our next update to Defra in December 2024.

Our key progress on these actions during 2023-24 was integrating the effects of climate change into the development of our Business Plan for 2025-30 and delivery plan by:

- Building expertise to understand climate change impacts and incorporating these into asset deterioration modelling;
- Engaging with regional planners and decision makers (such as Water Resources South East) to make sure we use the most up-to-date climate change data;
- Incorporating water quality findings from climate change risk assessments in Drinking Water Safety Plans;
- Continuing to research climate change drivers of water demand and engagement with other regional planners on issues related to water abstraction and demand;
- Assessing the impacts of climate change on our Drought Plan; and
- Reviewing the latest flood information to make sure our operational sites remain resilient to floods.

Case Study

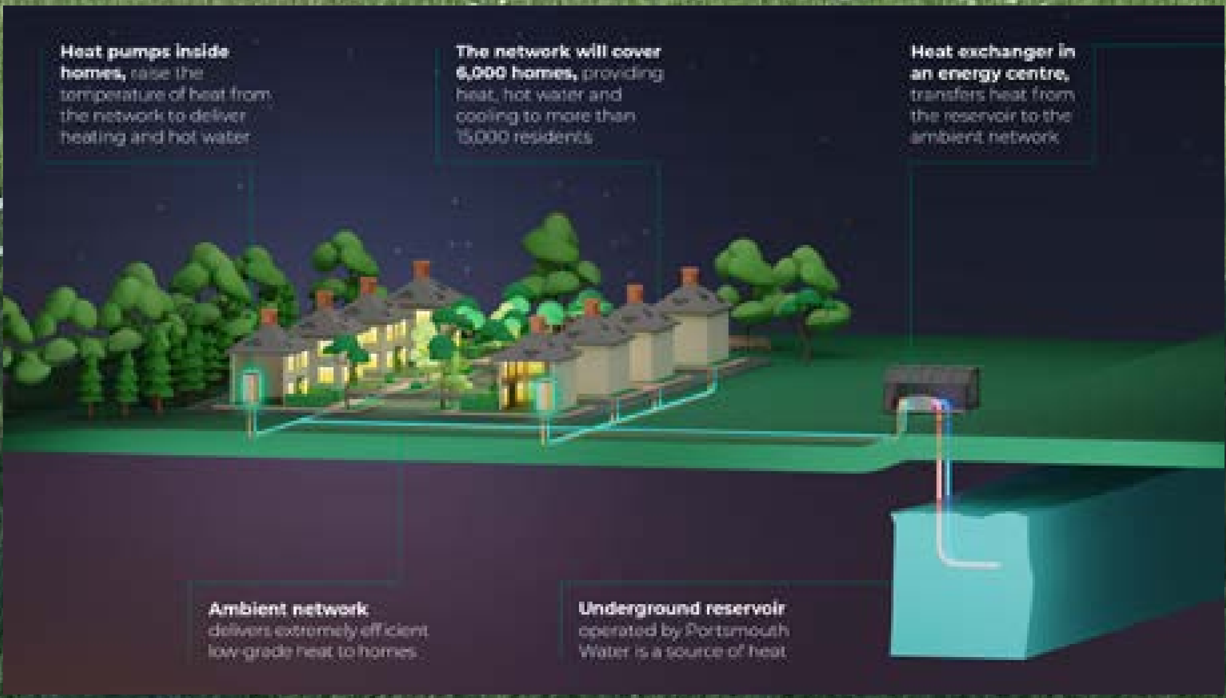
Solar and battery

We are installing large scale solar and battery technology at our larger sites to support the use of on-site renewably generated energy, as well as reduce the need to store diesel for emergency power generators. A 150MW battery at our largest site will capture grid and locally produced solar energy with an 11Kv private 'micro grid' to move low carbon energy to where it is needed.

Case Study

Welborne Garden Village

Welborne Garden Village is a new community of 6,000 homes being built sustainably in Hampshire – the biggest private housing development of its kind in the UK. We've developed a concept to use stored water from a nearby service reservoir to provide low carbon heating and hot water for the village via a heat exchanger and ambient loop network. This uses considerably less energy than traditional heating methods and is very low carbon. It is the first scheme of its kind in the country.



CLIMATE TRANSITION

Net zero strategy

We know our customers want us to deliver high-quality, net-zero services as part of our long-term delivery strategy and we aim to be net zero by 2040.

Since 2015-16 to 2023-24, based on our 2020-25 performance commitment, we have reduced our gross tCO2e by 31.32 per cent and our net tCO2e by 4.80 per cent.

Our figures were higher in 2023-24 as we included additional emissions related to chemicals for the first time, to align with updated guidance. Not including these additional reported emissions, we have seen a reduction in emissions as we have generated more solar energy by expanding our solar assets, improved efficiency and reduced demand for water.

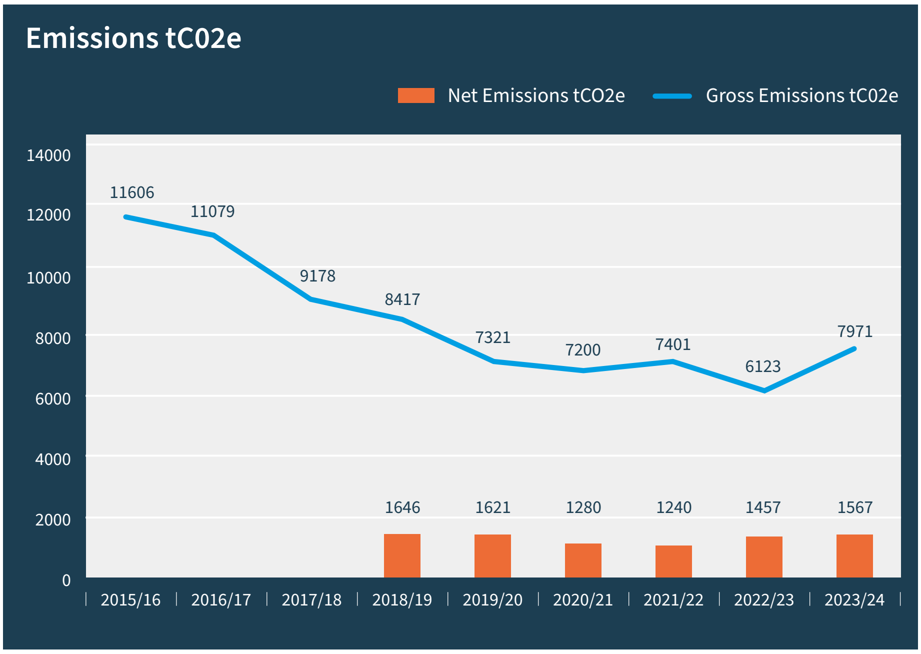
We previously signed up to the water sector Public Interest Commitment (PIC) to be net zero by 2030, which looks holistically at how we would deliver and measure net zero.

Our 2040 target, published in our Business Plan for 2025-30 during the year is less ambitious. However, it is a complex area and our original commitment of 2030 would require significant investment and enhancement.

Our research with customers has shown they have concerns about the high cost of achieving net zero and this has increased over time:

- Customers on our qualitative Customer Advisory Panel opted to become fully carbon neutral by 2040, rather than 2030, when shown comparative costs – £300 million for 2030 and £50 million by 2040; and
- In a quantitative survey considering the prioritisation of long-term ambitions, reaching net zero gained the second lowest support.

Our updated approach reflects Ofwat's approach for companies to act within the available funding.



We recognise innovation will play a key part in reaching net zero and our ambition is to harness this to bring forward our net zero target by being a 'fast follower' of proven technologies so we can quickly adapt our delivery, if this is at no extra cost to our customers.

Recent progress on net zero

Progress made on our net zero strategy during 2023-24 includes:

- Developing emission efficiency software and implementing a product to achieve 5% efficiency per site;
- Increasing our locally-sourced green renewable energy year on year from 0.4MWp to 1.9MWp. We also plan to increase our battery storage and purchase energy from renewable sources to meet 90% of our consumption;
- Energy efficiency - we are on track to achieve our target of delivering more than 8% efficiency at several operational sites by 2025;
- Electric vehicle trials – trialling different vehicles to develop our approach to start our transition to an all-electric fleet from 2026; and
- Water Lab innovation – we are driving innovative solutions in our lab founded with Kraken Technologies to improve efficiency, promote water savings and reduce emissions.

Future net zero plans

In the longer term we recognise our responsibility as a monopoly provider is to achieve net zero and go beyond to a net positive position. This is embedded in our long-term delivery strategies. Examples of our approach developed during the year include:

- Making decisions which minimise growth in our operations;
- Reducing the amount of water we abstract, treat and pump through leakage, smart metering and behaviour change;
- Converting our HGVs and generators to hydrogenated vegetable oil by 2030;
- Harnessing insetting opportunities e.g. nature-based solutions such as reforestation; and
- Building on catchment management partnerships to improve water quality so less treatment is required.

CLIMATE TRANSITION

Streamlined energy and carbon reporting

The tables below show our energy consumption, greenhouse gas emissions for Scope 1, Scope 2 and Scope 3, and also the volume of water we deliver with the energy we use.

We are addressing our current carbon emmissions through the following activities:

- 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; and
- Continue to monitor our vehicle telematics to improve driving efficiency.

kWh Energy Consumed	2020/21	2021/22	2022/23	2023/24
Electricity	23,300,000	24,184,104	24,687,573	**22,122,762**
Natural Gas	717,000	634,864	945,699	**661,000**
Gas Oil	320,143	124,464	247,193	**178,977**
Transport	786,200	857,089	776,542	**828,087**
Total	25,123,343	25,800,521	26,657,007	**23,790,827**

Volume of Water (Ml/year)	2021/22	2020/21	2022/23	2023/24
Total	67,700	67,157	70,143	**67,716**

tCO^2e Emitted	2021/22	2020/21	2022/23	2023/24
Scope 1	450	502	513	**551**
Scope 2 (LB)	5,430	5,108	6,149	**4,581**
Scope 3	-	-	-	**1,860**
Total	5,880	5,610	6,662	**6,992**

Intensity Ratio (tCO^2e/ML)	2021/22	2020/21	2022/23	2023/24
Total	0.09	0.08	0.09	**0.10**

Gross Greenhouse gas emissions per million litres of water delivered	Units	2019/20	2020/21	2021/22	2022/23	2023/24
Electricity used	MWh	23,022	23,300	24,184	24,688	**22,123**
Gross greenhouse gas emissions	tCO^2e	5,884	5,880	5,610	6,662	**6,992**
Water delivered - Distribution input	Ml	62,362	67,700	67,157	70,143	**67,716**
Gross Greenhouse gas emissions per million litres of water delivered	$KgCO^2$/Ml	94	87	83	95	**103**

BIODIVERSITY, MITIGATION AND ENHANCEMENT

We are committed to supporting conservation and biodiversity and employ dedicated environment and biodiversity specialists to guide our approach.

Our focus is on raising awareness of environmental issues and constraints across our business, managing habitats and carrying out ecological mapping on our land to protect and enhance biodiversity, as well as working with partners to maximise opportunities and benefits.

During 2023-24, our key conservation activities included:

- Employing a botanist to carry out detailed vegetation monitoring on 13 sites;
- Monitoring species with cameras to ensure we understand and mitigate any potential risk to our local habitats – picking up otters, badgers, mice, voles, shrews, birds and invertebrates;
- Planting and improving hedgerows, woodland thinning, coppicing, reed cutting and water and scrub management at eight sites to create habitats and improve connectivity;
- Caring for rare Black Poplar and Elm trees planted three years ago to support wildlife;
- Removing non-native Himalayan Balsam during staff volunteer days and carrying out a Himalayan Balsam survey on the Hermitage stream in Havant, so we can collaborate with others to develop a removal plan; and
- Controlling non-native invasive Japanese Knotweed at several sites.

Biodiversity management and successful outcomes

During the year, we carried out a winter programme of site enhancements on our own land, including priority habitat management and we also entered the fourth year of our Biodiversity Grant Scheme. This is part of our environmental commitment to enhance habitat networks within our supply area.

We supported seven applications for our grant scheme this year totalling around £50,000. These included grants for:

- Staunton Country Park, to convert a WW2 arms store into a bat hibernaculum and summer roost;
- The South Downs National Park, to restore two dew ponds to create ecological stepping stones;
- The Hampshire and Isle of Wight Wildlife Trust, to improve Farlington Marshes as a secure roost site for wader and wildfowl and buy equipment to monitor key species and improve predator control on St Clair's Meadow Nature Reserve;
- The National Trust, to improve woodland rides at Slindon Mid Common, to allow natural regeneration of a diverse ground flora, which in turn improves biodiversity; and
- Bidbury Mead Friends, to plant trees in a park to replace lost mature trees and to plant wildflower strips as corridors for invertebrates, birds and small mammals.

Case Study

Promoting the safe use of pesticides to protect water quality

Following visits to farms to identify opportunities to prevent pollution and protect water quality, we provided funding for a new pesticide spraying area and bio-bed on a farm near Bedhampton and Havant Springs.

The farm built a new bunded area for sprayer filling, with runoff collected in a tank and pumped onto a bio-bed to treat dilute pesticide. The area is fenced off to prevent the spread of pesticides and is now a safe area for handling these potentially harmful chemicals.

Case Study

Cover crop trial to reduce nitrates

We ran a joint project with Affinity Water on cover crops on two farms in West Sussex and Hertfordshire. The cover crops protect and improve soil between regular crop production, by reducing soil erosion and reducing nitrate leaching. This trial looked at the timing of nitrogen releases from the residues of the cover crops and how this could influence the need for nitrogen fertilisers for regular crops and subsequent losses from nitrate leaching. The evidence will help us provide valuable advice to farmers and landowners to reduce their impact on water quality.

OUR CUSTOMERS AND LOCAL COMMUNITIES

We are committed to delivering excellence for our customers and local communities and our performance in the past year clearly demonstrates this. We achieve this by fostering a culture which empowers our people to consistently "do the right thing".

We are looking to build on our customers' trust in us as we prepare to deliver our investments for 2025-30, including installing smart meters for all households and businesses and a move to digital customer platforms, while maintaining our personal interactions.

Delivering excellence in service

In 2023-24 we were ranked first in the water industry's Customer Measure of Experience (C-MeX), a step up from second position the previous year.

We are proud our customers show this level of satisfaction with our services and it is testament to our relentless dedication to delivering unparalleled service in every interaction we have.

By consistently delivering on promises and maintaining high standards of quality, we demonstrate trustworthiness, ensuring customers feel confident in our reliability.

We also achieved an impressive score of 76 in the Institute of Customer Service's annual survey, well above the average score for all utilities of 69.5. We also continue to be proud holders of the institute's 'Service Mark' accreditation.

Our D-Mex position for the year, for our quality of service for developer customers, was ninth, a fall from second position the previous year and third, the two years previously. We achieved 89.39% compliance overall but the failure to issue a number of mains quotations and designs within the target time led to negative feedback. It is a significant change as we have a small number of interactions with developers, so a small change in performance has a large impact on our rating.

We are improving the services we provide to our developer customers and have upgraded our website and streamlined our application processes.

We have made a significant shift in our approach to customer and community engagement.

Engaging with our customers and communities

We made a significant shift in our approach to customer and community engagement during 2023-24.

This included paid-for insight programmes, statutory consultations (e.g. our consultation on our 50 year water resources management plan) and day-to-day interactions, to inform our future plans, understand our customers' priorities and shape delivery programmes as we gear up for significant change and investment in changes to the way we bill and interact with our customers.

We prioritised gathering a diverse range of views, spanning different generations, bill payer categories, non-household customers, vulnerable demographics and key community partners. Of particular importance has been understanding affordability, vulnerability and accessibility concerns.

Integrating customer insights into strategic planning

We are carrying out in-depth, independent research, with our customers as we shape our smart metering programme to minimise its impact. As an area with low meter numbers and low bills, the impact could be greater for our customers than others in the sector. Our research is directly informing our route to market and how we can provide customers with useful information about their consumption in a meaningful way. It has also led to the creation of a dedicated care package, aimed at supporting more vulnerable customers before, during and after meter installation. We are prioritising inclusivity by offering information in multiple languages and formats, including Braille.

Your water, your say

As part of developing our business plan for 2025-30, we held two ‘Your water, your say’ sessions in June and November 2023, attended by more than 100 customers and interested parties. During the sessions we shared ideas for our business plan and attendees had an opportunity to ask questions which were answered during the session or afterwards and their views considered in our final submission. This was then shared again in the December session. We received positive feedback, with customers particularly taking the opportunity to emphasise the need for enhanced support for vulnerable customers with disabilities.

Case Study

Digital transformation

In April 2023 we embarked on a significant digital transformation aimed at improving our customers’ overall experience. This involved being the first water company to replace our existing billing system with Kraken – a leading Customer Relationship Management (CRM) system for utilities.

By the summer of 2024, all our customers will be transitioned to the new system, which offers multiple benefits, including:

- Easier customer journeys, so we can adapt and respond more quickly to customers’ changing needs and preferences;
- Relevant and tailored services to meet the different needs of our customers;
- Targeted promotion of water saving, which is key to securing resilient, sustainable supplies in the future;
- Reducing operational costs through streamlined processes; and
- Protection of our customers’ data through the latest cybersecurity protocols.

It’s a critical early investment in our services to prepare for the future, the implementation of smart meters and networks and the growing expectations of customers for personal, efficient and tailored services.

We also remain committed to our personal touch and supporting customers face-to-face in our communities where they are not able to engage with digital services.

OUR CUSTOMERS AND LOCAL COMMUNITIES

Delivering for our vulnerable customers

Delivering with integrity and extending our support to those customers who need it most is important. During 2023-24, we listed the highest percentage of customers on our Priority Services Register in the water sector, at 12.5%. These customers receive additional support during incidents. To enhance this, we continue to forge new partnerships with organisations that specialise in helping these customers, making it easier to find the assistance that is available.

Our longer-term plan is to build on this and we have set ourselves a target of 14.5% by 2030.

2023-2024 WE LISTED

The **highest percentage of customers** on our Priority Services Register in the water sector at

12.5%

We also achieved our Vulnerability ODI target of 85% for the first time since 2020, by increasing our engagement and making our support packages more accessible. We received 48 responses, from 75 individuals, across 51 organisations. This achievement highlights our commitment to assisting vulnerable customers and nurturing strong relationships, paving the way for targeted improvements in the years ahead.

Addressing affordability

The last year has brought further economic challenges for our customers, including the ongoing cost of living crisis and escalating bills and we continue to pro-actively support those who are struggling.

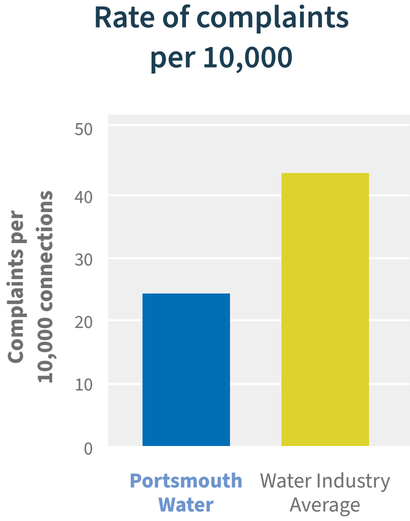
We continue to have the lowest water bill in England and Wales, and in 2023-24 we supported 13,532 customers with our social tariff, far exceeding our year-end target of 9,500.

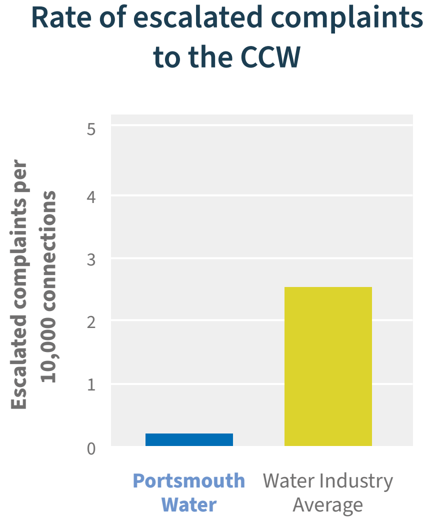
Part of this achievement was due to raising the eligibility threshold for social tariffs to £21,000, so we could extend our support to more individuals and families. We also put in significant effort to identify and engage with more eligible customers. To achieve this, we participate in data sharing processes and policies with local utilities partners to make it easier to identify eligible customers and speed up access to support.

As with our support for vulnerable customers, we engaged proactively with more community organisations, to raise awareness about social tariffs and community outreach initiatives during the year.

Building on this in the future, we are committed to continually engage and train our people so they are more able to identify and address customers' needs effectively.

OUR LOW COMPLAINT LEVELS UNDERSCORE OUR COMMITMENT TO ADDRESSING CUSTOMER CONCERNS PROMPTLY AND EFFICIENTLY.





RANKED AMONG THE TOP #3 PERFORMERS IN THE WATER INDUSTRY

RANKED AS THE LEADING PERFORMER IN THE WATER INDUSTRY

Managing complaints

Across the utilities sector, there has been a notable decline in average customer satisfaction and research from Consumer Council for Water (CCW) and the Institute of Customer Services, shows much of this relates to the handling of complaints.

Despite this, we ranked among the top three performers in the water industry, with an impressively low rate of 24.4 complaints per 10,000 connections last year, compared to an average of 42.5.

This achievement underscores our commitment to addressing customer concerns promptly and efficiently.

In terms of escalated complaints, we were in the upper quartile of all companies, with only 0.94 complaints per 10,000 connections.

We also lead the industry in escalated complaints to the CCW, with a remarkably low rate of 0.19 complaints per 10,000 connections, compared to an average of 2.53.

This demonstrates our proactive approach in resolving complex issues and ensuring customer satisfaction at every stage of the complaint process and we will continue to strive to reduce complaints further.

Our work in the community

Our commitment to our communities extends across education, inclusion, and support. During the past year we have:

- Participated in STEM Fairs, to support education and teach young learners about the water cycle through interactive sessions and hands-on demonstrations;
- Attended community events, to reach more customers with our affordability and vulnerability support;
- Become patrons of Shaping Portsmouth, whose mission is to create sustainable collaborations to deliver social impact in Portsmouth with a focus on inclusivity;
- Supported community groups and charities, such as Staunton Country Park, food banks, charitable donations and raffles through our community fund; and
- Engaged schoolchildren, students and community groups, in the development of Havant Thicket Reservoir and our environmental improvement works.

Through these interactions, we strive to build trust, foster meaningful connections and demonstrate our dedication to serving the diverse needs of our community.

OUR PEOPLE

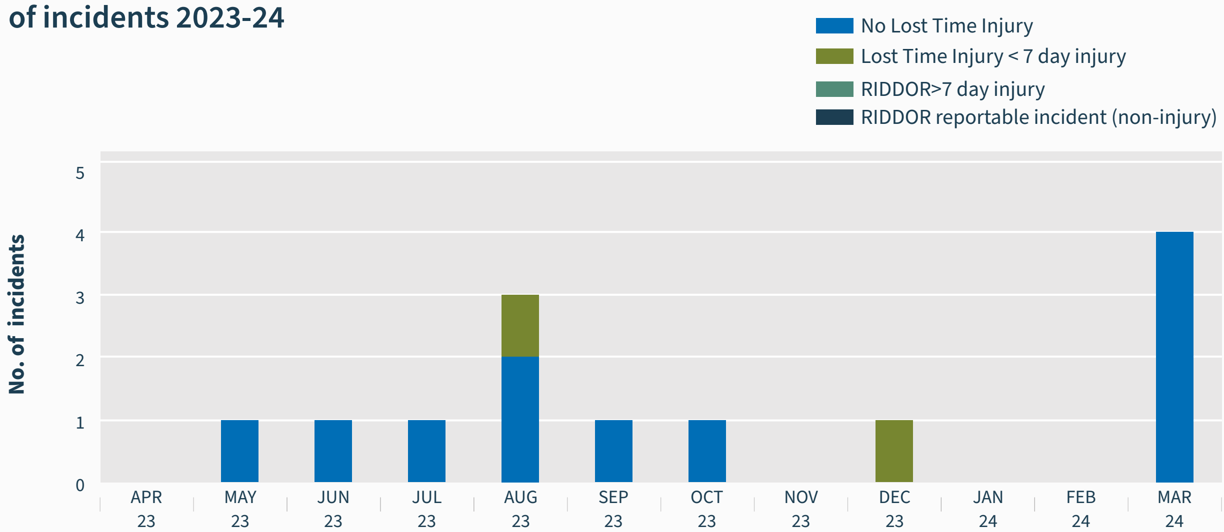
Our people are the cornerstone to delivering our purpose of 'Excellence in Water. Always.' It is their hard work and dedication which supports us to continue delivering exceptional service to our customers. We are proud of their commitment to going above and beyond to **"DO THE RIGHT THING".**

Health and safety

Health, safety and wellbeing remains our top priority and following an in-depth audit of our health and safety processes, we implemented an 18-month programme focusing on developing our health and safety management system, effective continuous improvement and significantly reducing our risk profile of managing health and safety.

We continue to see year-on-year improvements and have been awarded the Royal Society for the Prevention of Accidents (RoSPA) 'Order of Distinction' Award. During 2023-24, we recorded two lost time incidents, which reflects the great job our people do at keeping themselves and those around them safe.

No. of incidents 2023-24



Engaging our people

We pride ourselves on establishing a strong, trust-based, open culture, where people feel engaged and connected and we are committed to being adaptable and flexible.

We have started employee engagement pulse surveys, to provide actionable insights, to strengthen our culture and give everyone a voice to help create good day-to-day experiences for our people.

Our survey results from September 2023 showed a 74% response rate, a good engagement score of 74% and an Employee Net Promoter Score (ENPS) of +5.5. The ENPS measures how likely employees are to recommend an organisation as a good place to work and a score above 0 is considered acceptable.

DURING THE YEAR WE ALSO:

- Reviewed our employee communications, with a view to improving engagement, transparency and collaboration
- Launched our new intranet 'The Tap' for employees
- Introduced Engage for internal communication (formally known as Yammer)
- Re-designed our weekly blog, which is written and owned by our senior leadership team.

Creating, developing and shaping the right communication and engagement channels for our people, is something we will continually review, as we step up our capabilities to deliver the significant investment outlined in our business plan for 2025-30.

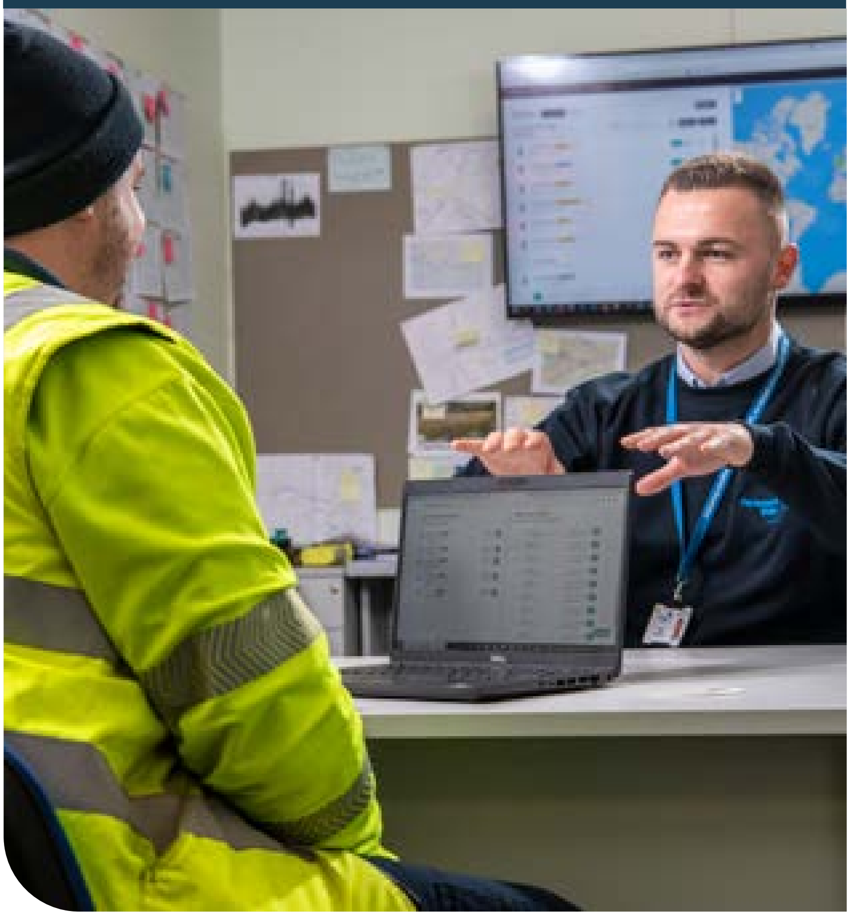
Our collective and direct employee feedback mechanisms

COLLECTIVE VOICE

- All people, company and business updates
- Local trade union forums
- Departmental meetings
- The Tap news updates
- Monthly Team talks
- Focus groups
- Weekly blogs
- People and Culture Club

DIRECT VOICE

- Your Voice survey
- Engage
- Regular employee/People leader meetings
- Whistleblowing
- #Alwaysyou campaign



OUR PEOPLE

Supporting our people

Most of our colleagues, their friends and families are also our customers, so some of the challenges our customers face, such as the increased cost of living, also affect them.

We continue to do everything we can to help support them and take pride in being a real Living Wage Employer. We continue to review our total reward solutions against the market and commit to support our people's mental, physical and financial health and wellbeing.

We celebrate high performance linked to our purpose and values with onthe-spot recognition. In 2023, we introduced new awards to celebrate employees' contributions and achievements in delivering our values of Excellence, Integrity and Future Focus. Employees are put forward through a nomination process.

Following feedback from our engagement survey and benefits review, we were delighted to introduce new family friendly policies, such as enhanced maternity, adoption and paternity leave, time off for fertility treatment and IVF support, paid parental bereavement leave and antenatal appointment support. We make these benefits available from the first day of employment for all employees.

During 2023-24, we hosted menopause awareness sessions for our people leaders and introduced a menopause policy and guide to educate, empower and provide resources to women experiencing perimenopause, menopause, and endometriosis symptoms. Our policy includes, additional paid leave, flexible working arrangements and access to information and resources.

We also continue to promote the support available via our Employee Assistance Programme (EAP) and have formed a Wellbeing Group, with the purpose of developing and implementing wellbeing initiatives, to support our people.

Family Friendly Policies

Via a survey in 2023, top of the wish list for our people was more family-friendly policies. We are introducing new policies in 2024, which will not only bring us in line with other companies, but put us ahead of them. The updated benefits will be available from the first day of employment for all employees and include:

Maternity and adoption leave
- six months full pay, plus five days paid leave for adoption appointments (this almost doubles the length of paid leave previously)

Paternity leave
- full pay for four weeks

Parental bereavement leave
- full pay for two weeks

Fertility treatment
- five days paid leave for treatment and two days paid leave for partners supporting those having fertility treatment.

Antenatal appointment support
- two days paid leave for partners to support

Employees on this leave will also receive their full bonus payments for the year.

Menopause Policy

We've created a menopause policy and guide to educate, empower and provide resources to women experiencing menopause, as well as eliminate the stigma and misconceptions surrounding it.

The guide has been widely shared with all our employees and we're undertaking awareness training, with a focus on our senior leaders.

Our new policy includes:

An additional five days paid leave for anyone experiencing perimenopause or menopause symptoms which may have otherwise been taken as sickness or holiday

Flexible work arrangements, such as adjusted working hours, remote working, or more frequent breaks, to accommodate needs

Access to information and resources about menopause

Confidential discussions in a supportive and judgement-free environment

Creating a diverse and inclusive place to work

We aspire to be reflective of the community we serve and recognise our current lack of diversity.

Our goal is to increase the diversity of our people. We want to embrace and celebrate individuality, regardless of age, gender identity, sexual orientation, physical ability, ethnicity, race, nationality, religion, or any other dimensions of their identity.

During 2023-24 we engaged a specialist to drive inclusive initiatives to support us to embed Equality, Diversity and Inclusion (ED&I). Following an audit to understand and benchmark EDI in our company, we initiated training sessions to reach every employee. This started at the top of our company with the Board, executive team and senior leaders, followed by awareness sessions for all employees.

We introduced an in-house recruitment model, to work directly with candidates to enhance our employer brand and help attract diverse talent. We also overhauled our approach to recruitment, introducing gender decoding and blind CVs, as well as tracking the number of interested male and female applicants we receive.

We have started to use working groups to help create a more inclusive environment for our people. Elevate was formed to help raise awareness of key issues affecting women in the workplace, ranging from women's health, the gender pay gap and representation. We recently expanded this group and formed a People and Culture club, with a focus on developing and driving initiatives to create an even better place to work.

This year our gender pay gap reduced across both the mean and median measures – an important step in the right direction. Our current female workforce is mainly in non-technical roles, but we are making progress, with some female roles in the field, positions in our Havant Thicket Reservoir delivery team and female management in our water quality team.

In 2023-24, we are pleased to have seen an increase in the number of Full Time Equivalent (FTE) posts being filled by women across the business and in middle to senior leadership positions.

HAVANT THICKET RESERVOIR PROJECT

We are creating the first new reservoir in the South East since the 1970s – Havant Thicket Reservoir. It is an environmentally-led project and will help protect world renowned chalk streams in Hampshire by supporting Southern Water to reduce its abstraction from the River Test and River Itchen.

As well as protecting these globally rare chalk streams, the project will deliver a net gain to wildlife habitats. Our environmental commitments include creating and improving more than 200 hectares of woodland and wood pasture.

The project received planning permission in late 2021, and procurement of the main design and build contracts continued into 2022. In January 2023, Ofwat completed a Cost Adjustment Mechanism process, to determine a new regulatory allowance of £339m for the project, reflecting changes in scope and cost associated with these activities.

During 2023-24, we have significantly progressed our environmental work, detailed planning applications, contractual agreements and preparation of the Havant site. This has included:

- Amending the embankment design to reduce the gradient and avoid additional tree felling;
- Detailed design and consultation on the pipeline, which will transfer water to and from the reservoir, to propose an updated route and method to reduce carbon, costs and the impact on residents;
- Detailed ground investigations to inform the creation of the reservoir;
- Construction of a new access road to allow most construction traffic to avoid residential areas; and
- Contractual agreements to deliver the pipeline and design the visitor centre.

This work has prepared us for the start of the 'big build' phase of the reservoir later in 2024, including building the main embankment and creating the wetland on the northern shore.

Hampshire Water Transfer and Water Recycling Project

We have been supporting Southern Water to develop its proposal for the Hampshire Water Transfer and Water Recycling Project to increase the resilience of supplies in Hampshire and further protect the county's chalk streams.

The project would introduce highly treated recycled wastewater to the reservoir and include a pipe to transfer water directly from the reservoir to Southern Water's treatment works in Hampshire.

Southern Water is consulting on its plans and preparing a planning application. We have agreed changes to our current reservoir, which will increase the resilience of our current design and ensure the reservoir is future proofed if they are successful in gaining planning, principally increasing our pipeline to two pipes. We are also changing the design of our embankment to address risk of ground movement after discovering cracks in the clay during further ground investigations. We will have to carry out more extensive ground conditioning and plan reduce the slope of the embankment. While this will delay delivery of the reservoir by two or three years, it will reduce the carbon impact, disruption to community and offer better value for customers if we carry out this work out now, rather than later, should planning be granted.

The scope changes will increase the cost and length of construction programme.

Community engagement

Community engagement has been key to shaping and delivering our plans for the reservoir. Throughout the year, we maintained our regular forums with interested community and environmental groups. These forums provided a platform to share information, consult on each stage of the project. We are grateful for the ongoing support, valuable insights and constructive challenges.

We also held consultations in public and community centres and online to give everyone an opportunity to share their views. During the year we have hosted many visitors on the site, including local schools.

We have strong support from statutory bodies and our local community for the reservoir, with 80% of people surveyed supporting it at the time of our initial planning application. Initial objectors to the proposal have since renamed their local interest group to, 'Havant Thicket for Nature', and are working closely with us on environmental improvements.

Case Study

Environmentally-led project

During the year we worked in partnership with the Havant Thicket for Nature group on its suggestion to save 80 young trees from the reservoir site.

With the support of local volunteers, we broadened the scope and added bushes and saplings to the translocation programme, as well as creating a nursery to grow oak saplings from acorns from the site.

The project has been a great success. Together we translocated more than 200 young trees, rescued a further 250 saplings and bushes and grew 190 oak saplings from acorns. This resulted in more than 600 trees, saplings and other plants being translocated, along with ancient woodland soil, helping us to preserve the genetic history of the site.

This couldn’t have been achieved without the support and dedication of our contractors and local volunteers and is one of the many ways we are delivering not ‘to’, but ‘with’ our local community.

We have also been maintaining the 6,000 trees we planted on the reservoir site in 2019 and created a hedgerow along the new access road using materials from the site to create another new wildlife habitat.

Offsite environmental projects

Further afield, work began on a project to rewild 80-hectares of agricultural land, on nearby farmland at South Holt farm, in an 80-year lease agreement with the Pig Shed Trust.

We will be using natural regeneration to establish robust woodland habitats, with less carbon impact, than traditional planting methods.

At Southleigh Forest, which we own, we are working with Forestry England to promote the growth of broadleaf trees to increase biodiversity for local wildlife, including reptiles, bats, dormice and birds. Our work on all sites near the reservoir has been delivered in accordance with the UK Forestry Standard, which addresses all aspects of biodiversity and environmental protection, as well as sustainable forest management.

OTHER ISSUES WHICH IMPACT US

There are many organisations and issues which impact our business. These shape our business decisions, risk profile and strategy. As a regulated monopoly, we are answerable to many regulators who oversee our delivery for our customers and the environment. We also have multiple stakeholder groups who play a critical role in delivery of our plans and we are exposed to external risks from the UK and global economic markets.

Our regulators are outlined below:

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.

Regulatory business plans

We agree a five-year business plan with Ofwat, which outlines our investment 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 our customers.
We have just completed year four of our current five-year period for 2020-25 (PR19) and we submitted our business plan for the next five-year period 2025-2030 (PR24) in October 2023. We expect Ofwat to publish its draft determination on our five-year plan for consultation in July 2024, ahead of publication of the final determination in December 2024. We then have six weeks to approve the business plan, or refer the plan to the Competition and Markets Authority.

Our five-year business plan includes the investment and actions required to deliver the statutory programmes agreed with DEFRA, the Drinking Water Inspectorate and the Environment Agency. These include commitments from our:

- Water Resources Management Plan (DEFRA/EA)
- Water Industry National Environment Plan (EA)
- Drinking Water Improvement Programmes (DWI)

Our latest business plan submission includes a step up in investments to address long-term water resource security and environmental challenges

Other key parties

Customer Scrutiny Panel

We face the conflicting challenges of increased investment due to climate change and customer affordability so difficult decisions need to be made. We have a Customer Scrutiny Panel (CSP) which provides independent challenge to our decision making and makes sure our customers' views are considered.
The independent CSP includes a range of stakeholders and customers who scrutinise the development of our business plan and review our performance against its promises. We are grateful for the continued support and insightful contributions of the panel members and the Chair, Lakh Jemmett, as their input has been critical to our strategic planning.

Our investors and financiers

We work with a wide variety of financial institutions to support delivery of our services. Like all businesses, we need to generate appropriate profits to provide a fair return to shareholders and meet the interest cost of our borrowings. In turn, we need continued support from our investors to make sure we have finances to support our future investment needs.

We work closely with our shareholders and the banks and investment funds which provide our capital funding. Our ownership structure and financing structure is explained fully in the Governance section on pages 76-77.

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

We also work with more than 600 suppliers to enable the overall functioning of the wider business and look for opportunities to work with local small and medium enterprises (SMEs) where appropriate. We deal with all our suppliers in a partnership-based approach, helping to make sure we receive quality products and services and 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 we expect our suppliers to take similar measures.

Supply chain key activities

During 2023-24 we signed a key contract with Kraken Technologies for the first implementation of the Customer Relationship Management (CRM) system powering Octopus Energy and its renewables business. This is the first major implementation of its award-winning system in the water sector. We also developed two major tenders for the main contracts to deliver our smart meter programme and we expect to appoint new partners in 2024-25. Other major supply chain contracts up for renewal include our non-infrastructure capital delivery frameworks and our energy contracts. The scale of water company investment programmes and wider infrastructure investment means the current market is extremely competitive and resource capacity is an issue facing several companies. We have adopted a strategy of early engagement on our below-ground activities to reduce the risks around procurement and make sure we have competitive tender processes.

Commodity and energy prices

The UK water industry accounts for around 3% of the UK's total energy consumption and is working to reduce its reliance on fossil fuels by increasing the use of renewable energy sources. Energy market concerns, driven by the war in Ukraine, have subsided and energy costs have fallen from their peak in 2022. However, the outlook for energy prices in the near term is uncertain. The war in Ukraine is likely to continue to disrupt energy markets. This is compounded with a risk that conflict in Israel and Palestine extends to the Middle East and impacts energy costs. To avoid cost shocks, we adopt a policy of forward purchasing energy and making sure at least 12 months of our electricity cost is fixed. We continue to focus on self-generation opportunities through renewable development, in partnership with Brockhampton Solutions Limited.

High inflation, in part driven by the energy crisis, has impacted the cost of chemicals and commodity costs. We monitor market prices carefully and seek to secure competitive prices through effective procurement and market engagement through Water UK procurement groups.

Inflation and interest rates

We are not immune to exposure to high inflation and interest rates but we have taken steps to mitigate our exposure. Inflation drives an increase in our cost base, including our salary costs. During 2023-24 we increased salaries by 12% to reflect the cost-of-living pressures, with the increases including a change to terms and conditions and an extension of contracted hours to 38hrs per week. Our exposure is mitigated as our revenues have direct linkage to inflation, so we have a degree of protection from the recent high inflation environment. Some of our debt is indexed linked to RPI or CPI. As our regulatory contract is now aligned to CPIH we have a programme of derivatives to reduce our exposure to the difference between RPI and CPI. We have also taken steps to reduce our exposure to changes in interest rates on our floating debt facilities and we have put in place a programme of swaps limiting our expenditure as we draw on these facilities to support investment in Havant Thicket Reservoir. Our programme extends to 2028 through the peak construction period.

PERFORMANCE OVERVIEW

Understand our performance across our ODIs in the year 2023-2024 as we deliver on our commitments for 2020-25, and gear up to start the next phase of delivery in 2025-30.

DELIVERY OF OUR STRATEGY AND 2020-25 BUSINESS PLAN

Our strategy for our current business plan for 2020-2025 centres on delivery of 11 outcomes for our customers, our people, our environment and our business.

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 (ODIs). We monitor and manage our significant business risks against our ability to achieve these ODIs. As we reach the end of the fourth year of our current plan, we are now looking forward to the next five years and we have outlined our priorities for this in our Purpose, Vision & Values (see pages 12-15)

The plan for the next five years builds on our current strategy and is underpinned by delivery of our current plan, so we remain focused on achieving our KPIs for the current period. We have summarised how these align in this section:

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 and 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 48 TO 49)

- Water quality standards
- Water quality contacts
- Mains repairs
- Interruptions to supply
- Ofwat service measures – C-MeX and D-MeX

RISKS (PAGES 66 TO 67)

- 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 48 TO 49)

- RoSPA accreditation
- Health and Safety "reportable accidents"
- Health and Safety "total accidents"
- Employee absence

RISKS (PAGES 66 TO 67)

- 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 48 TO 49)

- Leakage
- Per capita consumption
- Temporary water usage bans

RISKS (PAGES 66 TO 67)

- 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 48 TO 49)

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

RISKS (PAGES 66 TO 67)

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

How We Measure Success

As a business we focus on a range of operational and financial key performance indicators ('KPIs') to help us assess and monitor our performance. We believe that the KPIs, summarised below, provide a balanced view of how we are performing against both our business Outcomes (2020-2025) and our overall long-term business vision.

These KPIs align closely to our Outcomes and cover the key areas of our business operations and activities. They also cover the range of interests of our different stakeholders. A number of the KPIs are also linked directly to financial rewards and penalties built into the Ofwat regulatory framework through the Outcome Delivery Incentive Mechanism (ODIs).

Our Customers (pages 34 to 37)

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 36 to 39)

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 20 to 33)

LEAKAGE (3-YR AVERAGE)
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 (3-YR AVERAGE)
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 Financial Performance (pages 58 to 61)

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.

2023/24 target (financial year)	**2023/24 Performance**	**2022/23 Performance**	**2021/22 Performance**	**2020/21 Performance**	**2023/24 Target met?**
< 2.0 units (Calendar year)	15.6	1.2	3.7	0.6	✗
< 0.420 contacts per 1,000 population (Calendar year)	0.420	0.414	0.405	0.432	✓
< 70.0 per 1,000km	52.8	83.3	47.3	76.3	✓
< 5 mins 23 secs per property	1 min 31 secs	2 mins 21 secs	2 mins 21 secs	2 mins 48 secs	✓
Upper Quartile	1st	2nd	3rd	1st	✓
Upper Quartile	9th	2nd	2nd	3rd	✗

2023/24 target (calendar year)	**2023/24 Performance**	**2022/23 Performance**	**2021/22 Performance**	**2020/21 Performance**	**2023/24 target met?**
RoSPA awarded	Awarded	Awarded	Awarded	Awarded	✓
0 accidents	0	1	0	0	✓
< 12 accidents	9	2	5	3	✓
< 2.5%	2.7%	2.1%	1.7%	2.2%	✗

2023/24 target (financial year)	**2023/24 Performance**	**2022/23 Performance**	**2021/22 Performance**	**2020/21 Performance**	**2023/24 target met?**
< 24.9 Ml/d	29.1 Ml/d	27.6 Ml/d	25.0 Ml/d	25.4 Ml/d	✗
< 142 l/h/d	155 l/h/d	161.1 l/h/d	160.2 l/h/d	157.2 l/h/d	✗
0 bans	0	0	0	0	✓

2023/24 target (financial year)	**2023/24 Performance**	**2022/23 Performance**	**2021/22 Performance**	**2020/21 Performance**	**2023/24 target met?**
On budget	£14.5m	£15.2m	£14.5m	£14.1m	✓
> 1.40	1.45	1.45	2.17	2.04	✓
< 74%	50.0%	78.4%	73.0%	70.3%	✓
> 6.0%	-3.77%	3.00%	6.05%	7.18%	✗

KEY PERFORMANCE INDICATORS

As part of the five-yearly business plan process, Ofwat, our economic regulator, sets operational performance targets, known as performance commitments, which we must meet each year.

DURING 2023-24 WE MET OR EXCEEDED 19 OF OUR 25 PERFORMANCE COMMITMENTS

For 2020 to 2025 we have 25 performance commitments (excluding Havant Thicket Reservoir), which cover every aspect of our business from customer service, to supply interruptions and biodiversity.

During 2023-24 we met or exceeded 19 of our 25 performance commitments, a step up from 17 in 2022-23.

Seventeen of our performance commitments have financial incentives associated with them so if we perform worse than the target then we pay a financial penalty and, in some cases, if we beat the target we can earn a reward.

These rewards and penalties are processed through an increase or decrease in the revenues we can recover from our customers through their bills via Ofwat's price controls.

In 2023-24 we received rewards and incurred penalties, with overall a net penalty of £1.0m (2022-23: £0.370m). We received rewards for our performance on water supply interruptions and the C-MeX measure of customer satisfaction – where we had the best performance in the water sector. We incurred penalties for the CRI water quality metric, leakage and voids.

Customer services

The water sector's main measure of customer satisfaction, C-MeX, is a comparative measure applied to all water companies. Based on the results of an independent survey of customers, we are ranked alongside our peers for overall customer satisfaction.

In 2023-24 we were ranked first out of 17 companies – a great achievement for our customers.

This is a step up from second place in 2022-23 and third place in 2021-22. As a result, we expect to earn a financial reward of £0.3m (2022-23: £0.2m). Our performance is a tribute to the hard work of our people, combined with our strong core values and community focus.

Another measure of customer satisfaction is the number of complaints we receive. Historically we have received very few complaints and in 2022-23 we had the lowest level of complaints among water-only companies at 22.62 per 10,000 connections (699 complaints).

During 2023-24 we saw an increase in the total number of complaints received to 24.4 per 10,000 connections (754 complaints). This was mostly associated with our metering plans, the associated change in our billing system and a shift to more digital services.

We recognise we have more to do to explain to our customers the benefits of our metering programme and our new billing system.

Despite the increase, our complaints remain well below the average for water-only companies which in 2023-24 was 42.5 per 10,000 connections[4].

As we switch customers to our new billing system, and roll out our smart metering programme from 2025, we have an opportunity to give our customers an easier, more modern service and provide rich, real-time information about their water use and how they could save money not just on their water bills, but also on their wastewater and energy bills.

We recognise these changes will be unsettling for some customers, and we will work closely with them on a smooth transition.

Affordability and vulnerability

We are proud our water bills, at £119 per year, are the lowest in England and Wales, and we are committed to keeping our bills affordable for all our customers.

Nonetheless, we recognise some of our customers still require extra support, either financially or in the services we provide.

We set ourselves a challenge to increase the number of customers benefitting from our social tariff to 10,000 by 2025. We exceeded this target early in 2023-24, with 13,532 receiving financial help.

We also operate a Priority Services Register (PSR) for our more vulnerable customers who may need extra help, for instance if supplies are interrupted. Our target was to have at least 7.3% of our customers on our PSR by 2023-24. We have also exceeded this target, reaching 12.5%.

Each year we survey local organisations which support customers in vulnerable circumstances on their satisfaction with the support we provide to them and their clients. We target a satisfaction level of at least 85% and in 2023-24 we achieved 85%. (2022-23: 77%).

As part of our business plan for 2025-2030 we have committed to increasing the help we provide to those who need extra support by extending the reach of our WaterSure and social tariffs. This includes making sure customers are aware of the support available and can easily access it, as well as continuing our payment matching scheme for customers in debt.

We do need to increase bills in the future to continue securing high-quality, resilient water supplies, but we have worked hard to minimise the increase. Our projected increase in an average bill by 2030, before inflation, is 19%, equivalent to £21 by 2030. This means our bills remain the lowest in the sector until at least 2030.

Water quality

The key performance commitment for drinking water quality is the Compliance Risk Index (CRI). This is a measure developed by the Drinking Water Inspectorate, which considers the nature of any failures in water quality and the scale of risk to customers.

The target is a score of zero, which equates to no failures and penalties are incurred for a score above two. CRI is a measures in the calendar year from January to December.

For 2023 our CRI score was 15.6 (2022: 1.24), which is the highest score we have recorded. This means we will incur a financial penalty of £0.8m.

This score was heavily influenced by three sample failures at our Farlington water supply works, which is our largest treatment works serving more than 100,000 properties, so it carries a large weighting in the measure.

The sample failures were due to the sampling equipment and did not reflect the quality of the water supplied to customers. Other monitoring points showed the supply was compliant.

KEY PERFORMANCE INDICATORS

Without these three sample failures at Farlington our score would have been 2.6, which would still have exceeded our target but is better than the industry average score, which was 3.6 in 2022.

All the sample pipework and pumping equipment which caused the failures has now been replaced.

As well as CRI, we also monitor the number of contacts we receive from customers about taste, odour, discolouration and illness. We measure the number of contacts per 1,000 population served during a calendar year. In 2023 we received 0.42 (2022: 0.42) contacts per 1,000 population, in line with our target of 0.42 and the same as our performance compared to 2022.

Looking forward to 2025-30, we are planning to invest around £30m to make sure our water treatment works remain resilient, address deterioration in the quality of the raw water we abstract and begin to replace more of our customers' lead pipes.

Interruptions to supply

A reliable, constant supply of water is one of our customers' highest priorities and we know interruptions to supply can be very disruptive. So, we are delighted to have improved further on our already industry-leading position in avoiding interruptions.

We measure interruptions as the total number of minutes lost per customer, not including interruptions which last for less than three hours.

In 2023-24 our interruptions totalled 1 minute, 31 seconds per customer, and even better than our performance of 2 minutes 21 seconds in 2022-23. This is the best performance we have achieved and significantly better than our target of no more than 5 minutes, 23 seconds.

As a result of this excellent performance, we will earn a financial reward of £0.3m.

To maintain our performance, we're planning to replace 41km of water mains between 2025 and 2030 to make our network more resilient, targeting the mains at highest risk of bursting. We will also continue to make sure we respond quickly and efficiently to incidents when they do happen.

Leakage

We know reducing leaks is a priority for our customers. As we continue to ask customers to increase water efficiency, we recognise the importance of prioritising leakage across our network. We are therefore disappointed that we have not met our three-year average leakage target in 2023-24.

Our leakage target is measured as a three-year average, to even out fluctuations in the weather which affect our pipes. In 2023-24 our three-year average performance for leakage was 29.1 Ml/d compared to our target of 24.9 Ml/d. This compares to 27.6 Ml/d in 2022-23.

This means we will incur a financial penalty of £0.7m.

It is the second year we have missed our three-year leakage target, following the very dry summer and harsh winter of 2022, which put significant stress on our mains network.

We put a comprehensive recovery plan in place in 2023, including a significant increase in resources dedicated to locating and repairing leaks, as well as trialling new techniques and equipment such as satellite detection. As a result, we have increased the number of leaks we have detected and repaired from 3,282 to 4,524 during the last year.

While our three-year average performance has increased, we reduced our annual level of leakage by 12% from 32.2 Ml/d to 28.2 Ml/d in 2023-24 because of this recovery plan, which we continue to roll out. However, because of the three-year average calculation, it will be very challenging for us to meet our target for 2024-25.

Looking ahead, our target is to reduce leakage by more than a quarter by 2030, from a 2017-2020 baseline, equivalent to a three-year average of 21.1 Ml/d. We will deliver this through mains replacement, enhancing our network of fixed detection sensors and reductions in leaks on our customers' supply pipe leakage which will be picked up as part of our smart metering programme.

Per capita consumption

To help reduce the amount of water we abstract from the environment we are supporting our customers to reduce their water use.

We measure use in litres per person per day and, like leakage, our target is a three-year average to even out the impact of weather.

Like all water companies we saw a significant increase in household water use during the Covid-19 pandemic, meaning we could not deliver our consumption reduction target. While household consumption has reduced since the pandemic, changes in personal behaviours, in particular working from home, mean it is no longer possible to meet the reduction targets we set before the pandemic.

Recognising this, Ofwat has suspended penalties which relate to per capita consumption targets and it will review it as part of its review into companies' investment and targets for 2025-30.

We believe installing water meters for our customers and connecting them more directly with the amount of water they use, has **the greatest potential to influence how they use water in the future.**

Our three-year average performance for 2023-24 is 155.7 l/head/day, compared to our target of 141.8 l/head/day. In 2022-23 it was 161.1 l/head/day.

This is a significant reduction from the previous year and largely attributable to the peak Covid-impacted year falling out of the three-year average calculation.

Our annual performance on consumption has remained broadly in line with the previous year at 154.4 l/head/day compared to 152.5 l/head/day.

During the year we continued to support customers to reduce their water use, through social media campaigns, offering subsidised water butts and providing free water-saving gadgets through our Get Water Fit platform. We also trialled a LeakBot device with 1,000 customers to help find household leakage.

We believe installing meters for our customers and connecting them more directly with the amount of water they use, has the greatest potential to influence how they use water in the future.

During the year, we have installed 3,293 meters for customers on a voluntary and change of occupier basis to increase the numbers who pay for their water through a metered charge. We have been working with our customers to understand their needs, offer water-saving devices and support those who use a lot of water.

Between 2025 and 2035 we will be installing smart meters for all our customers and supporting them to better understand and manage their use, as well as identifying more leaks in customers' own homes as well as from our pipes.

Developers

We work with developers and others to connect new properties to our network. We have to make sure we have enough capacity to supply the additional customers and new mains are laid to an appropriate standard to safeguard drinking water quality.

Developers' satisfaction with our service is measured through D-MeX. Like C-MeX, it is a comparative measure, based on a satisfaction survey and performance against specified levels of service.

In 2022-23 we were second place in water companies in the D-MeX assessment and in the previous two years we were third. In 2023-24 our relative performance has worsened to ninth place.

While overall we achieved 99.01% compliance with our levels of service metrics, we failed to issue a number of new mains quotations and designs within the target time and this led to negative feedback from the developer. This therefore impacted the quantitative and qualitative elements of D-MeX.

The significant change in our position is partly reflective of the small number of interactions we have with the developers we work with compared to larger companies, so a small change in performance can have a large impact on our ranking. Our score for 2023-24 means we receive neither a penalty nor a reward (2022-23: £0.1m).

We are continuing to improve the services we provide to our developer customers. We have upgraded our website and online portal during 2023-24 and streamlined the application process for new connections. We will continue to make improvements, have already streamlined our new mains application process and will also be updating our charges to provide an environmental incentive for developers to build water efficient new homes.

INVESTMENT REPORT

Summary of capital investment spending

During 2023-24, even excluding the Havant Thicket Reservoir project, we have delivered our highest level of investment in a single year, a total of £21.8 million. This is to further improve our water treatment works and our networks.

This record investment has been made in response to the impact of the Covid-19 global pandemic, which restricted the amount of improvement work we could carry out during the opening part of our plan for 2020-25.

We continue to balance catering for new emerging needs, while maintaining investment to support our planning for 2025 and beyond. For example, we have spent £4.8 million in the current year to help make sure we're ready to deliver additional improvements under our new Business Plan for 2025-30.

This report sets out an overview of the investment activities we have delivered during 2023-24 in the following areas:

- Infrastructure – our underground network of pipes;
- Non-Infrastructure – facilities such as water treatment works and pumping stations above ground;
- Maintaining our underground reservoirs where we store water to supply customers; and
- Making an early start on delivering improvements as part of our plan for 2025-30.

Summary of capital investment delivery

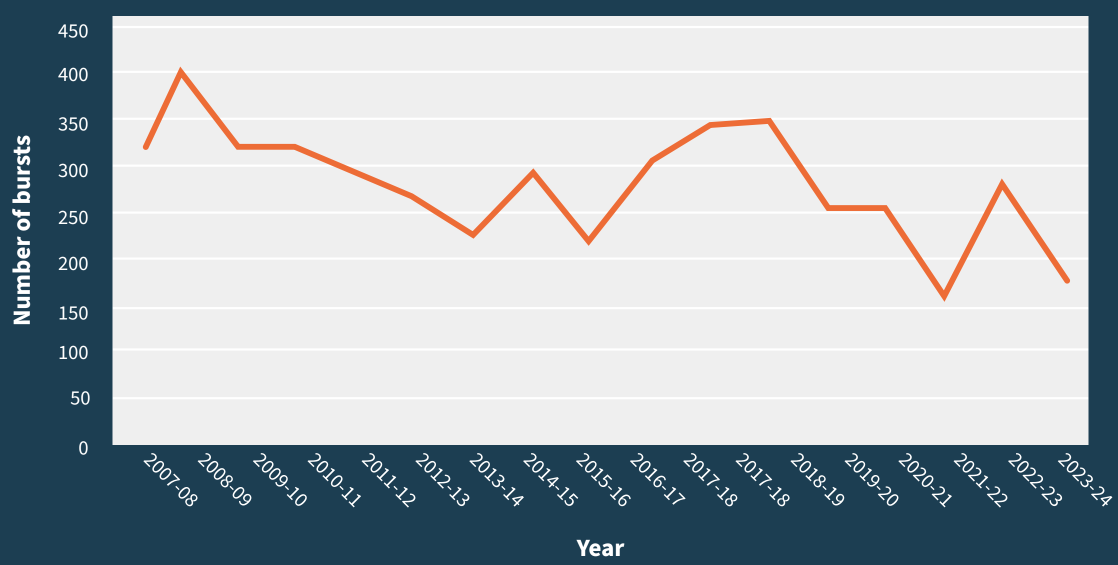
Infrastructure (below ground)

MAINS RENEWAL

We renewed 11km of water mains at a cost of £3.9 million during the year. Of these, 80% were installed using 'pipe insertion' and 'pipe bursting' techniques, where new pipes are inserted inside old ones. This minimises the impact on the environment and reduces disruption for customers.

Our modelling shows our mains renewal programme benefits our customers as it has a direct impact on reducing bursts, loss of supply and water quality incidents. Our consistent level of mains renewals has brought about a significant reduction in bursts over the last 20 years. The mains renewal programme represents 0.3% of our network.

Annual analysis of reported number of mains pipeline bursts since 2007



METERING

We installed 16,500 new water meters in 2023-24 at a cost of £1.6m. This included meters for customers who chose to have one installed, when there was a change of occupier at a property and meters for our use.

NEW WATER MAINS

We installed 3.5km of new water mains at a cost of £0.8m to service new development sites. Demand for new mains from property developers has fallen significantly since the Covid 19 pandemic.

Non-infrastructure (above ground)

We invested £3.6m in a range of improvements at our sites where we abstract, treat and pump water. It included civil, mechanical and electrical engineering work and upgrades to computer software needed to operate sites. We also have an ongoing investment programme to deal with issues which come up unexpectedly. Most of this year's work related to replacing and upgrading the telemetry and communications equipment with digital equipment to enable remote integration.

REDUCING OUR ENERGY USE

Due to rising energy prices, we spent £0.4m on measures to bring down the amount of energy we use by 5%. By doing this we don't just save money it also is a step towards reaching our goal of net zero by 2040.

This involved working with several suppliers to:

- Install motion sensors at our head office (so lights are only on when they need to be) and upgrade all the internal and external lighting to LED, which uses less energy;
- Replace panel heaters at 10 sites with more energy efficient equipment;
- Install thermostatic controls on heaters, so they work more efficiently; and
- Install Variable Speed Drives (VSD) and new pumps at Northbrook pumping station, to improve efficiency.

INVESTMENT REPORT

INCREASING RESILIENCE

We installed new emergency 'back up' generators at five of our sites where we abstract and treat water at a cost of £0.3m. This means we are better able to deal with power cuts from the main electricity grid. It will also support the planned upgrade and outage at the River Itchen WTW site.

IMPROVING WATER TREATMENT

We invested £0.6m to improve water treatment at our River Itchen works by:

- Inspecting and cleaning the contact tank, which is used for the final stage of the treatment process;
- Installing temporary equipment to process silt and other material removed during the treatment process, with a new permanent plant to be installed in 2024-25;
- Modifying other parts of the site, including filters, clarifiers and site drainage; and
- Replacing a storage tank for chemicals used in the water treatment process.

We also invested £0.2m at Soberton water treatment works to reline the well head and raise it above ground level. This is the top of the well from which we abstract water from underground and the improvements make it safer for operational staff to access the area to carry out maintenance and other tasks. It also improves water quality by removing the risk of surface water entering the well head.

We invested £1.5 million at Funtington treatment works to install new disinfectant equipment. This included modifying the well head, including replacing the risers with stainless steel, installing new filters and modifying pipework, prior to putting in the ultra-violet light treatment.

STRATEGIC PRESSURE REDUCING VALVES

Pressure Reducing Valves (PRVs) allow us to manage pressure in our network, so customers get the right water pressure at their taps and we reduce the risk of leaks. We completed most of the installation of a PRV at Hilsea in Portsmouth during the year with the valve system due to be fully commissioned and in operation in 2024-25.

RESERVOIR INSPECTION AND MAINTAINANCE

We have a duty under the drinking water regulations to inspect, maintain, and clean our 35 service reservoirs and storage tanks to ensure they are in a good structural condition and do not pose a risk to water quality. Service reservoirs are where we pump treated drinking water to, before it enters our network for supply to customers.

We have made strong progress during the year and completed work at nine sites at a cost of £1.0 million.

Water quality data from across all our service reservoirs shows they are working well, with no issue of note apparent.

Our reservoir inspection and maintenance programme will move to a risk-based approach in 2024-25 in line with industry best practice. This means we will focus our efforts on locations with higher risks of problems developing.

INNOVATION

We commissioned 3D models of the final tank used in the water treatment process at our Itchen works, as well as our Nelson service reservoir in Portsmouth. This provided a 360-degree view of the cells in the reservoir via a computer display. This will help with future design and measurement work, avoiding the need to take the reservoir out of service to do this.

EARLY START FOR 2025-30

We have already invested £4.8 million of investment spend previously identified for the 2025-30 regulatory period to maintain and improve our underground network and install smart water meters for our customers. We have also set up a team to prepare tenders for planned and reactive work on our network.

The delivery of our smart metering programme requires extensive IT solutions to capture data and the team is working with suppliers of the Kraken customer platform to integrate data, complete upgrades and integrate with their customer billing platform so we are ready for early roll-out of new metering equipment in 2025.

FINANCIAL PERFORMANCE

The year ended 31 March 2024 was the fourth year of the current Ofwat regulatory review period. We made positive progress in delivering against challenging ODI targets. In addition, we made significant progress on our capital programmes, including full construction commencement of Havant Thicket Reservoir.

OWNERSHIP STRUCTURE

The Portsmouth Water group is wholly owned by funds managed by Ancala Partners LLP (Ancala). Ancala is a UK-based infrastructure fund manager, whose investors are primarily UK and European corporate and local authority pension plans, with long-term investment horizons. Ancala is committed to supporting the Company's purpose of "Excellence in Water. Always". Ancala's ownership was originally made through Southern Region Water Holding Limited, a company incorporated in Hong Kong. In July 2023, this company was replaced by a new investment holding company, Ancala Fornia Topco Pte Limited, a company incorporated in Singapore. This company is now considered to be the ultimate parent undertaking of the Company.

Investment by Ancala into Portsmouth Water Limited is effected through Ancala Fornia Holdco Limited ('AFHL'), a UK-based company. Group financial statements for AFHL are prepared annually as at the 31 March financial year end and these group financial statements include the consolidation of Portsmouth Water Limited and its fellow subsidiary companies. All operations and tax related liabilities for the AFHL group are generated and payable in the UK.

FINANCING STRUCTURE

The wider Portsmouth Water group, including its UK parent companies, has raised up to an additional £495m of financing over the current regulatory period since 2020, primarily to support the development and construction of Havant Thicket Reservoir and other capital enhancement projects.

This has been achieved through a combination of £250m of new revolving credit facilities (£45m of which is in parent companies), and a £75m CPI linked bond (both of which were secured in March 2023), with an additional £170m of equity to be provided by its ultimate parent Ancala. £140m of this new equity has been provided since the start of 2023, with the company increasing its issued share capital by £80m, with an additional repayment of a separate £55.5m long-term financing loan due from a parent company.

In the year to 31 March 2024, the additional funding balances received from the new CPI Bond issued, and new equity received, has largely been placed on short-term bank deposits and similar short term (liquid) investments, with the total of all such balances at 31 March 2024 now being more than £105m. These will be used over the next few years to fund the ongoing capital investment projects. As such, there have been no drawdowns on the RCF facilities in the year and none are expected to be made until 2025.

COVENANT COMPLIANCE – GEARING AND INTEREST COVER

The Company and wider Portsmouth Water group have several covenant compliance requirements, linked to the borrowing and loan facilities in place. These are largely based on the Company's gearing ratios at the period end date and the interest payments and earnings for the period then ended. All covenant requirements for the year ended 31 March 2024 have been achieved.

GEARING

Gearing is calculated as a ratio of net debt to Regulatory Capital Value ("RCV"), and this is a compliance measure required by the Company's Artesian index linked loan. Following the Group financing arrangements, with the inclusion of inter-company loans, 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 42% (2023 - 69%). Gearing as defined by the Ofwat methodology is 50% (2023 - 78%). Reported regulatory gearing does not yet reflect the additional RCV allowance agreed through the cost adjustment mechanism relating to the Havant Thicket Reservoir project. This allowance will be applied on 1 April 2025. Underlying gearing for bank covenant purposes reflecting this adjustment is 32% (2023: 57%), and as defined by the Ofwat methodology is 39% (2023: 64%). These gearing ratios are all within the maximum gearing ceiling (86%) set out in the covenant requirements.

INTEREST COVER

Interest cover is calculated based on the adjusted earnings for the period as a ratio of the interest paid. The interest cover ratio for the year to 31 March 2024 is 1.45 (2023: 1.45), which is above the covenant limit set at 1.10 and the target set at 1.40 for both years.

FINANCIAL PERFORMANCE

Review of trading and financial performance

Revenue

Revenue has increased by 5% to £47.9m in the current year compared to FY23 This increase is largely due to the allowed inflationary increases across both the household and non-household customer base. Bulk water sales also increased year on year as we continued to support other water companies with supplies to customers during periods of peak demand through the summer months.

Operating costs

Net operating costs increased by 8% to £39.8m compared to the prior year. This was largely due to higher energy and commodity-related costs and the growth in employment-related costs, reflecting higher levels of people in place for the expected growth in the business and pay increases aligned with inflation for the FY24 period. These higher operating costs for FY24 were partly offset by a business rates rebate (£1.6m) received in the year.

Exceptional items

The £31k exceptional item recorded in the year (2023: £820k) reflects costs incurred relating to the closure of the defined pension scheme to future accrual, which became effective from 31 March 2023. There were no disposals of fixed assets and investment properties in the current year, as all remaining properties were sold in the prior year.

OPERATING PROFIT AFTER EXCEPTIONAL ITEMS

Operating profit at £8.1m is in line with the prior year, with the slightly higher operating costs being offset by the reduction in the exceptional item costs, as detailed above.

INTEREST RECEIVABLE AND PAYABLE

Total interest and other finance income has increased significantly in the year to £6.3m (2023: £2.3m) reflecting the increased interest earned from the higher cash and short-term investment balances arising from the March 2023 bond issue and the capital increases received in July 2023, as well as gains (£0.6m) realised in the year on new hedging financial instruments which matured in the year.

Total interest payable and similar charges have increased to £18.7m (2023: £16.9m). These amounts are after the off-set of borrowing costs capitalised in the year of £8.8m (2023: £4.1m), which reflect the increased investment in new capital projects still under construction. The higher gross interest and other borrowing costs payable of £27.6m (2023: £21.0m) reflect increases in interest costs arising from the new (March 2023) CPI Bond, slightly higher inflation-linked indexation charges on the Artesian loan and CPI Bond and losses (£1.9m) arising from the required year end fair value accounting on certain swap financial instruments taken out to hedge against the longer term RPI linked loan.

Taxation

There is a deferred tax credit in the year of £0.9m, relating to the pre-tax loss recorded of £4.3m. This is largely in line with the applicable deferred tax rate for the year of 25%. There is minimal current tax charge and £nil corporation tax payable, reflecting the tax losses recorded in the year and the tax losses carried forward from prior years.

The prior year tax credit of £1.5m (on pre-tax loss of £6.5m) also largely reflected the applicable deferred tax rate of 25% for that period.

Other financial matters

Dividends

Our dividend policy reflects a 4% return on the Company's average Regulated Capital Value (RCV) in each period, in line with updated guidance provided by Ofwat in the PR19 Final Determination. The dividend is adjusted for other distributions to holding companies relating to inter group 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 Company performance in each financial period:

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

During the year to 31 March 2024, the Company paid the dividend of £2.3m (2023: £3.4m) it declared as part of its prior year end. The Board are proposing a dividend of £3.2m relating to this financial year, which is expected to be paid in July 2024. No additional interim dividend was paid in 2024 or 2023.

Further analysis supporting the dividend paid for financial year 2023 and proposed for financial year 2024, is included in our Annual Performance Report (APR) including our regulatory accounts. The APR will be published in July 2024.

Capital investments

During the year, capital expenditure on the Havant Thicket Reservoir project increased, with a further £32.3m (2023: £27.2m) spend in the year, increasing the total direct project spend to date to £79.5m. This is expected to further increase through to 2030, with total project spend of £339m approved by Ofwat. In addition to the direct capital spend on the project, in line with the Company's accounting policy, a further £7.9m (2023: £3.9m) of related borrowing costs incurred have been capitalised in the year on the project, with total capitalised borrowing costs to 31 March 2024 of £14m.

The Company has also incurred increased levels of expenditure on other capital projects, with additions of £29.7m (2023: £16.1m) in the year (including £0.9m of related capitalised borrowing costs). This increase reflects higher levels of new and renewed mains infrastructure and pumping equipment investment across the business and investment in a new CRM System (Kraken) and the smart metering project. Further details on these projects are set out elsewhere in the Annual Report & Accounts.

Capital contributions

The Company receives capital contributions, primarily in connection with new mains built for housing developments. These amounted to £0.8m (2023: £0.5m). In accordance with FRS102, these contributions are deferred and amortised to the Income Statement to match the related depreciation cost on the assets. Prior year capital contributions recognised in revenues in the year were £1m (2023: £0.7m).

Pensions

The Company is the principal employer of the Brockhampton Pension Scheme, a defined benefit scheme. The Scheme was closed for future accrual effective from 31 March 2023. The latest actuarial valuation as of 31 March 2024 was carried out in accordance with FRS102, and this showed a continuing pension net asset surplus of £23.0m (2023: £28.9m). 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. Total pension expense relating to the scheme recognised in the Income Statement for the year was £0.4m (2023: £2.0m)

The active employee members of the Brockhampton Pension Scheme were transferred into the Company's defined contribution pension arrangement with effect from 1 April 2023. Pension costs relating to this scheme increased in the year to £1.8m (2023: £0.6m).

Cash and cash flow

Cash generated from operations of £12.7m are largely in line with the prior year (2023 - £11.0m), reflecting the consistent levels of operating cashflows generated by the business. Following the equity capital increases in the year, as detailed above, the overall cash funds available at the year end increased to over £115m (2023: £54m), which included £90m (2023: £nil) classified as Investment 'short term deposits', due to the maturity period over which the available cash has been made. These cash and investment deposits will be utilised to fund the ongoing capital expenditure programmes, including Havant Thicket Reservoir.

Non-regulated business

The non-regulated business delivered revenues of £0.2m (2023 - £0.2m) and operating profits of £0.2m (2023 - £0.2m) in the year, arising from CON29DW (drainage and water) searches and meter reading services for non-household retailers.

Following the equity capital increases in the year, the overall cash funds available at the year end increased by 113% compared to last year to over £115m

TAX STRATEGY

Corporate structure

The group structure is set out on page 77. As noted above, the Company and wider group is wholly owned by funds managed by Ancala Partners LLP (Ancala), through a Singapore registered holding company, Ancala Fornia Topco Pte 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 which 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 considers our wider corporate reputation and are always managed in line with the Company's values.

Corporate interest restriction

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. Since 1 April 2020 the group has elected in to the Public Benefit Infrastructure Exemption.

Governance in relation to UK taxation

The ultimate responsibility for the tax strategy of the Company rests 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 always maintained and a continuous cycle of training occurs to ensure the 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.

At all times the Company 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 can 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 we claim appropriate levels of capital allowances and helps maximise legitimate taxation opportunities where possible.

Working with HMRC

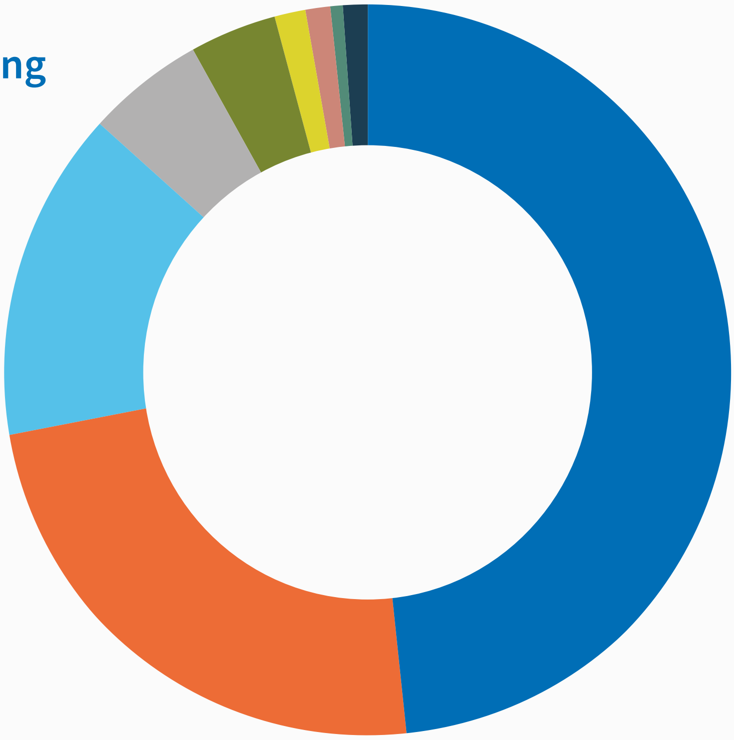
Portsmouth Water seeks to have a transparent, respectful and proactive relationship with HMRC, be that directly or through intermediaries acting on our behalf.

Any inadvertent errors which 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 the Company is a member. This wider industry forum allows us an opportunity to discuss how any future tax legislation can be interpreted and applied appropriately across the wider water industry.

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

PAYE	£2,749k
Employer's NI	£1,382k
Employee's NI	£836k
Climate Change Levy	£203k
Permit Schemes	£219k
Fuel Duty	£79k
Insurance Premium Tax	£66k
Road Fund Licence	£41k
Apprenticeship Levy	£50k



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 the Company and wider group.

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 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 our people to adhere to. If our employees are 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 we identify.

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 the same standard of preventing tax evasion;
- Any employee found in breach of our policy will be subject to disciplinary procedures; and
- 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

REPORT ON PAYMENT PRACTICES AND PERFORMANCE

We maintain sector-leading standards and performance on our payment practices. We recognise that a collaborative and strong working relationship with all 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 we partner with. As such, we operate with fair payment terms which 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 latest six-month period to 31 March 2024.

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 both the Company's Financial Controller and the Procurement Manager are aware, on a day-to-day basis, of any payment disputes so these can be actioned and resolved quickly.

Supplier statements are reconciled monthly and all our spend is covered by financial systems managed on a daily basis. We are developing our internal processes and data reporting to demonstrate alignment with the Prompt Payment Code.

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 are 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 more than 30 days are only implemented to align with supplier preferences

Where appropriate, we utilise procurement cards for smaller transactions – removing the need for supplier credit

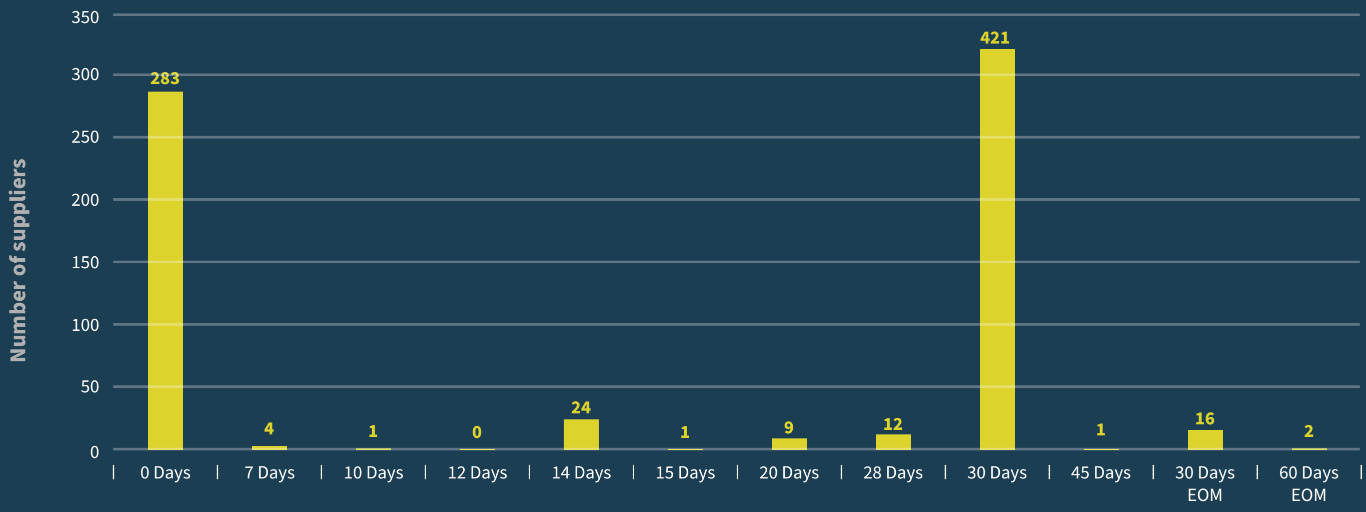
Suppliers are encouraged to follow paperless invoicing and send their invoices to us digitally. We work with our larger partners to implement electronic invoice processing and reconciliation

Supply chain finance is not utilised

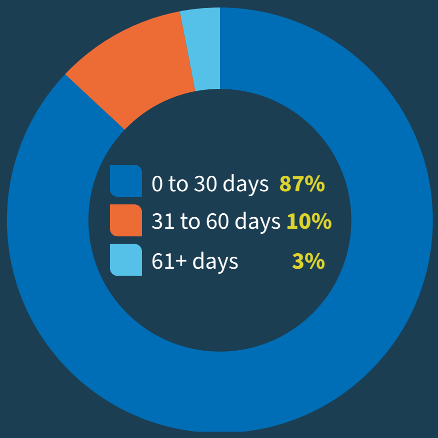
We aim to exceed the criteria of the Prompt Payment Code but we are not currently signatories

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

Supplier payment data relating to six months to 31 March 2024



Breakdown of Percentage Paid



Average number of days taken to make payments within the dates above from receipt of invoice* **22.8 days**

Invoices paid outside of terms in the period:*

	Number of invoices	% of total invoices processed in period
Not paid	46	0.4%
Not paid within terms	3,226	24.8%
Not paid within 30 days of receipt	1,168	9%
Total	**4,440**	**34.2%**

Invoices with a receipt date between 1 October 2023 and 31 March 2024

Total Number of those invoices paid	**12,965**
Total Number of those invoices unpaid	**26**
Total number of invoices processed during period	**12,991**
Total number of those invoices unpaid but due	**24**

*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 geopolitical uncertainty including the conflict in the Ukraine and the Middle East.

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
• Low • Medium • High

Impact of occurrence
• Negligible • Moderate • Serious • Catastrophic

The table on pages 12 and 13 sets out how the principal risks and uncertainties identified relate to the Company's business objectives and reporting KPIs. We have summarised in the following table an overview of our risk management priorities. This summarises the type of risk, explains the likely impact and summarises the mitigations (plans, controls and actions) in place. It also provides an indication of the likelihood and potential impact of each risk occurring, together with the Board's assessment of the trend (increasing, decreasing or stable). In each category the level of required mitigation and control is determined by the Company's risk tolerance. On an annual basis the Board reviews its tolerance for risk and sets appropriate levels. Further information on the Board's approach to risk is set out in the Corporate Governance section which commences on page 54.

Trend	Mitigation/control
↔	• The supply network has been developed to connect different supply areas, such that in most situations water can be transferred to compensate for a failure at a treatment works or in the network. Double the industry standard of treated water storage (48 hours) plus wide coverage of network with pressure management also support a highly resilient system. • A fully documented Emergency Plan which is initiated in the event of a major incident. • Employment of modelling, telemetry and monitoring to maintain the resilience of the network. • Innovative programme to reduce risk of domestic oil spills and oil alarms (POC) now being installed at all treatment works and mobile treatment (GAC) facilities which can be re-deployed in the event if an incident.
↔	• A Drinking Water Safety Plan which identifies the potential risks throughout the supply process. • A rigorous sampling regime in accordance with statutory legislation together with 24 hour monitoring and response • The board closely reviewed the water quality position following a number of sampling failures during the year. Despite the disappointing results, they noted that these were as a result of internal sampling issues and on no occasion did unfit water go into public supply. • 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, 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 in 2023 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. • National Environmental Programme assessments planned for AMP8 to review environmental impacts of abstraction which will shape our Water resources Management Plans in the future. • 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. • New Debt Structures and additional shareholder funds for Havant Thicket secured during 2023. • 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. • An independent full review of Internal Controls was carried out during 2023 and all recommendations have subsequently been implemented.
↔	• Performance against regulatory targets is reviewed on a monthly basis by the Board and the Executive Directors. • Close engagement with Ofwat through consultation processes, workshops and industry groupings.
↔	• Corporate Governance code and authorisation framework which is reviewed annually. Monitoring of legal and governance areas. • Appropriate levels of insurance cover such as Public Liability insurance. • Close monitoring of performance against licence conditions through KPIs. A clear data protection policy and project implemented for adherence with GDPR.
↑	• Detailed risk register and risk management process. • Appropriately experienced and qualified programme management teams. • Signed contract with Southern Water sets out key terms and protections. Contract also signed with Kraken on the CRM and billing system, and currently negotiating contracts for the Smart Metering projects. • 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 and training to reflect the increased threat identified during the year, both within the UK in general and the water industry.

VIABILITY STATEMENT

1. Assessment of prospects

The Board has assessed the prospects of the Company over a future period of 11 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 46 to 49. 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 five-year regulatory review cycle. Consequently, the five-year regulatory business plan (AMP7 which runs from 1 April 2020 to 31 March 2025 and for the Havant Thicket Reservoir price control for 10 years to 2030) and the related Ofwat Final Determination are the primary drivers for the Company's prospects. The Final Determination sets out the allowed revenue, operating expenditure, capital expenditure and agreed business outcomes for the regulatory period. In addition, we have extended our assumptions for the core business to reflect our estimate of the regulatory outcome (for the core business) for the next two five-year regulatory periods, being AMP8 and AMP9. This is based upon the current view of these periods which are aligned, where possible, to Ofwat indications and guidance. More information in respect of the regulatory regime is set out in page 42.

The Company has just completed the fourth year of the current regulatory cycle 2020-2025 (for the Havant Thicket Reservoir price control the period from 2020-2030) and together with an estimate of the regulatory outcome for the period to 2035 considers 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 outperforming 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 other major capital programmes and a more challenging regime of rewards and penalties.

The assessment process of the Company prospects

The Board recognises the assessment of viability is dependent upon forecasts which, by nature, involve 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 March 2025 and the Havant Thicket Reservoir price control to 2030 which drives the key budget assumptions.

The budget prepared included;

- Detailed budget analysis by department for the forthcoming (2024/25) financial period.
- Longer term analysis to March 2025 in line with the current Final Determination.
- Cash flow projections to March 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 five-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 March 2024.

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 and ongoing geopolitical uncertainties;
- Increase in CPIH (which drives tariffs and costs);
- Levels of capital and renewals spend and related efficiency and cost savings;
- Levels of capital spend relating to Havant Thicket reservoir and other approved capital projects;
- Headcount and salary increases;
- Interest rates and loan indexation rates;
- Levels of operating expenditure out-performance against the final determination and targeted cost savings; and
- 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 which 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 2024. As part of the 2020-25 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. This review was updated during the current financial year as part of the initial submissions to Ofwat for the 2025-30 final determination.

The overall summary of the principal risks and uncertainties (see pages 66-67) reflects this consideration of "resilience in the round". Details of the Board risk assessment process are set out on page 83. The purpose of the principal risks table is, primarily, to summarise those matters that could prevent the Company from delivering on its strategy. Several 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. They were 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 2020-25 business plan, and updates to this for the initial submissions to Ofwat for the AMP8 final determination.

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 to 2035, to include the 2025-30 and 2030-35 periods 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 10-year Havant Thicket Reservoir price control. This period covers; for the "core business" the one year remaining of the 2020-25 regulatory period and an assessment of the results for the successive 2025-30 and 2030-35 periods; and for the Havant Thicket Reservoir price control the six years to the end of the price control and the successive 2030-35 period. 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 current 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 2020-25 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 expected to remain as key drivers to 2035.

VIABILITY STATEMENT

2. Assessment of viability

The assessment of viability therefore uses; for the "core business" a period of one-year of regulatory business plan to 31 March 2025 and a further 10 years of projection to 2035; and for the Havant Thicket Reservoir price control a period of six years of the regulatory business plan together with a further five 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 (Artesian) and the retention of an investment grade credit rating with Moody's (such as covenant and regulatory gearing, and interest cover (ICR). These scenarios (which are summarised on page 71), have been driven from the Board's assessment of "resilience in the round" (and are reflected in the principal risks and uncertainties set out in pages 66 and 67). 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 which could reasonably be taken to reduce the impact was considered. The primary mitigating actions relate to the use of available credit facilities, levels of insurance cover, the ability to defer capital and renewals spend and the discretion not to pay dividends.

Credit facilities include the Revolving Credit Facility ("RCF") together with both external debt facilities available to Portsmouth Water (Opco debt) and external debt passed down as Intercompany loans from its parent company Brockhampton Holdings Limited (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 indicate that, while gearing levels remain modest in the Company's projections, a lower Interest Cover Ratio would 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 adjusting its operating plans within the normal course of business. This included both the restriction and deferral of dividend payments.

During the year ended 31 March 2024 the Company has performed some actions to increase financial resilience, including:

- Additional equity investment from shareholders brought into the company, predominantly to support the planned investment in Havant Thicket Reservoir and other capital programmes. These equity investments and additional equity commitments from shareholders provide mitigation against high interest environments and help maintain a relatively low gearing level.
- Negotiated swap instruments with external banks to align risks from future increases in index-linked debt (Artesian Loan) from increases in RPI to increases in CPI, and so better match to expected allowed increases in future revenues.
- Negotiated swap instruments (floating to fixed) with external banks to mitigate the risks associated with floating rate debt facilities put in place through the next five-year period.

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

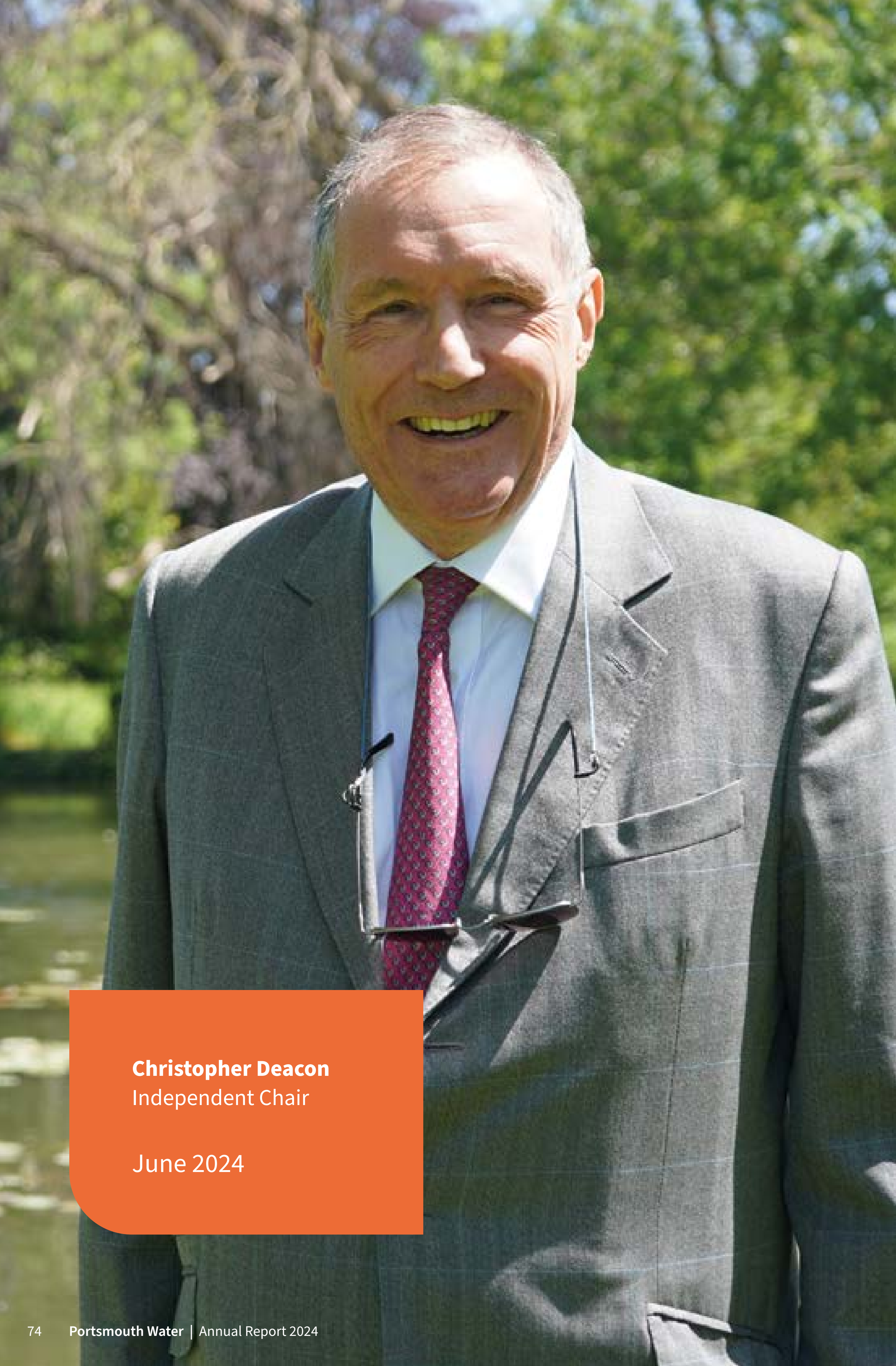
Bob Taylor
Chief Executive Officer

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

Individual Scenario	Assumptions	Results/ Impact	Mitigation
Cost of living -impact on inflation & customer debt risk	FY25 bad debt + £750k, FY26 + £500k, Inflation + 2% FY25 and FY26.	EBITDA decreases by £0.6m in FY25 and £0.4m in FY26. Capex increases by £0.2m in FY25 and £3.4m in FY26. Artesian ICR breach to 1.32x in FY26	Increased borrowing on Opco facility (£9.9m by FY26 and £11.7m by the end of AMP8 to finance £14.5m higher capex due to higher inflation)
Market interest rates - SONIA	AMP8 SONIA + 100bps	£6.5m increase to interest payments in AMP8, partially mitigated by £4.1m increase in interest received on cash investments. Artesian ICR fails in FY28 and FY30	£1.4m drawdown on debt in FY28, repaid FY29 £3.7m drawdown on debt in FY30, repaid FY31
Non-performance of business & regulatory penalties - 3% RORE ODI penalty	£2.3m penalty per year in AMP8	£12.1m reduction in EBITDA between AMP8 and first two years of AMP9 Artesian breaches in FY28 and FY30 at 1.41x and 1.37x	£1.4m drawdown on debt in FY28, repaid FY29 £2.2m drawdown on debt in FY30, repaid FY31
Reduced future allowed revenues - 50bps reduction in AMP8 WACC	AMP8 WACC 50bps lower than projected	£7.0m reduction of AMP8 EBITDA, £9.8m in AMP9. This assumes HTR WACC is unchanged from Base Case. Artesian ICR 1.35x in FY26, 1.43x in FY27 and 1.42x in FY30	Increased borrowing on OpCo facility of £3.4m by FY28, repaid in FY29. Increased borrowing on OpCo facility of £1.4m in FY30
Capital project delay & overspend on HTWSR - 10% overspend + 2-year delay	ODI penalty of £1.0m in FY27 and FY28 for dry commissioning and £3.8m in FY30 and FY31 for wet commissioning. Underspend of £78.6m throughout FY25 and FY26. Overspend of £106.7m throughout the next 6 years, resulting in cumulative £28.1m higher capex throughout the construction of Havant Thicket Reservoir ('HTR')	Cumulative negative EBITDA deviation of £12.0m in AMP8 and first year of AMP9 Artesian ICR breaches in FY27, FY28 and FY30 at 0.91x, 0.33x and 0.15x, respectively	76m of OpCo facility draw down in FY26 delayed to FY27 and FY28, which results in £17.1m additional drawdowns during the three years
Other Capital project overspend - core business capex overspend 20%	AMP8 and AMP9 capex programme (non-HTR) execution 20% higher than expected	£29.2m additional capex in AMP8 and £27.3m in AMP9. Artesian ICR failed in FY26, FY27, FY28 (1.07x, 1.16x and 1.21x respectively)	£25m additional OpCo drawdown in AMP8, £6m of which repaid in AMP9. Additional £6.4m additional interest paid across both AMPs as a result
Combination - reduced future allowed revenues - core business capex overspend	AMP8 WACC 50bps lower than projected AMP8 and AMP9 capex programme (non-HTR) execution 20% higher than expected	£6.9m EBITDA reduction in AMP8 and £1.6m in AMP9, Artesian ICR failed in FY26, 27 and 28 (0.91x, 1.07x and 1.14x respectively) £29.2m higher capex in AMP8 and £27.3m in AMP9	£18.9m additional drawdowns in AMP8 and £12.1m in AMP9. £3.8m additional interest paid in AMP8 and £3.3m in AMP9
Combination - market interest rates (SONIA) - HTWSR overspend and delay -	AMP8 SONIA + 100bps ODI penalty of £1.0m in FY27 and FY28 and £3.8m in FY30 and FY31 Underspend of £78.6m throughout FY25 and FY26. Overspend of £106.7m throughout the next 6 years, cumulative £28.1m higher capex throughout the construction of Havant Thicket Reservoir	Artesian ICR failed in FY27, FY28 and FY30 (1.00x, -0.22x and 0.15x, respectively). £9.8m reduction across AMP8 and AMP9 EBITDA. £6.5m increase in interest payments in AMP8 and £17.9m in AMP9, mitigated by £15.6m of interest receivable in AMP8 and £1.0m in AMP9 Capex £17.1m and £17.8m across AMP8 and AMP9	76m in OpCo drawdowns in FY26 delayed. AMP8 OpCo debt increases by £29.4m. Interest paid decreases £2.1m in AMP8 but increases £19.6m in AMP9

GOVERNANCE

Evidencing our ongoing commitment to the highest standards of corporate governance, aligning with the UK Corporate Governance Code and Ofwat's Board Leadership Transparency and Governance guidance.



Christopher Deacon
Independent Chair

June 2024

GOVERNANCE OVERVIEW

Chair's Introduction

We continue to remain committed to the highest standards of corporate governance and take the lead from the UK Corporate Goverance Code and Ofwat's Board Leadership Transparency and Governance guidance.

We refer throughout this report to the principles of the UK Corporate Governance Code and we have also summarised on pages 84 and 85 how we have complied with the Ofwat provisions.

Fraud

Last year, I reported in these accounts that a social engineering fraud event had occurred within another Group Company. As a result of that incident, the Board insisted on a number of activities being undertaken over the past 12 months. This ranged from enhanced cyber training for all staff, through to a full independent auditor review of the company's internal processes and related payment controls. I am pleased to report that all of those activities have now been completed and all of the auditor recommendations following that review have now been carried out.

Board Composition and Remuneration Committee

During the year, one of our Non-Executive Directors, Angela Smith, retired from the Board. I would like to take this opportunity to thank Angela for her service and contribution to the success of Portsmouth Water. In October 2023, Sharon Darcy joined the Company as a Non-Executive Director and she has taken over as Chair of the remuneration committee.

Sharon has taken the opportunity to undertake a full review of the remuneration committee including revising the terms of reference, ensuring there is a structure in place to promote the long-term sustainable success of the company, and reviewing the executive remuneration package. This review will ensure that executives and senior leaders will see their remuneration linked to delivering the right outcomes for our customers, whilst always having a positive impact on the environment.

A key element of this review is considering the bonus structure to reflect the policy guidance and dialogue from Ofwat to improve transparency between performance and the linkage of those key outcomes. In addition, the company has also followed Ofwat guidance in introducing strengthened malus and clawback provisions into Executive Directors' and other executive member contracts.

Financial Resilience

The company had received criticism from Ofwat in previous years regarding the quality of disclosures around dividend payments and inter-company transactions. Over the past 12 months we have been able to remove some of the inter-company loans that were causing some confusion and also worked hard to increase the transparency around dividend payments. We were pleased to see Ofwat recognise our efforts to improve in this area, although there are still a few remaining areas to tidy up in notional company comparisons.

Whistleblowing

Following the fraud, the company undertook a refresh of the whistleblowing policy and increased the awareness of that policy. Since then, the Ofwat best practice guidance on the subject has been issued and a further review of the process has been completed. As a result of that review we have changed several parts of the process to, amongst other things, introduce an independent anonymous telephone number via a third party where staff can make a 'safe call' to report incidents, and also started to train the investigators so they are best equipped to undertake their reviews.

The Board has asked to be kept abreast with regular reporting on the frequency and types of notifications and we will continue to review the process and policy to ensure employees continue to be encouraged to speak up if they witness any wrongdoing.

Other Board Appointments

With the changes to Board that took place during the year, I am very pleased to confirm that we took the opportunity to appoint Dr Lara Stoimenova to the position of Senior Independent Director.

Links

A copy of the FRC 2018 UK Corporate Governance Code can be found at:
https://media.frc.org.uk/documents/UK_Corporate_Governance_Code_2018.pdf

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

OWNERSHIP STRUCTURE

The chart on the next page shows the revised ownership structure and 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 Ancala Fornia Topco Pte Limited (which is Singapore registered) 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. 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 now Ancala Fornia Topco Pte Limited (AFTPL) which is incorporated in Singapore. The investors in AFTPL 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.

At the beginning of the year the ultimate parent undertaking was Southern Region Water Holding Limited (SRWHL), an organization domiciled in Hong Kong. To finance the additional capital requirements for Havant Thicket, Ancala established AFTPL as a new investment holding company to replace SRWHL. The transaction to switch the ultimate parent undertaking took place in July 2023.

We consider AFTPL to be the ultimate holding company and Ancala Partners LLP to be the ultimate controlling party. Consolidated group financial statements for the year ended 31 March 2024 will be prepared both the AFTPL and Ancala Fornia Holdco Limited level.

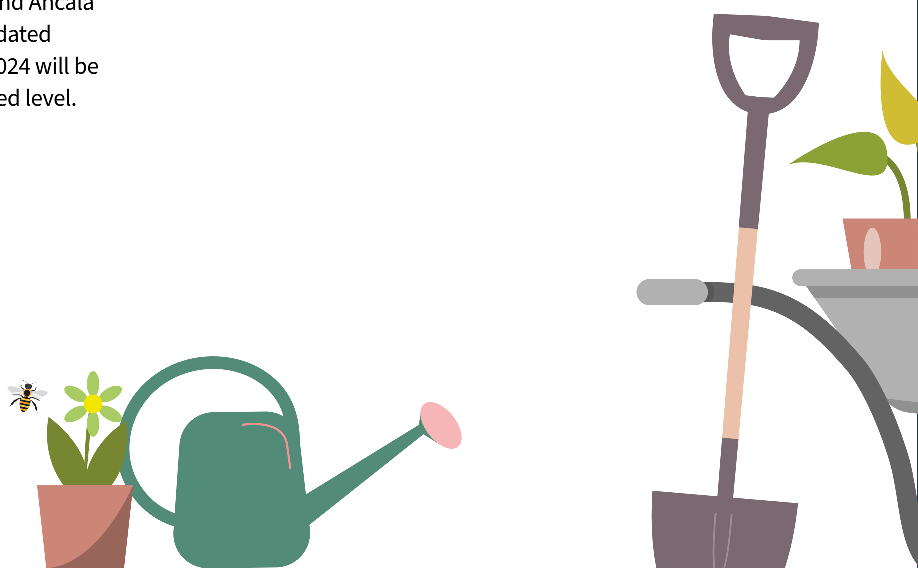
Financing

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 £142.3m (2023: £130.9m).

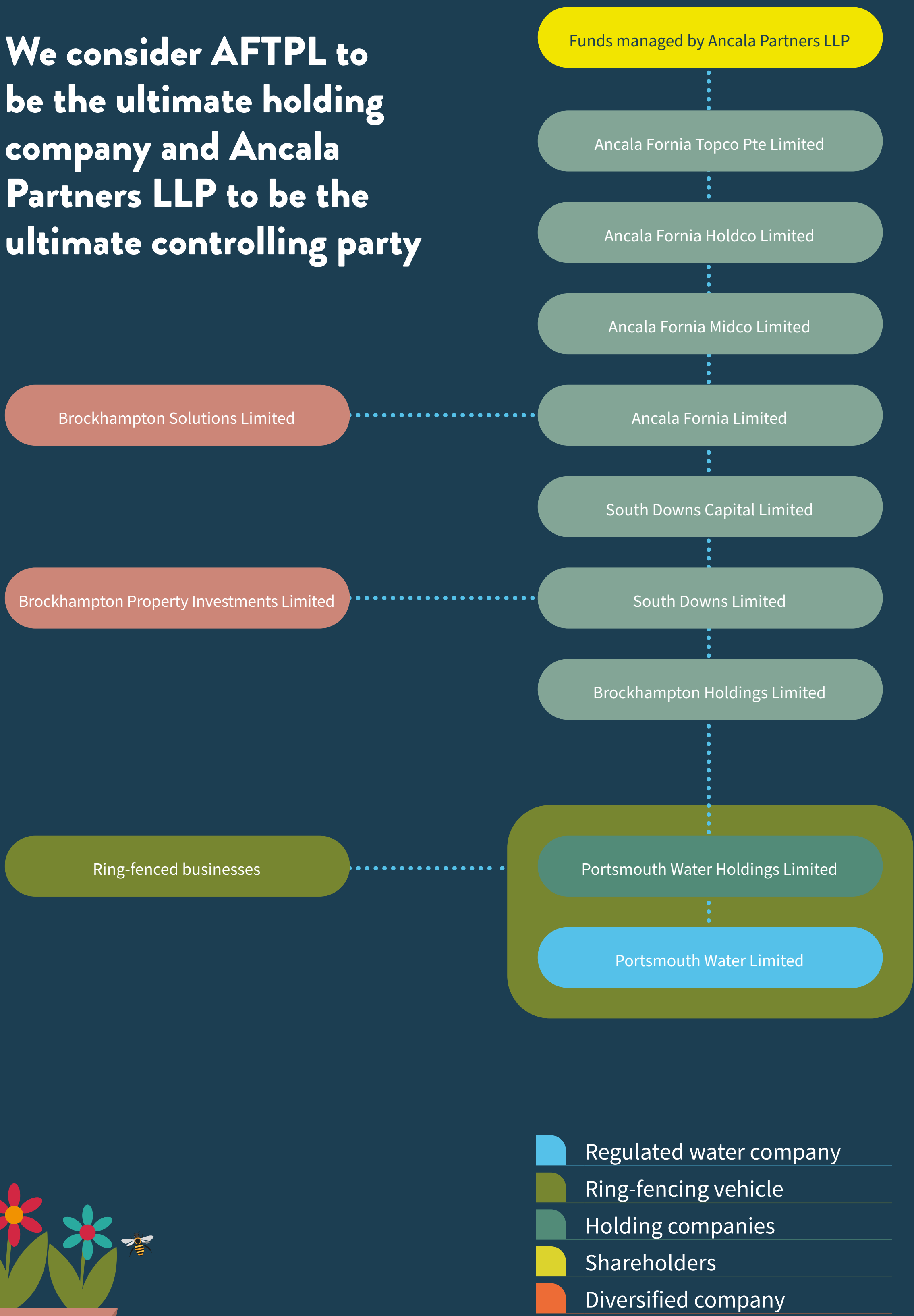
In 2022 changes were made to remove the sinking fund requirements of the loan to avoid the need to deposit significant cash sums over five years prior to 2032.

In March 2023 additional debt facilities were raised to finance the development of Havant Thicket Winter Storage Service Reservoir. This was raised under four different debt facilities and total £295m within Portsmouth Water and a further £45m at Brockhampton Holdings Limited (the holding company of Portsmouth Water Limited and Portsmouth Water Holdings Limited). The £295m is split between a syndicate facility of £155m, a facility of £50m with current bankers Lloyds, and a £75m CPI bond. In addition, there remains a £15m Revolving Credit Facility with Lloyds which was renewed in May 2023.

During the year, £120m of new shareholder investment funds were provided into the group by Ancala and there is a commitment for a further £30m of capital which is anticipated to be drawn down later in 2024.



We consider AFTPL to be the ultimate holding company and Ancala Partners LLP to be the ultimate controlling party



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: 17 January 2022

Dr.Lara Stoimenova
Senior 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, with expertise in telecoms and digital markets. She is founder of Sigma Economics, advising firms on competition and regulatory issues. Lara currently serves as an independent member on the boards of Jersey Competition Regulatory Authority (and chair of its Audit and Risk Committee) and UK's Payment Systems Regulator. 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).

Appointed: 16 October 2023

Sharon Darcy
Independent Non-Executive Director

BA (Hons), IPFA

Sharon is a sustainability expert. She is Chair of the Linear Infrastructure Planning Panel which is developing good practice in the use of new tools and approaches in spatial planning. Sharon was previously CEO of Sustainability First, a leading environmental, social and economic think tank focused on utilities. She has over 20 years of board experience including with the Solicitors Regulation Authority, Nest pensions, and Consumers' Association and has sat on multiple expert advisory and innovation panels, including for Ofwat, the energy regulator (Ofgem), the UK Regulators' Network and the National Infrastructure Commission. A qualified accountant, Sharon began her career at the National Audit Office. She is Chair of international charity CHEM Trust which works to prevent synthetic chemical pollution.

Executive Directors

Colin Robert Taylor

Chief Executive Officer

Appointed: 01 November 2018

BSc, MSc, MBA, CEng, FICE

With 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 (9)	Audit Meeting (4)	Nomination Meeting (1)	Remuneration Meeting (5)
Chair				
Christopher Deacon	9/9	-	1/1	5/5
Independent Non-Executive Directors				
Angela Wilson (Resigned September 2023)	6/6	2/2	1/1	2/2
Dr. Lara Stoimenova	9/9	4/4	1/1	5/5
Sharon Darcy (Appointed October 2023)	3/3	2/2	-	3/3
Executive Directors				
Bob Taylor	9/9	-	1/1	-
Christopher Milner	9/9	-	-	-
Investment Director				
Christopher Loughlin	9/9	-	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 84 and 85 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 87. 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 through confidential "whistleblower" policies).

The Board continues to have strong regard for employee engagement and has regularly invited the newly appointed Chief People Officer to attend the Board to update them with ongoing improvements to terms and conditions. The Board are committed that all staff should be able to reach their full potential during their time at the Company. In addition, the Board are happy to continue to personally support Elevate, the Women's Network in the Company as well as mentoring the Future Innovators Board which comprises aspiring young employees. Work from this body has led to an enhancement of the Company's inclusion and diversity activities, and the Board led the way by undertaking the first training sessions on this subject before it was rolled out across the remainder of the business.

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 88 to 98 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 of the PR24 Business Plan and response to the draft determination were 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 four 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 Sharon Darcy in 2023, with strong experience of Customer and Stakeholder engagement, as well as an expertise in communities and the environment, alongside the recent appointment of Dr Lara Stoimenova, with her considerable experience of the regulatory environment and financial background show how the Board reviews the required skills and changes to reflect any gaps in the appropriate experience required at Board level.

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 2021/22 the Board commissioned an independent Board evaluation review and has followed that with annual internal assessments thereafter. These reviews had the dual objective of offering assurance to the Board on its Governance effectiveness and seeking out opportunities for continuous improvement.

The evaluations continue to conclude that the Board operated effectively, and that each Director demonstrated commitment to the role and performed effectively. They note the quality of Governance arrangements in place – particularly given the size of the business and were positive about the quality of the Board discussions and management information.

The progress on diversity was noted with recent Board and Senior Management appointments and the Board were the first cohort to undertake the recent refresher EDI training. In addition, the Board continues to strive for diversity across the business and is proud of the graduate, apprenticeship and leadership programmes within the Company, which 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.

The 2024 Evaluation identified further opportunities for the Board to make further improvements that would benefit the business as a whole and these included –

- **Risk Management** – continue to build on the recent risk management improvements and embed new policies throughout the business, including introducing a new Enterprise Risk Management System and implementing the resilience improvements identified during the PR24 submission activities.
- **Post Project Reviews** – to ensure continuous project success, the Board asked for increased reporting of post project evaluations to help them understand issues that may have occurred during the project and reassurance that the expected benefits from the project have been achieved.
- **Succession Planning** – The Board are keen to build upon recent succession planning assessments to ensure that the business is as prepared as possible from a people position to achieve the growth expected during the next AMP.

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 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 PR24 process and has seen wide stakeholder engagement continue in the development of Havant Thicket Reservoir 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 2024 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 and Risk Tolerance for the business and updated these during the past year.

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 requirements 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 Audit and Risk Committee continues to review the key risks in the business, and their mitigations, and considers increasing or emerging risks at each meeting. They also 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.	As preparation for PR24, we undertook work to update the Company Purpose. This is set out in more detail on page 12. 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 involved 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". The Board continues to update this area in contemplation of the challenges of AMP8 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 introduced a new People Strategy which will support the alignment of values and 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 77 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 60 of the Financial Performance review section.
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 80.
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 90 to 98, 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 82. The Board have updated their assessment of the composition of Board. Early in 2024 the Board updated their skills register to highlight any gaps in their knowledge, and assessed the composition of the Board during their Board evaluation which was undertaken at the same time.
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 89.
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 81.
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 82. 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 latest 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 89.
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 89. All new non-executive appointments undertake 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 78 and 79 and in the sections covering the Audit, Nomination and Remuneration Committees. The Audit and Risk Committee and the Remuneration Committee are solely made up of independent non-executive directors. A majority of the membership of the Nomination Committee is made up of the same independent directors.


VIEW FROM FARLINGTON WATER TREATMENT WORKS

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 2024. 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 Purpose, Vision and Values”, “Our Strategy”, “Other Issues which impact 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 “Other Issues which impact 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.

AUDIT & RISK COMMITTEE

Dr. Lara Stoimenova
Chair of Audit and Risk Committee

June 2024

Audit & Risk Committee Members
Dr. Lara Stoimenova (Chair)
Sharon Darcy

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 Committee has a dual purpose:

- To ensure the preservation of good financial practices throughout the Company. This includes ensuring that controls are in place to ensure the integrity of those practices and to monitor them, reviewing the interim and annual financial statements and providing, by way of timely meetings, a line of communication between the Board and the external auditors.
- To ensure a strong risk management framework and culture in the Company.

During its meetings with the external Auditors the 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 three years the Board agreed that the Committee should have an increased focus on Risk Management within the business.

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 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 release.
- Reviewing the critical accounting judgements and key sources of estimation uncertainty in the Financial Statements.
- Review of the Internal Controls independent audit findings, performed by BDO, and follow-ups to ensure all recommendations identified had been implemented within appropriate timescales.
- A detailed review of the Business Continuity and Disaster Recovery plans for the company and their appropriateness.
- A review of the GDPR process and controls.
- Reviewing the Audit and Assurance work carried out by the Company's external operational and financial auditors.
- A review of the upcoming changes to the UK Corporate Governance Code.
- A review of the Company's approach to the calculation of bad debt provisions to ensure this was appropriate throughout the year and at the year end.
- The implementation of new Risk Appetite and Risk Tolerance Statements.
- Assessing the calculations of the 2023/24 Customer Tariffs and NAV Tariffs.

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 any non-audit services supplied by the external auditors to the Company. The non-audit services provided during the year were for other Assurance services relating to regulatory financial submissions, tax advisory and compliance work. These services would be those expected to be provided by the Company's external auditor, with the requisite independence safeguards in place.

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

Following the investigation into the social engineering fraud and review of financial controls the Committee has decided 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 auditor.

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)
Sharon Darcy
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.

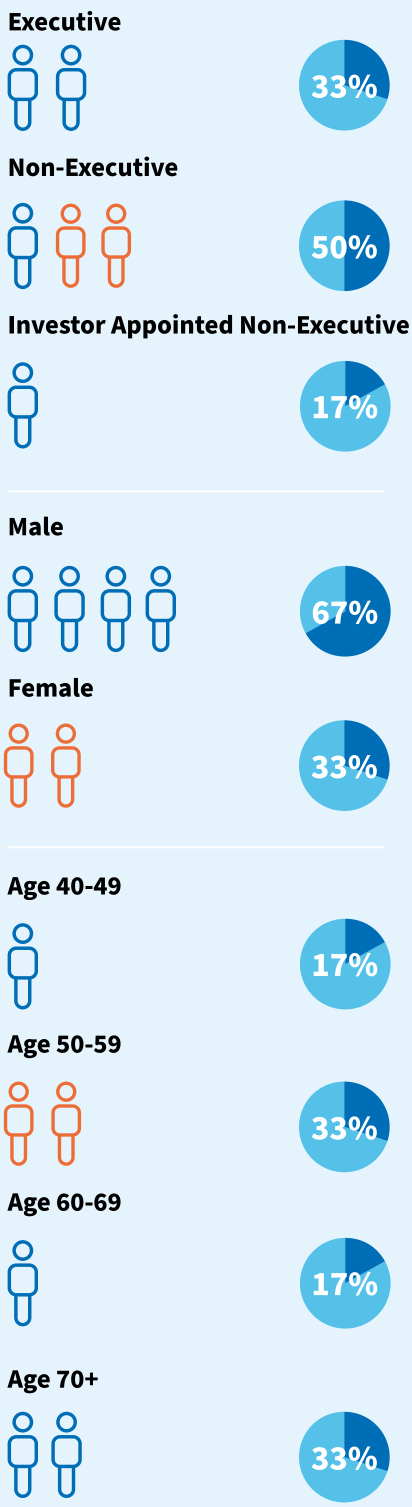
Activities During the Year

The Committee met once formally during the year to appoint Sharon Darcy as a new Independent Non-Executive Director.

The Committee also took part in interviewing for new Executive Team members during the year and closely followed the new People Strategy launch, noting how that will assist them in carrying out their review of succession planning at Board Level and within the business as a whole.

Finally the Nomination Committee, understanding it's role of promoting diversity of gender, social and ethnic backgrounds, led the Board to launch the new company wide EDI Training, attending the first session with the Executive Team.

Board composition*



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

REMUNERATION COMMITTEE

Sharon Darcy
Chair of Remuneration Committee

June 2024

Audit & Risk Committee Members

Sharon Darcy (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

On 1 October 2023, Sharon Darcy replaced Angela Smith as chair of the Remuneration Committee.

I am pleased to share the Remuneration Committee Report for 2023/24.

This report outlines our approach to executive remuneration and actions taken by the Committee to ensure a fair and transparent reward structure for our wider workforce, aligned to our performance commitments and overall company performance.

This year the Remuneration Committee revised our terms of reference so that our remuneration policies for executives are structured to ensure and promote the long-term sustainable success of the company and are more clearly linked to delivery for our customers, community and environment.

We recognise the landscape of executive compensation is evolving and we firmly believe executive remuneration should be designed to attract, retain, motivate, and engage leadership talent, whilst maintaining a transparent link between pay and stretching performance.

We developed principles around how executives and senior leaders are remunerated which are linked to delivering the right outcomes for our customers and communities while having a positive impact in the environment in which we operate.

The Committee reviewed the remuneration policy on executive pay and performance-related pay and introduced an all-employee bonus, where the majority of people are eligible to receive up to a maximum of 6% of base salary aligned to delivering stretching performance for customers and the environment.

We reviewed the bonus structure for executives and our most senior leaders to reflect Ofwat policy guidance and dialogue and amended the bonus and the Long Term Incentive Plan (LTIP)1 scheme that applies to Executive Directors and Executive team members for 2023-24 to improve transparency of the linkage between performance for customers, community and the environment.

The Remuneration Committee want to ensure performance related pay is linked to our performance commitments and that the targets set are stretching in nature and are continually assessed to make sure they remain so and deliver real value to our customers whilst continuing to provide the lowest price water in the country.

To align with good practice, the Remuneration Committee has also strengthened malus and clawback provisions by including a new clause in our Executive directors and executive team member contracts. The policy ensures there is sufficient flexibility to adjust bonus and LTIP payments through malus and clawback and gives the Committee an overriding discretion to depart from formulaic outcomes and use complete downward discretion for poor performance. Malus and clawback mechanisms apply for two years from bonus and LTIP payments and cover, amongst other things, material adverse impacts for customers, communities and the environment.

Activities During the Year

During the year the Committee dealt with the following matters:

- Review and approve personal objectives for the Executive Directors;
- Review Executive Directors and executive team members performance and remuneration;
- Through regular reporting, monitor and assess achievement of the targets set out in this report and overall company performance, including in terms of wider Outcome Delivery Incentives (ODIs), environmental issues and financial resilience;

Discuss, challenge, and agree the Executive Directors pay and benefits, ensuring that their long- term incentives and bonuses were payable on achievement of the targets set out in this report. The achievement of these results against target are noted on pages 94-95;

- Review and approve the all-employee bonus scheme;
- Approve the Remuneration principles for executives and senior leaders; and
- Reviewed current pay trends, labour market and inflation data ahead of negotiations with our Trade Unions around pay awards for all employees.

In addition, the Committee continue to review the reward structure for our wider workforce and introduced salary benchmarking for new and existing roles to ensure remuneration remains fair and competitive against market rate.

We are proud to be a real Living Wage employer and have regraded our entry level salaries in recognition of the challenges faced to the cost-of-living. We have also carried out an employee benefits review to assess the current benefits package offered to our employees. The review highlighted areas of strength, as well as potential improvements, with recommendations made to enhance the benefits we offer. Since carrying out the review we have made improvements to our family friendly offerings (see pages 36-39 for further details), introduced an additional life event day for all employees and increased our annual leave entitlement for our lower paid employees.

In addition to remuneration, we offer a range of wellbeing incentives such as medical health checks, physiotherapy treatment and an Employee Assistance Programme. We have 1 in 18 trained mental health first aiders, have formed a wellbeing working group, will be partnering with a financial education company, and will be rolling out people leaders mental health awareness training.

We continue to review our gender pay gap – data for this can be seen in our 2023-24 report. Whilst we recognise we still have a lot more work to do in addressing our gender pay gap, it's a journey we are embracing and this year we have seen some improvements in both the mean and median measures, which is an important step in the right direction.

We are committed to:

- Having remuneration policies and practices aligned to our purpose, values and long-term sustainable success and executive remuneration designed to attract and retain high-calibre individuals and promote stretching performance linked to the successful delivery of the company's long- term strategy.
- Regularly evaluate and refine our remuneration policies and practices to make sure they continue to align with best practices and are fair and transparent and meet the needs of the company and its stakeholders.
- Providing an inclusive place to work where people feel able to be their authentic selves and creating a diverse workforce that is reflective of the community we serve.

Sharon Darcy

Chair of the Remuneration Committee

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 remuneration committee considers the impact of any base salary increase on the total remuneration package. The Company currently provides a range of taxable benefits such as medical insurance, car allowance, life insurance and paid holiday.	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.	15% of salary into a defined contributions scheme, or equivalent amount paid as salary.	None
Annual bonus (Variable Pay) To reward performance by linking to achievement of key performance objectives aligned to the strategy of the Company. A significant proportion to be linked to stretching performance objectives.	Bonus awards to Executive Directors are made each year and are approved by the remuneration committee. A significant portion (80%) 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 65% (CEO) / 50% (CFO) of base salary of which two thirds is payable during the first half of the following financial year and one third is payable at the end of the AMP period (see Long term incentive scheme (Variable Pay) (1) below).	The incentive scheme is split between; Stretching delivery targets (operational and financial) 80% and personal performance objectives 20%
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) / 15% (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

Alignment to customers, community and the environment

Through AMP7 we have reviewed our policy on executive pay and performance related pay.

Deloitte were engaged to provide advice on best practice in terms of pay and rewards structures in the water sector. Deloitte led the Committee through a review of the existing bonus scheme and options to better align our scheme with Ofwat guidance.

The Committee reviewed and approve the changes to the bonus structure, including the introduction of an all-employee bonus, to bring the company into line with good practice.

All company employees now have a performance-related pay structure aligned to delivering performance for customers, communities and the environment.

The short-term and long-term components of executive pay have been amended for 2023-24 as follows:

- The weighting of the measures was reviewed to ensure the customer, community and environment components equate to 60% of performance-related pay.
- Three new measures were introduced to align with good practice and our 25 year vision priorities on health and safety, carbon, and social value (community partnership initiative).
- These new measures were in addition to the existing basket of ten ODI measures covering issues including water supply and quality and other environmental and customer related outcomes.
- A capex measure was replaced with a new totex measure to recognise the importance of operational expenditure.
- The weighting of financial and personal objectives were correspondingly reduced.

Targets were selected to provide a balanced package of measures representing the key areas of importance for delivering excellence for customers, stakeholders and shareholders, as well as taking consideration of Ofwat's guidance and Deloitte recommendations.

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	65%	45%	20%
Chief Financial Officer	50%	35%	15%
Commercial Director	35%	25%	10%
Executive Scheme	25%	20%	5%
Senior Leadership Team	15%	15%	-
Graded Staff	6%	6%	-

REMUNERATION COMMITTEE

The table below provides further information about how the bonus components are determined. Once the bonus pot for any year has been determined, the maximum achievable bonus will be split by the annual variable element and the long-term variable element as detailed on page 93. The annual element will be paid during the first half of the following financial year, and the long-term element 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 2023/24.

Customers, Communities & the Environment		**60%**	**Change**
Service Objective is made up of 10 Current ODI's :		45%	3 new measures
Compliance Risk Index	Unplanned Outage		
Interruptions	C-Mex		
Leakage	D-Mex		
PCC	Priority Services		
Mains Repairs	Severe Drought		
New Measure:	Health & Safety i.e. reportable accidents		
Carbon Net Zero			
Community Partnership Initiative			
TOTEX		15%	Replaces Capex and +2%
Financial		**20%**	**Change**
EBITDA		15%	+2%
Cash		5%	-2%
Personal including customer supporting		**20%**	**Change**
Individual Objectives (including customer element Objectives (including customer element)		20%	-13%

Service metric targets	Ofwat AMP7 Target	Company AMP7 Target	2023/24 spot target
Compliance Risk	0	< 1.5 reducing to <1.0 in year 4	< 2.0
Interruptions	6 mins 30 to 5 mins over AMP7	3 mins 32 secs per property in year 4	5 mins 23 secs per property
Leakage	15.2% reduction over AMP7	15.2% reduction over AMP7	12.2% reduction from 2019/20 base year
PCC	6.3% reduction over AMP7	5.0% reduction from 2019/2020 base year	5.0% reduction from 2019/20 base year
Mains repairs	73.8 repairs reducing to 68.6 over AMP7	< 60.0 repairs per 1,000km	70.0 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	9.0%
Severe Drought	84% reducing to 32% over AMP7	84% reducing to 32% over AMP7	68%

Financial objectives	Target
Financial: Measured vs budget targets	
EBITDA	£15.5m
Cash from Operations HY1	£6.2m
Cash from Operations HY2	£4.7m

The performance related pay detailed above has been funded through TOTEX in line with the regulatory framework and compliant with OFWAT guidance on remuneration.

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. The introduction of the all-employee bonus in year has helped to strengthen this alignment.

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 2024 £000	Total 2023 £000	Movement £000
Executive:								
C.R.Taylor	215	8	70	**293**	43	**336**	209	**127**
J.C.Milner	149	6	30	**185**	30	**215**	176	**39**
Non-Executive:								
Christopher Deacon	58			**58**		**58**	52	**6**
Lara Stoimenova	32			**32**		**32**	29	**3**
Angela Smith (Wilson) *Resigned November 2023*	22			**22**		**22**	29	**-7**
Sharon Darcy *Appointed October 2023*	15			**15**		**15**		**15**
	491	14	100	**605**	73	**678**	495	**183**

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

Year on year movements for the Executives total remuneration are shown below:

Chief Executive Officer (C.R.Taylor)

		Taxable Benefits						
Year	**Salary/Fee £000**	**Car £000**	**Medical Insurance £000**	**Other £000**	**Bonus Scheme £000**	**Sub-total £000**	**Pension £000**	**Total 2024 £000**
2024	215	7	2		70	**293**	43	**336**
2023	201	7	2			**209**		**209**
Movement	14	0	0	0	70	**84**	43	**127**

Note that C. R Taylor joined the Defined Contribution Pension Scheme which represents the increase in pension contributions in the year. In 2023 there was zero bonus paid in year due a fraud incident in year, as detailed on page 65 of the Annual Report and Accounts 2023.

Chief Financial Officer (J. C. Milner)

		Taxable Benefits						
Year	**Salary/Fee £000**	**Car £000**	**Medical Insurance £000**	**Other £000**	**Bonus Scheme £000**	**Sub-total £000**	**Pension £000**	**Total 2024 £000**
2024	149	6			30	**185**	30	**215**
2023	133	6		22		**161**	15	**176**
Movement	16	0	0	-22	30	**24**	15	**39**

Note that J. C. Milner received a salary increase and increase in bonus allowance from 1 Dec 2023 in recognition of achievements.
Other taxable benefits paid in 2023 relate to relocation expenses.
In 2023 there was zero bonus paid in year due a fraud incident in year, as detailed on page 85 of the Annual Report and Accounts 2023.

Details of the Executive Bonus Scheme calculations are shown below:

Chief Executive Officer (C.R.Taylor)

	Bonus Objectives	**Weighting**	**Achieve-ment of Targets**	**Weighted Bonus**	**Bonus applicable salary £000**	**Bonus %**	**Bonus £000**	**Bonus £000 by Objective**	**Proportion Paid in Year %**	**Proportion Paid in Year £000**	**Proportion Deferred (LTIP 1)%**	**Proportion Deferred (LTIP 1) £000**
Maximum Bonus	Service	60%	100%	60%	215	65%	140	84	45%	97	20%	43
	Financial	20%	100%	20%				28				
	Personal	20%	100%	20%				28				
	Total	**100%**		**100%**				140				
Total					**215**	**65%**	**140**	**140**		**97**		**43**
Actual Bonus	Service	60%	63%	38%	215	65%	101	53	45%	70	20%	31
	Financial	20%	81%	16%				23				
	Personal	20%	91%	18%				25				
	Total	**100%**		**72%**				**101**				
Total					**215**	**65%**	**101**	**101**		**70**		**31**

Chief Financial Officer (J.C. Milner)

	Bonus Objectives	Weighting	Achievement of Targets	Weighted Bonus	Bonus applicable salary £000	Bonus %	Bonus £000	Bonus £000 by Objective	Proportion Paid in Year %	Proportion Paid in Year £000	Proportion Deferred (LTIP 1)%	Proportion Deferred (LTIP 1) £000
Maximum Bonus (April 23-Nov 23)	Service	60%	100%	60%	96	35%	33	20	25%	24	10%	10
	Financial	20%	100%	20%				7				
	Personal	20%	100%	20%				27				
	Total	**100%**		**100%**				**33**				
Maximum Bonus (Dec 23-March 24)	Service	60%	100%	60%	53	50%	27	16	35%	19	15%	8
	Financial	20%	100%	20%				5				
	Personal	20%	100%	20%				5				
	Total	**100%**		**100%**				**27**				
Total					**149**	**40%**	**60**	**60**		**43**		**18**
Actual Bonus (April 23-Nov 23)	Service	60%	63%	38%	96	35%	24	13	25%	17	10%	7
	Financial	20%	81%	16%				5				
	Personal	20%	85%	17%				6				
	Total	**100%**		**71%**				**24**				
Actual Bonus (Dec 23-March 24)	Service	60%	63%	38%	53	50%	19	10	35%	13	15%	5
	Financial	20%	81%	16%				4				
	Personal	20%	85%	17%				5				
	Total	**100%**		**71%**				**19**				
Total					**149**	**29%**	**43**	**43**		**30**		**12**

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	4,300	30%	1,290
Non Regulated EBITDA	4,750		30%	

The projected bonus is set out below:

	Maximum %	Project 5 Year Period £000	LTIP2 - earned* in year £000
Chief Executive Officer C. R. Taylor	50%	645	129
Chief Financial Officer J.C. Milner	25%	226	65

(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.

Achievement of this is uncertain and dependent on the PR24 Final Determination from Ofwat. As a result, there is no provision held in the accounts for LTIP2.

REMUNERATION COMMITTEE

Long term incentive scheme 3 (LTIP3)
This scheme is payable based on on-time delivery of wet commissioning (in line with 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 for year £000
Chief Executive Officer C. R. Taylor	70	31	129	**230**
Chief Financial Officer J.C. Milner	30	413	65	**107**

* LTIP2 amounts will only be paid if targets set are fully achieved at end of AMP period on 31 March 2025.

Pension Entitlements (Audited Information)

The Company participates a defined contribution scheme. Mr C. R. Taylor and Mr J. C. Milner are members of the defined contribution scheme. Contributions amounting to £72,750 were made on their behalf by the Company in the year.

The Non-Executive Directors are not members of the pension scheme.

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:	2019	2020	2021	2022	2023	**2024**
Total remuneration excluding pension (£000)	167	240	275	287	209	**336**

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]	7%	12%
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	**2024**	**2023**
25th percentile	**13:1**	20:1
50th percentile	**10:1**	12:1
75th percentile	**7:1**	8:1

This report was approved by the Board on 20 June 2024 and will be subject to shareholder approval at the Annual General Meeting to be held on 31 July 2024.

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

Sharon Darcy
Chair of the Remuneration Committee

DIRECTORS REPORT

The Directors have pleasure in presenting their Directors Report for the year ended 31 March 2024.

Principal Activity and Business Review

The principal activity of the Company and a detailed review of its operations, strategy and business model is provided in the Chair's Statement on pages 6 to 11 and the Strategic Report on pages 12 to 73.

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 67 and 68.

Financial Results and Dividends

The Company's loss before taxation amounts to £(4.3)m (2023 - £(6.5)m). After deducting the tax credit of £0.9m (2023 - tax credit of £1.5m), a loss of £(3.4)m has been transferred to reserves (2023 - loss of £(5.0)m).

The Directors have proposed a final dividend in respect of the year ended 31 March 2024 of £3.2m (final dividend in respect of the year ended 31 March 2023 - £2.3m).

Fixed Assets

Capital expenditure on tangible fixed assets was £52.3m (2023 - £39.5m) and on intangible fixed assets was £8.7m (2023 - £2.9m). Information relating to these and other changes in fixed assets is shown in note 11 and 13 to the accounts.

The Directors are of the opinion that the current market value of the land and buildings included in tangible fixed assets is in excess of the value shown in the balance sheet. As they are held for operational purposes, no professional valuation has been obtained and the excess has not, therefore, been quantified.

Exceptional items

An exceptional item charge of £0.031m has been reported. An exceptional charge of £0.820m was recorded in 2023 relating to the costs arising from the agreement to close the defined benefit pension scheme to future accrual. The costs this year relate to the same matter and were final costs for advice around the Scheme Rule changes related to that closure.

Share Capital

In July 2023 the company issued £60.0m of new 'A' ordinary shares to its immediate parent company Portsmouth Water Holdings Limited, as part of a wider refinancing of the company. Full details of the current issued capital and the details of the current issued capital can be found in note 24 to the financial statements.

Board of Directors

The Directors who held office at the date of signing of these financial statements are shown on pages 78 and 79.

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

Mrs. S. Darcy, who joined the company in October 2023, offers herself for election.

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

The Company maintains appropriate Directors' indemnity insurance.

Substantial Shareholder

At 31 March 2024, 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.

Further details relating to employees, including matters relating to our diversity, equality and employment of disabled persons, are set out on pages 38-39.

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 16 to 45. The total amount of gross Greenhouse Gas Emissions that resulted from the Company's operations in the financial year is estimated to be 6,992 tCO_2e (2023 - 6,662 tCO_2e).

Licence Requirement

In accordance with its Instrument of Appointment under the Water Industry Act 1991, the Directors are of the opinion that the Company is in compliance with paragraph 3.1 of Condition 'P' of that Instrument.

Auditors

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

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the current auditors are aware of that information.

Statement of Directors' Responsibilities in respect of the Annual Report, the Strategic Report, the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Annual Report, the Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

C. Hardyman ACIS Secretary
PO Box 8, West Street,
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28 June 2024

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Company Number: 2536455

Company Secretary: Christopher Hardyman ACIS

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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 2024 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 2024 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

Identifying and responding to risks of material misstatement due to fraud

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

- Enquiring of Directors 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 100, 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
28 June 2024

INCOME STATEMENT

For the year ended 31 March 2024

	Notes	**2024 £000**	2023 £000
Turnover	3	**47,919**	45,446
Cost of sales		**(32,411)**	(27,176)
Gross profit		**15,508**	18,270
Net operating expenses	4,5	**(7,345)**	(9,467)
Operating profit before profit/(loss) on disposal of fixed assets and exceptional items		**8,163**	8,803
Profit/(loss) on disposal of fixed assets and investment properties	6	**-**	142
Exceptional items - Settlement and related costs on pension scheme	25	**(31)**	(820)
Operating profit after profit/(loss) on disposal of fixed assets and exceptional items		**8,132**	8,125
Interest receivable and similar income	7	**6,265**	1,920
Other finance income	26	**-**	427
Interest payable and similar charges	8	**(18,745)**	(16,931)
Loss on ordinary activities before tax	6	**(4,348)**	(6,459)
Taxation on loss on ordinary activities	9	**918**	1,462
Loss for the financial year		**(3,430)**	(4,997)

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

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2024

	Notes	**2024 £000**	2023 £000
Loss for the financial year		**(3,430)**	(4,997)
Remeasurement of net defined benefit pension scheme asset	26	**364**	(14,142)
Deferred tax relating to movements on pension scheme asset	21	**(91)**	3,535
Fair value movements on hedge accounted financial instruments	22	**380**	-
Deferred tax relating to movements on hedged financial instruments	21	**(95)**	-
Total comprehensive loss for the year		**(2,872)**	(15,604)

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

For the year ended 31 March 2024

	Notes	2024 £000	2024 £000	2023 £000	2023 £000
Fixed assets					
Intangible fixed assets	11	**15,191**		5,032	
Investment properties	12	-		-	
Tangible fixed assets	13	**264,605**		211,244	
Investments	14	**-**		55,484	
			279,796		271,760
Current assets					
Investments (including short term deposits)	15	**90,002**		2	
Stock		**576**		659	
Debtors	16	**21,789**		15,264	
Cash and cash equivalents	17	**25,959**		54,073	
		138,326		69,998	
Creditors: Amounts falling due within one year	18	**(50,100)**		(24,944)	
Net current assets			**88,226**		45,054
Total assets less current liabilities			**368,022**		316,814
Creditors: Amounts falling due after more than one year	19		**(219,761)**		(222,335)
Deferred income	20		**(34,223)**		(34,510)
Provisions for liabilities	21		**(8,330)**		(9,047)
Net assets excluding pension asset			**105,708**		50,922
Pension asset	26		-		-
Net assets including pension asset			**105,708**		50,922

Capital and reserves			
Called up share capital	24	**81,078**	21,078
Share premium account		**9,382**	9,382
Capital redemption reserve		**3,250**	3,250
Cash flow hedge reserve		**285**	-
Profit and loss account		**11,713**	17,212
Shareholder' funds		**105,708**	50,922

The accompanying notes form part of these financial statements.
The accounts were authorised for issue and approved by the Board on 28th June 2024 and signed on its behalf by:

J. C. Milner
Director
Company Number: 2536455

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2024

	Called up share capital £000	Share Premium account £000	Capital redemption reserve £000	Captial flow hedge reserve £000	Retained earnings £000	Total £000
Balance at 01 April 2022	1,078	9,382	3,250	-	36,213	49,923
Loss for the year	-	-	-	-	(4,997)	(4,997)
Remeasurement of defined benefit pension 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 paid in the year	-	-	-	-	(3,397)	(3,397)
Balance at 31 March 2023	**21,078**	**9,382**	**3,250**	-	**17,212**	**50,922**
Loss for the year	-	-	-	-	(3,430)	(3,430)
Remeasurement of hedging financial instruments	-	-	-	380	-	380
Remeasurement of defined benefit pension asset	-	-	-	-	364	364
Movement on deferred tax relating to hedging financial instruments and pension scheme	-	-	-	(95)	(91)	(186)
Total comprehensive loss for the year	-	-	-	285	(3,157)	(2,872)
Share issue in the year	60,000	-	-	-	-	60,000
Dividends paid in the year	-	-	-	-	(2,342)	(2,342)
Balance at 31 March 2024	**81,078**	**9,382**	**3,250**	**285**	**11,713**	**105,708**

The retained earnings balance represents accumulated profits and losses, 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 2024

	Notes	**2024 £000**	**2024 £000**	2023 £000	2023 £000
Cash generated from operations	25		**12,699**		11,022
Tax paid for group relief		**-**		(23)	
Net cash inflow from operating activities			**12,699**		10,999
Cash flows from investing activities					
Purchase of tangible fixed assets		**(52,343)**		(43,329)	
Purchase of intangible fixed assets		**(8,681)**		(3,151)	
Short term investment net deposits made		**(90,000)**		-	
Finance lease payments		**(314)**		-	
Capital contributions received		**761**		453	
Receipt from repayment of long term investment loan		**55,484**		-	
Sale of tangible fixed assets and investment properties		**14**		467	
Interest and investment income received		**5,814**		686	
Net cash used in investing activities			**(89,265)**	-	(44,874)
Cash flows from financing activities					
Receipts from external borrowings		**-**		75,000	
Repayment of external borrowings		**-**		(22,500)	
Repayment of subordinated inter-group loan		**-**		(4,000)	
Receipts from issue of new ordinary share capital		**60,000**		20,000	
Equity dividends paid		**(2,342)**		(3,397)	
Interest and related finance costs paid		**(9,206)**		(2,849)	
Net cash generated in financing activities			**48,452**		62,254
Net (decrease) / increase in cash and cash equivalents			**(28,114)**		28,379
Cash and cash equivalents at beginning of year			**54,073**		25,694
Cash and cash equivalents at end of year	17		**25,959**		54,073
Comprising:					
Cash at bank and in hand			**10,273**		54,073
Cash equivalents			**15,686**		-
	17		**25,959**		54,073

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2024

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 group accounts of Ancala Fornia Holdco Limited, copies of which are available from the Company's registered office, and into the group accounts of Ancala Fornia Topco Pte Limited, which is registered in Singapore.

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 the Havant Thicket Winter Storage Reservoir project. To this, core business downsides have been considered, including reduced customer debt collections due to the ongoing cost of living crisis, water quality events, together with continued cost inflation pressures on a number of key cost inputs, including commodity prices. The base case forecast assumes that the Company operates in line with its Business Plan assumptions with the required AMP7 financing already in place. 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 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 2024

1. Accounting policies (continued)

1.3 Turnover

Turnover, which excludes value added tax, represents the income receivable for goods and services provided to external customers in the ordinary course of business. It comprises the value of water supplied and other related charges and some non-regulated activities. Revenue is recognised at the fair value of the consideration received or receivable at the point of service delivery.

Turnover from the regulated water business includes amounts billed for the year, together with an estimation of amounts unbilled at the year- end, for measured water customers.

Unmeasured income bills are based on the rateable value of properties. Unmeasured customers are billed annually in advance on 1 June and amounts invoiced in advance are not recognised in turnover until earned. Measured income arises from customers who have meters fitted at their premises and amounts billed, therefore, are based on actual water consumption. The estimation of the amounts unbilled at the year end uses a defined methodology based upon a measure of unbilled water consumed, which is calculated from historical customer data.

Turnover includes the amortisation of capital contributions received in connection with the enhancement of mains infrastructure. This is set out further below.

1.4 Investment properties

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

1.5 Tangible fixed assets

The Company holds both above ground assets and a below ground infrastructure network of mains.

Mains infrastructure (below ground assets)

Infrastructure assets comprise a network of mains, communications pipes and boundary boxes. The Company undertakes expenditure on this network in order to maintain it in an ongoing serviceable condition. Where this expenditure meets certain criteria (set out below) it is capitalised. All other expenditure is expensed as incurred.

1.6 Tangible fixed assets (continued)

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 assigned.

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 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

Depreciation is provided on all fixed assets, with the exception of freehold land. It is calculated to write off the cost of assets over their estimated useful economic lives using the straight- line method. There are no expected residual values.

Those lives are estimated as follows:

- Building and reservoirs: 100 – 150 years
- Reservoir inspections: 10 years
- Pumping & 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.

During the year to 31 March 2024, the Company has carried out a review of the fixed asset categories into which assets acquired have been classified. This resulted in a number of individual assets being transferred between asset categories, as set out in the fixed asset notes in the financial statements (Note 11 and Note 13).

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

Mains 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2024

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 amortised cost using the effective interest rate method. Instruments that are payable or receivable within one year of initial recognition and meet the applicable conditions are measured at the undiscounted amount of consideration expected to be paid or received, net of impairment.

Financial assets are de-recognised 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 de-recognised only when the obligation specified in the contract is discharged, cancelled or expires.

Hedge accounting

Any financial derivatives held are accounted for in line with FRS102 and recorded at fair value. Fair value is determined on the basis of discounted cashflow models and supported by valuations provided by counter-parties to the financial derivatives. Fair value adjustments are considered at each reporting date and applied through the Income Statement, Statement of Other Comprehensive Income and the Statement of Changes in Equity. As the asset increases or decreases in value, the associated deferred tax movement is also reflected in the financial statements.

Where a financial derivative (normally a swap) qualifies as a hedging instrument under the conditions of FRS102 (S12.17) hedge accounting will be applied from the point that the financial derivative was arranged on the basis of the required FRS102 criteria.

Hedged fair value movements will be reported in line with hedge accounting, such that gains and losses are recognised through the Statement of Other Comprehensive Income and cumulative amounts reported in the Cash Flow Hedge Reserve in the Statement of Financial Position.

Where a financial derivative does not qualify for hedge accounting, all movements in the fair value of the derivative are recognised in the Income Statement.

Investments

Investments consist of non-current and current investments. Non-current investments include 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 when fair value cannot be measured reliably.

1.9 Impairment

Assets other than those measured at fair value, are assessed for indicators of impairment at each statement of financial position date. If there is objective evidence of impairment, an impairment loss is recognised in the income statement.

Non-financial assets

Assets are impaired when evidence indicates that the assets recoverable amount is less than its carrying amount. Recoverable amount is the lower of fair value less cost to sell and its value in use.

Financial assets

For financial assets carried at amortised cost, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial assets original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

1.10 Stocks

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

1.11 Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Company. All other leases are classified as operating leases. Assets held under finance leases are recognised initially at the fair value of the leased asset or, if lower, the present value of minimum lease payments at the inception of the lease. The corresponding liability is included in the statement of financial position as 'finance lease liabilities' within creditors. Lease payments are apportioned between finance charges and reduction of the lease liability using the effective interest method so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are included in tangible fixed assets and are depreciated and assessed for impairment losses in the same way as owned assets.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the lease term.

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 62 to 63 '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 liabilities are off-set against the pension scheme assets to calculate either a net surplus or deficit. Any pension scheme net surplus is only recognised to the extent that the Company can benefit from the surplus through reduced levels of future normal contributions, in line with the requirements of FRS102.

The deferred tax relating to any net pension surplus or deficit is offset against the pension liability or asset, and is not included with other deferred tax liabilities as part of the deferred tax provision balance.

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 ceased with effect from 31 March 2023, and the existing active employees became members of the defined contribution pension scheme, with enhanced company contributions payable for a period of time. As a result of this change, from 31 March 2023 the Company has ceased to make contributions into the scheme, and none of the pension net surplus is recognised at the year end date.

Further detailed information regarding the pension scheme and actuarial position of the scheme as at 31 March 2024 is given in note 26 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 2024

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 £92,000 (2023: £90,000) saving on depreciation charged in the year. If the useful economic life of these assets were to be reduced by 10 years, the impact on the depreciation charge would have been an additional charge of £124,000 (2023: £121,000).

ii) Havant Thicket Reservoir

As a result of the programme to construct the Havant Thicket Reservoir, at the year end date the Company had incurred £93.5m (2023: £53.3m) of expenditure, including £14.0m (2023: £6.0m) of related borrowing costs incurred, which has 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 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. The Company has concluded that amounts incurred in the construction of the Havant Thicket 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 all key construction contracts, and agreement of revised project budgets and contractual cost adjustment mechanism with both Ofwat and Southern Water
- The cost adjustment mechanism provides a mechanism to mitigate adverse cost implications arising as a result of the planning and procurement process, including consideration of any further changes agreed between the parties relating to the long term bulk supply agreement

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 asset valuations, estimated life expectancies, inflation increases and the discount rate based on corporate bonds. Management estimate these factors in determining the net pension obligation. The assumptions reflect historic experience and current trends and are set in consultation with appropriately qualified and experienced actuarial 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 all relevant factors in determining the recoverability of any surplus arising.

Sensitivities in respect of the assumptions used during the year are disclosed in note 26.

Long term contract arrangement – Havant Thicket Reservoir

The long term bulk supply contract with Southern Water allows for the company to receive an appropriate return on the capital investment being made into the Havant Thicket Reservoir project, with amounts billable from contract commencement in 2021. As water from the Havant Thicket Reservoir is not expected to be supplied to Southern Water 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. This is currently not expected to be until 2029-30.

The contract with Southern Water covers the period from 2021 through to 2100 (80 years). Amounts billable under the contract before supply commences will therefore be held as a deferred revenue balance (see Note 20). The company had billed and received £6.5m in total under the contract to 31 March 2024 (31 March 2023: £6.5m).

3. Turnover

	2024 £000	2023 £000
Unmeasured household supplies	**21,646**	20,666
Measured household supplies	**13,389**	12,162
Non-household supplies	**9,710**	9,721
Bulk supply, including amortisation of bulk supply revenues previously deferred	**924**	997
Amortisation of developer contributions (note 20)	**1,048**	707
Chargeable work	**1,043**	1,079
Deferred meter reading revenue	**159**	114
	47,919	45,446

Turnover is wholly attributable to water supply and related activities in the United Kingdom.

4. Net operating expenses

	2024 £000	2023 £000
Administrative expenses	**7,827**	9,924
Other operating income	**(482)**	(457)
	7,345	9,467

Administrative expenses above include the impact of a one-off business rates rebate of £1,573,000 (2023: £Nil) received in the year.

5. Directors and employees

	2024 £000	2023 £000
Employment costs		
Wages and salaries	**12,942**	10,268
Social security costs	**1,434**	1,165
Defined benefit pension costs (note 26)	**364**	1,656
Defined contribution pension costs (note 26)	**1,786**	554
	16,526	13,643
Costs transferred to capital schemes	**(5,414)**	(4,029)
Ordinary net employment costs charged to the income statement	**11,112**	9,614

Average number of employees (full time equivalents)	2024 Number	2023 Number	2022 Number
Operations	**160**	147	136
Administration	**138**	120	118
	298	267	254

Director Remuneration	Highest paid Director 2024 £000	Highest paid Director 2023 £000	Total Directors Remuneration 2024 £000	Total Directors Remuneration 2023 £000
Total remuneration	**293**	209	**605**	480
Pension contributions	**43**	-	**73**	15
	336	209	**678**	495

Two Directors (2023 – one) is accruing benefits under a defined contribution pension scheme. No benefits are accruing to Directors under defined benefit pension schemes.

Further details relating to Directors' remuneration are set out in the Remuneration Committee Report on pages 90 to 98. 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 2024

6. Loss on ordinary activities is stated after charging/(crediting):

		2024 £000	2023 £000
Depreciation	- infrastructure assets	**1,218**	1,202
	- non infrastructure assets	**4,980**	4,990
Amortisation of intangible assets		**124**	155
(Gain)/loss on disposal of fixed assets and investment properties		**-**	(142)
Business rates expenditure		**1,434**	2,424
Business rates – rebate received in the year relating to prior periods		**(1,573)**	-
Water abstraction charges		**1,507**	1,507
Hire of plant and machinery		**28**	3
Auditors' remuneration:			
Fees payable to the current auditor for the audit of the Company's Annual Report & Accounts		**202**	185
Fees payable to the current auditor for other services:			
Audit related assurance services - Annual Performance Review		**69**	66
Taxation compliance services		**15**	12
Other non-audit services		-	-
Fees in respect of the Brockhampton Pension Scheme: Audit*		**14**	15

*Not paid by the Company

7. Interest receivable and similar income

	2024 £000	2023 £000
Interest receivable on loan to group company	**1,536**	1,920
Bank and short term investment interest receivable	**4,163**	-
Income receivable from inflation-linked SWAP financial instrument	**566**	-
	6,265	1,920

8. Interest payable and similar charges

		2024 £000	2023 £000
Inflation-linked RPI Bank loan	- Interest	**7,255**	4,583
& CPI Bond	- Indexation	**14,854**	14,384
	- Amortisation of fees	**1,286**	57
	- Administration fees	**1,331**	113
Inflation-linked SWAP financial	- Fair value loss at year end	**1,853**	-
instrument	- Amounts payable in the year	**-**	-
Revolving loan facilities	- Interest	**-**	484
	- Amortisation of fees	**299**	299
Inter-company loans	- Interest	**620**	994
Finance lease interest charge		**64**	-
Debenture stock interest		**15**	5
Other interest payable		-	102
Gross interest payable and similar charges		**27,577**	21,021
Less: borrowing costs capitalised:	- Tangible fixed assets (Note 13)	**(7,918)**	(3,873)
	- Intangible fixed assets (Note 11)	**(914)**	(217)
Net interest payable and similar charges reported in the Income Statement		**18,745**	16,931

For information, the indexation charge is based on:
- RPI (July 2023 – 374.2 and July 2022 – 343.2)
- CPI (January 2024 – 131.5 and January 2023 – 126.4)

9. Taxation

	2024 £000	2023 £000
Current tax		
United Kingdom corporation tax at 25% (2023 - 19%)	-	-
Adjustment in respect of prior periods	**(14)**	-
	(14)	-
Deferred tax		
Origination and reversal of timing differences	**(918)**	(1,578)
Adjustment in respect of prior periods	**14**	116
Effect of tax rate change on opening balance	-	-
	(904)	(1,462)
Tax (credit)/charge on loss on ordinary activities	**(918)**	(1,462)

Factors affecting the tax charge for the year		
Loss on ordinary activities before tax	**(4,348)**	(6,459)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 25% (2023 - 19%)	**(1,087)**	(1,227)
Effect of:		
Fixed asset differences	**163**	27
Change in tax rates	**-**	(378)
Other tax adjustments	**6**	-
Prior year adjustment - current tax	**(14)**	-
Prior year adjustment - deferred tax	**14**	116
Total tax (credit)/charge for year	**(918)**	(1,462)

Current Tax - United Kingdom corporation tax at 25% (2023 - 19%)

Due to the company's trading losses, no current tax charges have been incurred for the year (2024- £nil). The adjustment in respect of prior periods arose from the alignment of the group loss position, and is off-set by a similar off-setting adjustment in the deferred tax credit .

Deferred Tax

Total deferred tax credited to the income statement was £904k (2023 - £1,462 credit). 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 £14.9m (2023 - £13.2m).

Offset against this is the deferred tax benefit of other timing differences – these primarily relate to unutilised tax losses. A deferred tax asset of £6.6m (2023 - £4.1m) has been recognised in respect of tax losses because it is probable that these assets will be recovered in future periods. Under the current tax regime, trading tax losses carried forward will be available to offset trading profits in future years. This results in a net overall deferred tax liability of £8.3m (2023 - £9.1m). 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% became effective on 1 April 2023. The deferred tax liability at 31 March 2024 has been calculated based on this 25% tax rate, reflecting the expected timing of the future reversal of the related timing differences (2023: 25%).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2024

10. Dividends

	2024 £000	2023 £000
Equity: Ordinary		
Interim paid	-	-
Final paid	**2,342**	3,397
	2,342	3,397

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 was received by the Company in the form of interest payments from its parent company and did not result in any net cash outflow from the wider group. This recirculating element has been stopped from 31 March 2023, as the parent company loan, including interest accrued, was fully repaid in July 2023 as part of the new shareholder equity investment.

Our normal equity dividend therefore reflects a 4% return on the average RCV of the company in the year, in line with 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 £2,711k and a recirculating dividend of £686k for the financial year 2021/22. This was paid in June 2022. The £2,711k equity return dividend included a £500k adjustment reflecting the strong performance against the FY22 ODI's.

No additional interim dividends were paid in the year to 31 March 2023.

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

The directors recommended a total dividend of £2,342k, all being related to an equity dividend, which was paid in July 2023. As noted above, no recirculating dividend is now paid.

No additional interim dividends were paid in the year to 31 March 2024.

Proposed dividend for financial year 2023/24 (to be paid in 2024/25):

The Directors are proposing a total dividend of £3,233k, all being related to an equity dividend. This dividend is expected to be paid in July 2024.

Further analysis supporting the dividend paid for financial year 2023 and proposed for financial year 2024 is included in our Annual Performance Report (APR) . The APR will be published in July 2024.

11. Intangible fixed assets

	Development Projects £000	Software including Consultancy £000	Total £000
Cost			
At 1 April 2023	3,083	5,194	8,277
Additions	4,962	3,719	8,681
Transfer from tangible fixed assets and between categories	565	123	688
Borrowing costs capitalised	648	266	914
Disposals	-	(243)	(243)
At 31 March 2024	9,258	9,059	18,317
Amortisation			
At 1 April 2023	-	3,245	3,245
Charge for the year	-	124	124
Disposals	-	(243)	(243)
At 31 March 2024	-	3,126	3,126
Net book value			
At 31 March 2024	**9,258**	**5,933**	**15,191**
At 1 April 2023	3,083	1,949	5,032

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 2023	3,083	1,618	4,701
Additions	4,962	3,719	8,681
Transfer from tangible fixed assets and between categories	565	54	619
Borrowing costs capitalised	648	266	914
Transfers into completed intangible fixed assets	-	(163)	(163)
At 31 March 2024	9,258	5,494	14,752

12. Investment properties

	Investment properties £000
At 1 April 2023	-
Additions / disposals in the year	-
At 31 March 2024	-

The company sold its remaining investment property, which had a net book value of £325k, during the year to 31 March 2023.

13. Tangible fixed assets

	Freehold & leasehold land, buildings, reservoirs £000	Mains £000	Pumping plant £000	Vehicles, mobile plant and office equipment £000	Total £000
Cost					
At 1 April 2023	113,110	78,971	74,531	33,268	299,880
Additions	37,139	6,056	5,791	3,357	52,343
Borrowing costs capitalised	7,918	-	-	-	7,918
Transfer to intangible fixed assets & between categories	(3,028)	(194)	2,331	203	(688)
Disposals and asset write-offs	-	-	-	(789)	(789)
At 31 March 2024	155,139	84,833	82,653	36,039	358,664
Depreciation					
At 1 April 2023	16,234	10,468	38,970	22,964	88,636
Charge for the year	657	1,218	2,198	2,125	6,198
Disposals and asset write-offs	-	-	-	(775)	(775)
At 31 March 2024	16,891	11,686	41,168	24,314	94,059
Net book value					
At 31 March 2024	**138,248**	**73,147**	**41,485**	**11,725**	**264,605**
At 1 April 2023	96,876	68,503	35,561	10,304	211,244

Included in leasehold land above is land held under a long term (80 year) finance lease with a net book value of £1,291k (2023: £nil).

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

	Freehold & leasehold land, buildings, reservoirs £000	Mains £000	Pumping plant £000	Vehicles, mobile plant and office equipment £000	Total £000
Cost and net book value					
At 1 April 2023	55,720	7,681	6,242	1,566	71,209
Additions into WIP during the year	35,606	5,265	5,474	2,503	48,848
Borrowing costs capitalised	7,918	-	-	-	7,918
Transfer to intangible fixed assets & between categories	(2,907)	242	2,225	(179)	(619)
Disposals and asset write-offs	-	-	-	-	-
Transfers into completed tangible fixed assets	(1,355)	(3,861)	(461)	-	(5,677)
At 31 March 2024	94,982	9,327	13,480	3,890	121,679

Of the balance of assets in the course of construction, £93.5m (2023 - £53.3m) relates to Havant Thicket Reservoir which includes capitalised borrowing costs of £14.0m (2023 - £6.0m).

14. Fixed asset investments

	Loans to Group undertakings
	£000
As at 1 April 2023	**55,484**
Repayment in the year	**(55,484)**
As at 31 March 2024	**-**

Non-current asset investment above represented a loan due from the parent entity South Downs Limited. Interest was charged on this loan at SONIA, plus an agreed margin. In July 2023, as part of the wider refinancing of the Company, the loan was fully repaid, along with interest that had accrued on the loan.

15. Current asset investments

	2024	2023
	£000	£000
Unlisted investments	**2**	2
Short term deposits	**90,000**	-
	90,002	2

Short term deposits comprise bank deposits which have a maturity, when placed on deposit, of between 3 months and 1 year.

16. Debtors

	2024 £000	2023 £000
Trade debtors	**6,668**	4,635
Amounts owed by Group companies	**3,733**	2,982
Prepayments	**905**	552
Accrued income	**4,865**	3,837
Financial derivatives (Note 22)	**380**	-
Other debtors	**5,238**	3,258
	21,789	15,264

All of the above amounts fall due within one year, with the exception of the financial derivatives (see Note 22).
As at 31 March 2024, trade debtors had a carrying value of £10,856k (2023 - £9,110k) 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 £4,188k as at 31 March 2024 (2023 - £4,475k) as noted further below.

The ageing of these debtors was as follows:	**2024 £000**	2023 £000
Up to 12 Months	**6,759**	6,250
Over 12 Months	**4,097**	2,860
	10,856	9,110

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 £4,188k provision (2023 - £4,475k) £59k (2023 - £419k) relates to non-household debtors and £4,129k (2023 - £4,056k) relates to household debtors.

Movement on bad debt provision in the year:	**2024 £000**	2023 £000
At 1 April 2023/2022	**4,475**	3,782
Provision for bad debt required in the year - Income statement charge	**539**	1,500
Provisions released in year - Income statement credit	**(360)**	(413)
Debt written off in the year as uncollectable (including fully provided debt over 6 years old)	**(466)**	(394)
At 31 March 2024/2023	**4,188**	4,475

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 deposits and guarantees to cover an element of non-household risk.

17. Cash and cash equivalents

	2024 £000	2023 £000
Cash at bank and in hand	**10,273**	54,073
Cash equivalents	**15,686**	-
	25,959	54,073

Cash equivalents relates to short term investment deposits with a maturity date within 90 days of deposit

18. Creditors: amounts falling due within one year

	2024 £000	2023 £000
Trade creditors	**14,677**	12,159
Payments received on account	**1,315**	1,244
Intra-group subordinated loan (See Note 19)	**20,623**	-
Other amounts owed to group companies	**2,460**	2,488
Accruals	**2,294**	1,082
Other creditors	**396**	544
Social security and other taxation	**432**	424
Finance lease liability (See Note 27)	**64**	-
Financial derivatives (see Note 22)	**437**	-
Bank RCF loan facility drawn down	-	-
Less: deferred arrangement costs	**(1,394)**	(1,205)
Accrued refinance fees	**646**	627
Water rates paid by customers in advance	**8,150**	7,581
	50,100	24,944

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

	2024 £000	2023 £000
Bank RPI Artesian loan	**142,285**	130,940
Accrued bank loan refinance fees	**2,185**	2,512
Bank RCF loan facility drawn down	-	-
CPI Bond	**78,026**	75,000
Less: deferred arrangement costs	**(5,410)**	(7,023)
3% Perpetual debenture stock	**60**	60
3½% Perpetual debenture stock	**185**	185
4% Perpetual debenture stock	**38**	38
Finance lease liability (See Note 27)	**977**	-
Financial derivatives (See Note 22)	**1,415**	-
Intra-group subordinated loan	**-**	20,623
	219,761	222,335

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

Bank loan

The bank RPI Artesian loan of £142.3m (2023: £130.9m) 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 £0.482m (2023 - £0.539m). 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 £4.5m was incurred in FY22 relating to fees associated with the restructuring of the RPI Artesian loan. Of this exceptional charge, £2.5m remains payable at 31 March 2024 (2023: £2.8m), with £2.2m falling due in over one year (2023: £2.5m).

CPI Bond

In March 2023, the company issued a new £75m 'CPI-linked' bond. At year end the bond had a revised book value of £78.0m (2023: £75.0m). The 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 was originally due to mature in March 2028, but has been extended during the current financial year to March 2029. 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.

In addition to these facilities, a further £15m revolving credit facility was agreed with Lloyds Bank in May 2023. This facility has a maturity in May 2027, with interest payable based on SONIA, plus a 1.1% margin

No balances had been drawn down on either the NatWest or Lloyds March 2023 or the Lloyds May 2023 facilities (2023: £nil).

Fees associated with the bond issued and the bank facilities are deferred and amortised over the duration of the bond or loan 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 24). 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 3.0% p.a. on the amount drawn on inter-group loans, payable six monthly in arrears. The loan facility matures in March 2025.

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For the year ended 31 March 2024

20. Deferred income

	Capital contributions £000	Deferred bulk supply revenues £000	Total £000
At 1 April 2023	28,039	6,471	34,510
Additions	761	-	761
Release to Turnover (note 3)	(1,048)	-	(1,048)
At 31 March 2024	**27,752**	**6,471**	**34,223**

21. Provisions for liabilities

	2024 £000	2023 £000
Deferred taxation:		
At 1 April 2023/2022	**9,047**	10,378
(Credit) during the year to income statement	**(904)**	(1,331)
Charge during the year to other comprehensive income	**187**	-
At 31 March 2024/2023	**8,330**	9,047

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 26).

	2024 £000	2023 £000
Total deferred taxation including deferred tax on pension asset:		
Accelerated capital allowances	**14,954**	13,205
Other timing differences (mainly tax losses)	**(6,624)**	(4,158)
	8,330	9,047
Pension asset (note 26)	-	-
Total provision for deferred tax	**8,330**	9,047

	2024 £000	2023 £000
At 1 April 2023/2024	**9,047**	14,044
Deferred tax (credited) in income statement (note 9)	**(904)**	(1,462)
Deferred tax charged/(credited) to the statement of comprehensive income	**187**	(3,535)
At 31 March 2024/2023	**8,330**	9,047

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantially enacted in May 2021.
The deferred tax liability at 31 March 2024 has been calculated based on these rates, reflecting the expected timing of reversal of the related timing differences (2023: 25%).

A deferred tax asset of £0.8m (2023 - £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. Derivative financial instruments

As part of the Company's risk management procedures, new derivative financial instruments have been taken out during the year (2023: none). These derivative financial instruments ('swaps') are used to hedge the risks associated with the following:

- Floating interest rate risks on the long term bank revolving credit facilities ('RCF'), established in March 2023. In April 2023, specific 'floating-to-fixed' swaps were put in place to manage an appropriate portion of this floating interest rate risk. These swaps have effective dates commencing in September 2025 when initial draw-down on the RCF are expected, and increase in line with the projected draw-down on the RCF in the period through to March 2028. The swap contract amounts and effective dates were amended during the year to 31 March 2024 to match the expected draw-down amounts on the RCF, based on updated forecasts. In line with the FRS102 requirements, these swaps were considered to be effective and qualify for hedge accounting when they were put in place, and throughout the period to and at 31 March 2024.
- The bank Artesian loan is index-linked, with annual increases in the capital value directly linked to changes in the RPI inflation index, in the period through to September 2032. Increases in this loan liability do not therefore match against expected increases in future revenues from customers, which are linked more closely to changes in the CPI inflation index. In April 2023, a specific 'RPI-CPI' swap instrument was put in place to help manage this mis-match in the period through to September 2032. In line with the FRS102 requirements, given the nature of the risk being managed and the RPI-CPI swap contract, it is not possible to undertake hedge accounting for this derivative financial instrument.

The following balances, based on market valuations of each derivative financial instrument, have been recorded at the year end date:

	2024 **£000**	2023 £000
Interest rate swap fair value asset (see Note 16)		
Due < 1 year	**-**	-
Due > 1 year	**380**	-
	380	-
RPI-CPI swap fair value liability (see Note 18 & 19)		
Due < 1 year	**(437)**	-
Due > 1 year	**(1,415)**	-
	(1,852)	-

The interest rate swaps were entered into with ING Bank and Lloyds Bank. These are 'fixed for variable' interest rate swaps with total notional loan amounts increasing from £9.1m in September 2025 to £99.0m in March 2028. The fixed leg (paid by the Company) pays at a range of 3.08%-3.18%, with the floating leg (received by the Company) paying at published SONIA. These swaps qualify as a hedging instrument under the conditions of FRS102 (s.12.17) at the year end date. Hedge accounting has been applied from the point that the swap derivative contract was arranged on the basis of the criteria set out in FRS102 (s.12.18).

The RPI-CPI swap was entered into with Lloyds Bank. Under the term of the swap, the Company pay an annual charge on 30 September each year from 2023 to 2032, based on increases in CPI applied to a capital value of £131.7m (the value of the bank Artesian loan during 2023), plus an annual charge of £1,664k, and receive an annual income based on increases in RPI applied to a capital value of £131.7m. As noted above, the swap does not qualify for hedge accounting.

The fair value of the swaps at the year end date have been determined on valuations based on expected future discounted cashflows, and available market information, including CPI and RPI inflation forecasts across the terms of Artesian loan and the swap arrangements. The valuation is also supported by valuations provided by the counter-parties (ING Bank and Lloyds Bank) at the year end date.

The following table indicates the periods in which the cash flows associated with swaps are expected to occur:

	Carrying amount (£000)	**Expected cashflows < 1 year (£000)**	**Expected cashflows 1-2 years (£000)**	**Expected cashflows 2-5 years (£000)**	**Expected cashflows > 5 years (£000)**	**Expected cashflows Total (£000)**
Interest Rate swaps (Hedge accounting applied)						
31 March 2024	380	-	27	403	-	430
31 March 2023	-	-	-	-	-	-
RPI-CPI swap (Hedge accounting not applied)						
31 March 2024	(1,852)	(449)	(72)	(668)	(1,054)	(2,243)
31 March 2023	-	-	-	-	-	

23. Financial instruments

The Company has financial instruments in the form of investments, cash and cash equivalents, intra-group loans, third party loans, finance leases and financial derivatives.

The carrying values of the Company's financial assets and liabilities are summarised by category below:

	2024 £000	2023 £000
Financial assets:		
Fixed asset investment (note 14)	**-**	55,484
Current asset investment (note 15)	**90,002**	2
Financial derivative assets (note 16 / note 22)	**380**	-
Cash and cash equivalents (note 17)	**25,959**	54,073
	116,341	109,559

	2024 £000	2023* £000
Financial liabilities (note 18 & 19):		
Bank RPI Artesian loan	**142,285**	130,940
Intra-group subordinated loan	**20,623**	20,623
CPI Bond	**78,026**	75,000
Finance leases	**1,041**	-
Financial derivatives	**1,852**	-
Deferred finance arrangement costs	**(6,804)**	(8,228)
Debenture stock	**283**	283
	237,306	218,618

(* the 2023 analysis of financial instrument liabilities has been amended to show all balances gross of any applicable deferred finance arrangement costs)

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

	Fixed Rate 2024 £000	Fixed Rate 2023 £000	**Floating Rate 2024 £000**	Floating Rate 2023 £000	**Total 2024 £000**	Total 2023 £000
Liabilities						
Bank RPI Artesian loan	**142,285**	130,940	-	-	**142,285**	130,940
Intra-group subordinated creditor	**20,623**	20,623	-	-	**20,623**	20,623
CPI Bond	**78,026**	75,000	-	-	**78,026**	75,000
Deferred finance arrangement costs	-	-	**(6,804)**	(8,228)	**(6,804)**	(8,228)
Finance lease	**-**	-	**1,041**	-	**1,041**	-
Financial derivative liabilities	**-**	-	**1,852**	-	**1,852**	-
Debenture stock	**283**	283	-	-	**283**	283
	241,217	226,846	**(3,911)**	(8,228)	**237,306**	218,618

Fixed Rate	**Weighted average interest rate % 2024**	Weighted average interest rate % 2023	**Weighted average period fixed Years 2024**	Weighted average period fixed Years 2023
Sterling				
Bank RPI Artesian loan	**3.6**	3.6	**8**	9
CPI Bond	**2.6**	2.6	**13**	14
Intra-group subordinated loan	**3.0**	3.0	**1**	2
	3.0	3.0	**9**	11

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

23. Financial instruments (continued)

The maturity of the financial liabilities are detailed below:

	2024 £000	2023 £000
In one year or less	**19,730**	(1,205)
In one to five years	**(3,739)**	13,600
In over 5 years	**221,315**	206,223
	237,306	218,618

The Company had undrawn borrowing facilities at 31 March 2024, in respect of which all conditions precedent had been met, as follows:

	2024 £000	2023 £000
Expiring within one year	**24,377**	-
Expiring between one and two years	**-**	24,377
Expiring between two and five years	**15,000**	-
Expiring in over 5 years	**205,000**	205,000
	244,377	229,377

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

24. Called up share capital

	2024 £000	2023 £000
Authorised:		
Equity		
6,000,000 Ordinary Shares of 10p each (2023 – 6,000,000)	**600**	600
810,500,000 'A' Ordinary Shares of 10p each (2023 – 210,500,000)	**81,050**	21,050
	81,650	21,650
Non-equity		
3,250,000 Redeemable Preference Shares of £1 each (2023 – 3,250,000)	**3,250**	3,250
Total	**84,900**	24,900
Allotted, called up and fully paid:		
Equity		
4,265,197 Ordinary Shares of 10p each (2023 - 4,265,197)	**427**	427
806,509,162 'A' Ordinary Shares of 10p each (2023 - 206,509,162)	**80,651**	20,651
	81,078	21,078

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 200,000,000 new 'A' ordinary shares for a cash consideration of £20.0m. During July 2023, the company issued a further 600,000,000 new 'A' ordinary shares for a cash consideration of £60.0m.

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For the year ended 31 March 2024

25. Notes to the Statement of Cash Flows

Cash generated from operations	**2024 £000**	2023 £000
Loss for the year before taxation	**(4,348)**	(6,459)
Adjustments for:		
Finance costs recognised in income statement	**18,745**	16,931
Investment and Other Finance income recognised in income statement	**(6,265)**	(1,920)
Exceptional items	**31**	820
Other finance income	**-**	(427)
Notional pension costs	**364**	490
(Gain) on disposal of tangible fixed assets and investment properties	**-**	(142)
Depreciation and amortisation of tangible and intangible fixed assets	**6,322**	6,347
Amortisation of deferred capital contributions	**(1,048)**	(707)
Movements in working capital:		
Stock (increase)/decrease	**83**	(84)
Debtors (increase)/decrease)	**(5,694)**	(2,735)
Creditors increase/(decrease)	**4,509**	(1,092)
Cash generated from operations	**12,699**	11,022

Reconciliation of Net Debt

Year to 31 March 2024	At 1 April 2023 £000	Cash flow movement £000	Non-cash flow movement £000	At 31 March 2024 £000
Financial assets				
Current asset investments – short term deposits	-	90,000	-	90,000
Financial derivative assets	-	-	380	380
Cash at bank and cash equivalents	54,073	(28,114)	-	25,959
	54,073	61,886	380	116,339
Financial liabilities				
RPI Artesian loan	(130,940)	-	(11,345)	(142,285)
CPI Bond	(75,000)	-	(3,026)	(78,026)
Intra-group subordinated loan	(20,623)	-	-	(20,623)
Finance lease	-	314	(1,355)	(1,041)
Financial derivative liabilities	-	-	(1,852)	(1,852)
Debenture stock	(283)	-	-	(283)
	(226,846)	314	(18,117)	(244,109)
Net Debt	**(172,773)**	**62,200**	**(17,737)**	**(127,770)**

Year to 31 March 2023	At 1 April 2022 £000	Cash flow movement £000	Non-cash flow movement £000	At 31 March 2023 £000
Financial assets				
Cash at bank and cash equivalents	25,694	28,379	-	54,073
	25,694	28,379	-	54,073
Financial liabilities				
RPI Artesian loan	(116,556)	-	(14,384)	(130,940)
CPI Bond	-	(75,000)	-	(75,000)
Intra-group subordinated loan	(24,623)	4,000	-	(20,623)
Bank facilities drawn down	(22,500)	22,500	-	-
Debenture stock	(283)	-	-	(283)
	(163,962)	(48,500)	(14,384)	(226,846) (172,773)
Net Debt	**(138,268)**	**(20,121)**	**(14,384)**	**(172,773)**

Non-cash flow movements noted above relate to loan indexation charges, new leases and valuations of financial derivatives.

26. Pensions

The company 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 of employees of the company. 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 covered the majority of the current pensioner liabilities and significantly reduced the risk within the Scheme relating to future payments due to these pensioners.

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 became members of the existing company defined contribution pension scheme, with effect from 1 April 2023, and receive enhanced contributions from the company for a number of years from 1 April 2023. The closure of the Brockhampton pension scheme to future accrual has also significantly reduced the ongoing risks to the company and the wider group. Future contributions payable by the company after 1 April 2023 ceased, and are not expected to be required in future, based on the current funding surplus in the scheme.
As a result, it is no longer considered appropriate, in line with the requirements of FRS102, to recognize any calculated net pension surplus in the statement of Financial Position of the company.

The latest full triennial actuarial valuation for the scheme was carried out as at 31 March 2021. This has been updated to 31 March 2024 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 resulted in a 'one-off' settlement cost of £453k in the year to 31 March 2023, and this was recorded 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 2025, commencing 1 April 2024, is £NIL (2024 actual - £NIL). In periods prior to 1 April 2023, contributions paid by the company 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 2024 were £1,786k (2023: £554k).

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

	2024	2023	2022
	% per annum	% per annum	% per annum
RPI inflation	**3.2**	3.3	3.7
CPI inflation	**2.7**	2.9	3.3
Discount Rate	**4.8**	4.7	2.8
Pension increases	**2.7**	2.9	3.3
Salary growth	**n/a**	3.0	3.4

26. Pensions (continued)

Assumption	31 March 2024	31 March 2023	Comments on assumptions
RPI inflation	3.2% pa	3.3% 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 3.5% pa (2023: 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	2.7% pa	2.9% pa	• As an approximation to reflect the differences pre/post 2030 from the upcoming 2030 RPI reform, a reduction of 0.5% pa (2023: 0.4% pa) has been applied in calculating the CPI inflation rate. • This reflects the average expected reduction in RPI - CPI gap, giving broadly equivalent results to a stepped gap of 1.0% / 0.2% pa pre/post 2030
Discount rate	4.8% pa	4.7% 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 an average duration of about 13 years (2023: 14 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 31 March 2024 is 21.6 years (2023: 21.8 years) and for a female is 24.2 years (2023: 24.4years).

Life expectancy of a male aged 65 years at 31 March 2044 (ie. 20 years after the accounting date) is 22.9 years (2023: 23.1 years) and for a female is 25.5 years (2023: 25.8 years).

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 2023 year end to use a more recent model, CMI2022, continuing with the previous core approach to the smoothing factor and initial improvement addition.

The CMI 2022 projections model also includes a weighting (or 'w') parameter, referred to as w2022, in addition to retaining the similar w2020 and w2021 parameters introduced in CMI 2021. These parameters are used to vary the weight that is placed on the nation's mortality experience for 2020 to 2022 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, and 40% on the data for 2022.

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, as reflected by the mortality assumptions set out above.

As an indication of the sensitivity of the results to changes in the key assumptions used at 31 March 2024:

- A decrease in the discount rate of 0.1% per annum and 0.5% per annum would increase the defined benefit obligation by around £1.2m and £6.2m 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 £1.1m and £5.7m respectively.
- A 5% fall in performance asset values would reduce the assets by around £0.2m.
- A one year increase in life expectancies would increase the defined benefit obligation by around £3.4m.

26. Pensions (continued)

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:

	%	**2024 Fair Value £000**	%	2023 Fair Value £000	%	2022 Fair Value £000
Equities	-	-	-	-	25	41,752
Absolute Return Bonds	-	-	-	-	13	21,108
Leveraged Liability Driven Investments	**20**	**23,622**	19	23,679	11	18,896
Unleveraged index-linked gilt LDIs	**23**	**26,304**	22	27,941	-	-
Property fund	**3**	**4,062**	5	5,988	5	8,487
Credit fund	**8**	**8,818**	6	8,274	-	-
Cash and other	**2**	**2,480**	6	8,270	4	6,845
Buy-in policy	**44**	**51,854**	42	53,593	42	68,773
	100	**117,140**	100	127,745	100	165,861

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 £4.062m (2023: £5.988m) 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.

RPI and CPI inflation has been trending significantly above expected long term levels during the two year period to 31 March 2024. 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, and the cessation to future benefit accrual for employees effective from 1 April 2023.

26. Pensions (continued)

Pension asset recognised at year end date

	2024 £000	2023 £000
Total fair value of scheme assets	**117,140**	127,745
FRS 102 value of scheme defined benefit obligation	**(94,121)**	(98,853)
Impact of asset ceiling	**(23,019)**	(28,892)
Pension asset	-	-
Related deferred tax liability	-	-
Net pension asset recognised	-	-

Under FRS 102, the scheme is represented on the statement of financial position at 31 March 2024 by an asset of £Nil (2023: £NIL). 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

	2024 £000	2023 £000
Opening asset	**-**	14,662
Expense charged to profit and loss	**(364)**	(1,682)
Gain/(loss) recognised outside of profit and loss	**364**	(14,142)
Employer contributions	**-**	1,162
Closing asset	-	-

Movement in present value of defined benefit obligation

	2024 £000	2023 £000
Opening scheme liabilities	**98,853**	128,606
Employer's part of current service cost	**364**	1,656
Settlement exceptional cost	**-**	453
Interest on scheme liabilities	**4,506**	3,528
Benefits paid and running costs	**(6,037)**	(5,217)
Actuarial loss/(gain)	**(3,565)**	(30,173)
Closing scheme defined benefit obligation	**94,121**	98,853

Movement in fair value of scheme assets

	2024 £000	2022 £000
Opening fair value of scheme assets	**127,745**	165,861
Interest on scheme assets	**5,864**	4,588
Contributions by Portsmouth Water Limited, including employee contributions	**-**	1,162
Benefits paid and running costs	**(6,037)**	(5,217)
Actual return on scheme assets less interest on scheme assets	**(10,432)**	(38,649)
Closing fair value of scheme assets	**117,140**	127,745

Movement in the impact of the asset ceiling

	2024 £000	2023 £000
Effect of asset ceiling at the start of the year	**28,892**	22,593
Interest on asset limit	**1,358**	633
Change in asset limit other than interest	**(7,231)**	5,666
Effect of asset ceiling at the end of the year	**23,019**	28,892

26. Pensions (continued)

Expense recognised in income statement

	2024 £000	2023 £000
The following amounts have been included within operating profit:		
Current service cost (employer's part only, including scheme running costs)	**(364)**	(1,656)
Total operating charge	**(364)**	(1,656)
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	**(31)**	(367)
Total exceptional charge	**(31)**	(820)
The following amounts have been included as other finance income under FRS 102:		
Interest on pension scheme assets	**5,864**	4,588
Interest on asset limit	**(1,358)**	(633)
Interest on pension scheme defined benefit obligation	**(4,506)**	(3,528)
Total other finance income	**-**	427
Total expense recognised in the income statement	**(395)**	(2,049)

Amounts recognised outside income statement

The following amounts have been recognised within the statement of changes in equity:	**2024 £000**	2023 £000
Actual return on assets less interest	**(10,432)**	(38,649)
Experience gains /(losses) arising on scheme defined benefit obligation	**(553)**	(10,068)
Gain/(loss) due to changes in assumptions	**4,118**	40,241
Change in asset limit other than interest	**7,231**	(5,666)
Remeasurement gain / (loss) on net defined benefit asset	**364**	(14,142)

27. Lease commitments

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

During the year, the Company entered into a long term (80 year) lease arrangement for the rental of 80 hectares of farm land relating to the Havant Thicket Reservoir project. The farm land will be used for environmental related projects, including rewilding and the planting of new trees. The lease commenced in July 2023, and meets the requirements of a finance lease. The lease arrangement included an upfront lease premium payment, and annual rental payments over the life of the lease arrangement. The annual rental payments are subject to inflationary increases each year, linked to CPI.

The related net finance lease liability at 31 March 2024 is £1,041k (2023: £nil), of which £64k is due in less than one year, and £977k is due after more than one year.

The minimum lease payments under the lease fall due in future periods are as follows:

	2024 £000	2023 £000
Amounts falling due within 1 year	**64**	-
Amounts falling due between 1-5 years	**256**	-
Amounts falling due in over 5 years	**4,734**	-
Total minimum lease payments	**5,054**	-
Less: finance charges relating to future periods	**(4,013)**	-
Net finance lease liability	**1,041**	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2024

28. Capital commitments

	2024 £000	2023 £000
Relating to fixed assets	**265,800**	291,800

Of the capital commitments noted above, £259.5m (2023: £291.0m) is attributable to the Havant Thicket Reservoir ('HTR') project. During the year to 31 March 2023, approval of the HTR 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 HTR. Up to 31 March 2024, and excluding capitalised borrowing costs, £79.5m (2023: £47.3m) of this approved budget amount had been incurred as capital expenditure on the project, as set out in Note 13.

Contracts relating to the construction of the HTR have been placed with major sub-contractors with a total value of £209m as at 31 March 2024 (2023 - £209m).

29. Ultimate controlling party

The Company's intermediate parent company in the UK is Ancala Fornia Holdco Limited ('AFHL'). In September 2019, the Company's ultimate controlling party, Ancala Partners LLP ('Ancala'), incorporated Southern Region Water Holding Limited ('SRWHL') in Hong Kong and transferred 100% of the investment held in AFHL to SRWHL. As part of a reorganisation of its investment portfolio, Ancala incorporated Ancala Fornia Topco Pte Limited ('AFTPL') in Singapore, and in July 2023 transferred the ownership of AFHL from SRWHL to AFTPL. Procedures to liquidate SRWHL were commenced later in the year.

The group structure is set out on page 77.

We consider AFTPL to be the ultimate holding company at 31 March 2024 (2023: SRWHL), and the ultimate controlling party to be Ancala Partners LLP. Consolidated group financial statements for the year ended 31 March 2024 will be prepared by AFTPL (the largest group for which consolidated financial statements are prepared) and by AFHL (the smallest group for which consolidated financial statements are prepared).

30. 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 26.

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 wider Ancala Fornia Topco Pte Limited group. Related undertakings are set out in the group structure on page 77 and have the same registered office as stated on page 101, with the exception of AFTPL, which has a registered office at 9 Straits View, #06-07 Marina One West Tower, 018937, Singapore.

31. Post Balance Sheet Events

There are considered to be no events which occurred after 31 March 2024 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 31 July 2024, on the following business:

1. To receive and consider the Directors' Report and Accounts for the year ended 31 March 2024 and the Auditors' Report thereon.
2. To approve the Report on Remuneration.
3. To elect Mrs. S. Darcy a Director of the Company.
4. To re-elect Mr. C. Deacon a Director of the Company.
5. To re-elect Mr. C. R. Taylor 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

28 June 2024

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	2024 £000	2023 £000
Bank RPI Artesian loan (note 19)	**142,285**	130,940
Intra-group subordinated loan (note 19)	**20,623**	20,623
CPI bond (note 19)	**78,026**	75,000
Finance lease liability (note 18 & 19)	**1,041**	-
Net SWAP financial instruments (note 22)	**1,471**	-
Debenture stock (note 19)	**283**	283
Short term investment deposits	**(90,000)**	-
Cash at bank and cash equivalents	**(25,959)**	(54,073)
Net debt	**127,770**	172,773
(ii) Regulatory capital value indexed to 31 March	**255,676**	220,415
(iii) Gearing - Debt: RCV ratio (i) ÷ (ii)	**50.0%**	78.4%

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

Debt	2024 £000	2023 £000
Bank RPI Artesian loan (note 19)	**142,285**	130,940
Intra-group subordinated loan (note 19)	**20,623**	20,623
CPI bond (note 19)	**78,026**	75,000
Finance lease liability (note 18 & 19)	**1,041**	-
Net SWAP financial instruments (note 22)	**1,471**	-
Debenture stock (note 19)	**283**	283
Short term investment deposits	**(90,000)**	-
Cash at bank and cash equivalents	**(25,959)**	(54,073)
Net debt	**127,770**	172,773
(ii) Regulatory capital value indexed to 31 March	**330,507**	268,376
(iii) Gearing - Debt: RCV ratio (i) ÷ (ii)	**38.7%**	64.4%

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

Debt	2024 £000	2023 £000
Bank RPI Artesian loan (Note 19)	**142,285**	130,940
CPI bond (note 19)	**78,026**	75,000
Finance lease liability (note 18 & 19)	**1,041**	-
Net SWAP financial instruments (note 22)	**1,471**	-
Debenture stock (note 19)	**283**	283
Short term investment deposits	**(90,000)**	-
Cash at bank and cash equivalents	**(25,959)**	(54,073)
Net debt	**107,147**	152,150
(ii) Regulatory capital value indexed to 31 March	**255,676**	220,415
(iii) Gearing - Debt: RCV ratio (i) ÷ (ii)	**41.9%**	69.0%

Deferred finance arrangement costs of £6.804m (2023 - £8.228m) are excluded from the above calculations
Current asset investments of £0.002m (2023 - £0.002m) are also excluded from the value of debt in this ratio.

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

Debt	**2024 £000**	2023 £000
Bank RPI Artesian loan (Note 19)	**142,285**	130,940
CPI bond (note 19)	**78,026**	75,000
Finance lease liability (note 18 & 19)	**1,041**	-
Net SWAP financial instruments (note 22)	**1,471**	-
Debenture stock (note 19)	**283**	283
Short term investment deposits	**(90,000)**	-
Cash at bank and cash equivalents	**(25,959)**	(54,073)
(i) Net debt	**107,147**	152,150
(ii) Regulatory capital value indexed to 31 March	**330,507**	268,376
(iii) Gearing - Debt: RCV ratio (i) ÷ (ii)	**32.4%**	56.7%

Deferred finance arrangement costs of £6.804m (2023 - £8.228m) are excluded from the above calculations. Current asset investments of £0.002m (2023 - £0.002m) are also excluded from the value of debt in this ratio.

c) Cash interest cover	**2024 £000**	2023* £000
Operating profit before profit/(loss) on disposal of fixed assets and exceptional items	**8,163**	8,803
Gain on disposal of fixed assets	**-**	142
Notional pension costs	**-**	494
Amortisation of deferred capital contributions on disposal of fixed assets (below operating profit)	**(1,048)**	(707)
Depreciation and amortisation charges	**6,322**	6,347
Interest income received	**5,814**	686
Capital expenditure (net of fixed asset disposal proceeds and capital contributions received)	**(60,563)**	(41,443)
Net drawings from Proceeds account (to fund capital expenditure *)	**54,700**	33,264
(i) Adjusted earnings	**13,388**	7,586
(ii) Interest paid	**9,206**	5,230
(iii) Cash interest cover ratio (i) ÷ (ii)	**1.45**	1.45
Cash interest cover Target ratio	**1.40**	1.40

(* the prior year analysis has been amended to reflect changes to covenant calculations to recognise new equity as allowable contributions to the Proceeds account. Proceeds account funds available are in excess of amounts required to fund capital expenditure)

Movement on Proceeds Account in the year:	**2024 £000**	2023 £000
Balance at 1 April 2023 / 2022	**35,236**	-
Third party bond funds received	**-**	75,000
Third party loan funds (repaid)	**-**	(22,500)
Inter-group loan funds received / (repaid)	**55,484**	(4,000)
Share capital funds received	**60,000**	20,000
Funds drawn down for capital expenditure in year	**(54,700)**	(33,264)
Balance at 31 March 2024 / 2023	**96,020**	35,236

APPENDIX 1 KPI CALCULATIONS

d) Return on regulatory equity (RoRE)

	2024 £000	2023 £000
Revenue	**47,919**	45,446
HTWSR capacity charges earned	**1,696**	874
ODI reward/(penalty) earned	**(1,096)**	209
Operating costs, excluding depreciation and amortisation and exceptional items	**(33,434)**	(30,296)
Regulatory depreciation (run off rate)	**(7,984)**	(7,267)
Infrastructure depreciation	**(1,218)**	(1,202)
Earnings before interest and tax	**5,883**	7,764
Current tax credit	**14**	-
Interest payable, excluding indexation and amortisation	**(9,206)**	(6,280)
(i) Return	**(3,309)**	1,484
(ii) Average Regulatory Capital Value, equity element only (adjusted gearing)	**87,775**	49,409
(iii) Return on regulatory equity (i) ÷ (ii)	**-3.77%**	3.00%

*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 to reflect the PR19 methodology – see Company Annual Performance Report 2023, Table 4H for full calculation.

APPENDIX 2 EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA)

	2024 **£000**	2023 £000
Operating profit before loss on disposal of fixed assets and exceptional items	**8,163**	8,803
Depreciation	**6,198**	6,192
Amortisation	**124**	155
EBITDA	**14,485**	15,150

Our priorities;

SECURE AND DELIVER WATER SUPPLIES WHICH ARE HIGH QUALITY, RELIABLE AND SUSTAINABLE

WORK IN PARTNERSHIP WTH OUR CUSTOMERS, COMMUNITIES AND STAKEHOLDERS

INVEST IN THE FUTURE TO MEET GROWING ENVIRONMENTAL CHALLENGES

ACHIEVE AFFORDABLE WATER FOR ALL. ALWAYS

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