



PORTSMOUTH WATER LIMITED

RISK AND COMPLIANCE STATEMENT - JUNE 2013

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Executive Summary

Our Mission Statement

“To supply drinking water of the highest quality, providing high levels of customer service and excellent value for money.”

Portsmouth Water has been an independent water company proudly supplying water for over 150 years.

The Company:

- serves large towns and cities such as Portsmouth, Gosport, Fareham, Havant, Chichester and Bognor Regis, as well as rural areas of South East Hampshire and West Sussex
- has the lowest bills in England & Wales and is considered to be one of the most efficient companies in the water sector
- has 21 water sources comprising 1 group of springs, 1 river and 19 borehole sites. However, despite being located in the South of England and, therefore, in an area of water stress, the company has not had a hosepipe ban since 1976
- provides a bulk supply to Southern Water of up to 15 MI/d
- works with other suppliers within the South East to develop a regional strategy for Water Resources

For the reporting year 2012/13 Ofwat require the Company to publish a Risk and Compliance Statement. This statement requires the Company to confirm that it has complied with all the relevant statutory, licence and regulatory obligations during the reporting year, and is taking the appropriate steps to manage the risks it faces. This document sets out the Risk and Compliance Statement for Portsmouth Water.

In preparing this statement the Company has monitored its performance against its key performance indicators (KPI's) (see table below) and these are explained in detail in the report. The Risk and Compliance Statement made by the Directors is shown at the end of this Executive Summary. The full table of Key Performance Indicators is detailed below:

Regulatory Compliance KPIs

| Key Performance Indicator (KPI) | Unit | Score (Green - Meeting Target, Red - Needs improving) | Company Target |
|---|--|---|--|
| Service Incentive Mechanism (SIM) (Quantitative - Number of complaints and unwanted contacts. Qualitative - Customer experience survey) | nr | 23.27 - Quantitative | |
| | | 44.75 - Qualitative | |
| | | 68.0 - Total Score | > 50 (Total Score is out of 100) |
| Water Supply Interruptions | Hours per total properties served | 0.067 | 0.1 (Company - Average achieved previous 5 years) |
| Serviceability (Water Non-Infrastructure) | Text | STABLE | STABLE (From FD) |
| Serviceability (Water Infrastructure) | Text | STABLE | STABLE (From FD) |
| Leakage | MI/d | 34.07 | 30 (From FD) |
| Security of Supply Index | Index Score | 100 | 100 (From FD) |
| Green House Gas Emissions | ktCO2e | 11,632 | < 10% over 11.501 (From FD) |
| Pollution Incidents Water | Category 1=13 incidents per 1,000 km of main | 0 | Below Industry Average (Regulatory Compliance Guidance) |
| Discharge Permit Compliance | % | 100 | Above Industry Average (Regulatory Compliance Guidance) |
| Post Tax Return on Capital | % | 4.57 | >5.57 (From FD) |
| Gearing (Long term debt compared to capital) | % | 77.9 | < 84 |
| Interest Cover | | 1.8 | >1.6 |
| Mean Zonal Compliance (Number of Water Quality samples meeting drinking water standards) | % | 99.96 | 99.96 |
| Reportable Accidents | nr | 1 | Nil |

The overall level of service to customers has been maintained at a high level, as measured by the Service Incentive Mechanism (SIM) methodology. The results of the Qualitative survey for 2012/13 show that Portsmouth Water was rated fifth in performance out of 21 companies. This was achieved during a period within which the Company implemented a new billing and customer relationship management system,

representing a major challenge for the business as significant resource had to be channelled to the programme. However, the score of 23.3 for the Quantitative survey, which was an improvement on last year (19.3), was affected during the year by increased levels of 'All Lines Busy', due principally to a single incident on one day when the telephone lines failed, and 'Calls Abandoned' as a result of the implementation of the new system. The score was also impacted by a poor score on the 'number of unwanted telephone contacts' although the number of such calls has reduced by 25% in 2013 due to the more accurate reporting ability within the new CRM system.

In addition, the Company received only 10.5 written complaints per 10,000 connections which compares to an industry average of 61 for 2011/12.

The Company considers its assets to be in a stable condition. All asset performance measures are within the specified ranges.

Portsmouth Water's customers experienced an average interruption to their supply of 0.067 hours per total properties served an improvement from 0.08 in the previous year.

During the year the Company carried out a full, independent review of leakage and has identified that it is higher than previously thought and that the Company had in fact missed its leakage target. In November 2012, the Company immediately put in place a programme to further reduce leakage. The programme is on schedule but the Company has missed its target for leakage for 2012/13 by approximately 13%. The programme will continue in 2013/14 and further reductions in leakage will be achieved. The higher leakage figure has had no impact on customers' bills and the additional cost of the recovery programme will be met by the shareholders and not by our customers..

The Company informed the Regulator at the earliest possible point at which it could be certain its leakage was higher than previously estimated and committed to working collaboratively with the Regulator to resolve any issues. The Regulator has confirmed that it will not undertake a formal investigation at this stage but will monitor our progress.

Capital Expenditure in the year to March 2013 was £15.4m, (2012 - £8.1m) and included £5.2m, (2012 - £3.9m) on mains renewals. This was higher than usual due to a major scheme to reduce the risk of water quality and security issues at the River Itchen and Farlington Treatment Works which were completed during the year. Expenditure on this scheme amounted to £4.9m. Next year's capital expenditure will be lower following

the completion of this scheme.

During the year the Company renewed 18.9km of mains (2012 – 23.2km) at a cost of £5.2m. The higher cost compared to the previous year was a result of a reduction in mains laying in the verge and open fields and a lower percentage (20.6%) of mains renewed in the year using “no dig” techniques compared with 24% in 2011/12. “No dig” techniques are less expensive than the conventional methods of renewals but cannot be used in all circumstances.

Current cost operating profit on a like for like basis was £5.3m compared to £4.9m in 2011/12. The post tax rate of return on capital is lower than the Determination as a result of lower turnover which was due to income from work to divert mains for residential and commercial developers, which was £1.1m lower than the previous year. Demand from commercial customers has also been lower which, in part, is due to a focus on water efficiency.

The cumulative shortfall in tariff basket revenue over the price review period compared to the determination before tax adjustment is £6.27m. After tax the shortfall is £4.62m.

The shortfall by year is:

| | 2010/11 £m | 2011/12 £m | 2012/13 £m |
|--|---------------|---------------|---------------|
| Shortfall pre-tax adjustment | 1.81 | 2.18 | 2.28 |
| Tax adjustment | 0.51 | 0.54 | 0.59 |
| Net shortfall in Tariff basket revenue | 1.30 | 1.64 | 1.69 |

The Company has managed to maintain its key financial performance indicators as a result of the benefits of a one-off tax gain, operating efficiencies and lower dividend and interest payments. The Company has also invested in IT infrastructure, to improve service to customers. This expenditure was not allowed for in the Final Determination.

In the reporting period however, the Company out-performed the Final Determination for operating costs achieving efficiency of 4.65% versus an assumption of 0.75% in the final determination.

The number of customers opting to change to a measured supply was 4,857 in the year, against a forecast of 5,000.

Health and safety of employees is considered fundamental to the success of the

business and the Company is committed to achieving high standards across the organisation.

It is pleasing to report that our efforts have again been recognised externally through the RoSPA Health and Safety Awards, the Company being awarded a Gold Medal. This is in recognition of our Health and Safety record over the last eight years where we have received seven Gold awards and an Industry sector award.

The Company is currently working on preparing its Business Plan for the next review period (2015 - 2020), which will be submitted to Ofwat in December 2013. We are determined to put the views of our customers and stakeholders at the heart of our Plan. As part of this we established an independent Customer Challenge Group

(CCG) in 2011 comprised of both customers and other stakeholders. The CCG meets on a regular basis and their remit is to review our Plan proposals and provide feedback and challenge from the customers' perspective. The CCG is lead by an independent Chairman.

Statement of Board Assurance

The Board of Portsmouth Water recognises its responsibility in ensuring that the Company complies with all the relevant statutory, regulatory and licence obligations. We are of the opinion that we are aware of, and understand these obligations and that, as a Board, we have met them and, in all respects, and have acted with the appropriate level of diligence and thoroughness. We recognise the importance of ensuring that all the information and data which is provided to the Board is accurate, complete and reliable, since we rely on such information to assess the progress of the Company.

Portsmouth Water is one of the smaller Water Only Companies (WOCs) in the industry and, as such, the Board, including the Non Executive Directors, are able to have a close relationship with the senior managers within the organisation and our customers. The managers of the business report on a regular basis to the Board on such matters as Water Quality, Regulation, Health & Safety, Risk Management, capital expenditure, Projects, Procurement, operational matters and Customer Service. All data provided to the Board will have been reviewed by the relevant senior manager before being presented to the Board.

The Board comprises a non-executive Chairman, three executive Directors and two other non-executive Directors. The non-executive Directors bring a wide range of experience and knowledge to the Board, which complements the expertise of their executive Director colleagues. They are all considered to be independent of management and the ultimate shareholder. The Board considers that its structure achieves an appropriate balance of authority at the head of the Company, such that no one individual has an unfettered power of decision.

The Audit Committee comprises the three non-executive Directors. It meets at least three times during the year. The purpose of the Committee is to ensure the preservation of good financial practices throughout the Company, to monitor that controls are in force to ensure the integrity of those practices, to review the interim and annual financial statements and to provide, by way of timely meetings, a line of communication between the Board and the external auditors. The Committee reviews the independence and objectivity of the external auditors. Reports prepared by the Company's auditor or technical Reporter are presented at the Audit Committee. The Audit Committee meets with both the financial auditor and the technical Reporter at least once a year.

The Remuneration Committee meets during the year to consider and approve, on behalf of the Board, the conditions of service of the executive Directors of the Company. It comprises the three independent non-executive Directors, Mrs. H. V. Benjamin (Chair of the Remuneration Committee), Mr. T. M. Lazenby MBE and Mr. M. P. Kirk.

The Nomination Committee comprises the Managing Director, Mr. N. Smith, and the three independent non-executive Directors, Mr. T. M. Lazenby MBE (Chairman), Mr. M. P. Kirk and Mrs. H. V. Benjamin. It is responsible for recommending new appointments to the Board. Decisions regarding the appointment of Directors are taken by the Board as a whole. The Nomination Committee met once during the year.

Following the completion of the annual accounts, regulatory accounts and Risk and Compliance Statement, a schedule of lessons learnt and actions arising is prepared. This includes all the recommendations by the financial auditor and technical Reporter, as well as those issues identified internally. It was through this process that the leakage error was identified and notified to Ofwat. The Company has a risk management process. All identified risks are recorded in a comprehensive risk register which includes the mitigation controls in place and corrective actions where necessary. The register is reviewed regularly by the Board.

The Company has a Conduct and Ethics Policy which all managers are required to sign annually. This includes a policy to ensure that if any employee becomes aware of any activity which may contravene the Company's policies or breach any law or regulation can be reported confidentially.

The Board has reviewed its tolerance for risk during the year and has initiated a programme to ensure risk management is embedded in the business.

The Company identifies risks under ten main headings - Operational, Water Quality, Financial, Environmental, Regulatory, Information Technology, Health and Safety of Employees, Human Resources, Legal (including whistleblowing and fraud) and Business Continuity. Individual risks facing the Company are identified and recorded in a risk register. For each risk the consequences, impact and likelihood of failure are identified, together with the management controls in place. The register also clearly allocates management responsibility and whether any further measures are required to mitigate the risks.

The Board reviews the risk register and the controls established to mitigate these risks

on an annual basis. The Directors also receive reports from independent regulatory bodies, which comment on the performance of the core water business.

The Company has appointed a new external Reporter (Atkins) to audit non financial data and to report back to the Board on their findings. A thorough review has been carried out by the new Reporter and he has discussed the findings with the Audit Committee.

The Board has reviewed this Risk and Compliance Statement and has approved the following statement:

RISK AND COMPLIANCE STATEMENT
PORTSMOUTH WATER

The Board of Portsmouth Water hereby confirms that it:

- considers it has a full understanding of, and is meeting, its obligations and has taken steps to understand and meet customer expectations
- has satisfied itself that it has sufficient processes and internal systems of control to fully meet its obligations
- has appropriate systems and processes in place to allow it to identify, manage and review its risks

In preparing this risk and compliance statement, the Company is aware of its obligations in legislation and our licences that the Company must comply with. These include the following:

- confirming that it has sufficient financial and management resources (licence condition F6A)
- confirming that there are sufficient rights and assets available to enable a special administrator to run the business (licence condition K)
- ensuring that trade with associates is at arm's length (licence condition F6);
- publishing a statement explaining any links between directors' pay and standards of performance (section 35A of the Water Industry Act 1991); and
- make all reasonable endeavours to maintain an investment grade credit rating (licence condition F6A).



N SMITH
MANAGING DIRECTOR
JUNE 2013



M P KIRK
NON-EXECUTIVE DIRECTOR
Chairman of the Audit Committee

Chapter 1 - Company Strategy

For many years Portsmouth Water customers have enjoyed very high standards of drinking water quality, customer service, together with the lowest charges for water supply.

In the performance assessments carried out by Ofwat and CCW, the Company is recognised as one of the best performing companies in the water sector. We achieve:

- The lowest rate of customer complaints
- High levels of service for customers
- The lowest water charges
- The highest level of efficiency
- High standards of drinking water quality

Throughout our long history of independent public water supply in South Hampshire and West Sussex we have remained focussed upon the key principle of maintaining reliable water supplies to customers that are affordable. To maintain this commitment, the Company has a well developed, focussed strategy which will meet the demands of all its stakeholders.

Mission Statement

'To supply drinking water of the highest quality, providing high levels of customer service and excellent value for money'

To deliver this commitment, the Company has a well developed, focussed strategy which will meet the demands of all its stakeholders.

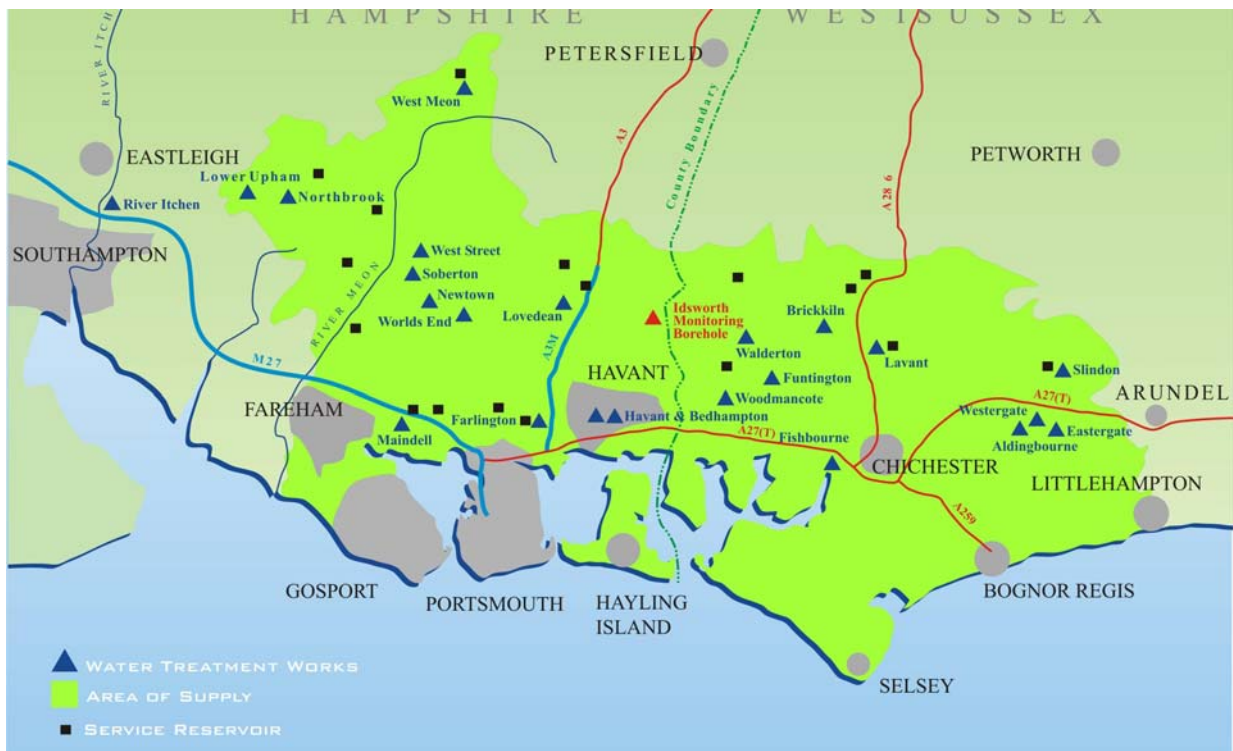
The key objectives are:

- To ensure customers enjoy reliable and secure supplies meeting all water quality standards.
- To maintain our standards of customer service as one of the highest in the industry.

- To provide value for money by continuing to focus on operational efficiency. A goal of stable prices is seen as a driver for the business.
- To minimise the impact on the environment to ensure we have a sustainable long term future.
- To grow the business where appropriate utilising a good resource position to provide bulk supplies and trade water.
- To achieve returns consistent with retaining investor confidence.

This Risk and Compliance Statement demonstrates how we are delivering against these objectives.

A Map of the Company's Area



1.1 Changes in Methodology and Approach

There have not been any material changes of approach during the year apart from the changes regarding the calculation of leakage, which is explained in 2.4.1..

In October 2012 the Company successfully implemented a new billing and customer relationship management system. This represented a major challenge for the business as significant resource had to be channelled to the programme. The system was implemented without major disruption, although the number of abandoned calls grew in the three months after implementation. The system will allow us to make improvements in services to customers. In terms of SIM, this has improved our ability to classify telephone calls as either wanted or unwanted (see below).

During the year the Company appointed a new external reporter. Following a tendering process Atkins were chosen given their proven track record within the Industry. Since their appointment they have carried out a thorough audit and have investigated issues in significant detail covering several key aspects of the business. Their investigations have focussed on Policy and Processes; in particular where new policies are required or requiring revision and where existing processes are not being followed or processes do not exist.

Note that Atkins did not review the leakage reporting or calculations since this was already the remit of a separate independent consultant.

Atkins have considered the supporting documentation, data and evidence which make up the 2013 KPI's and Risk & Compliance statement to assess whether:

- at a component level the various teams compiling the documents and information had an understanding of and were meeting their obligations;
- the Company has sufficient processes and internal systems of control to fully meet its obligations;
- the Company's explanations of where and why it cannot fulfil its obligations are soundly based;
- the Company has sufficient processes and internal systems in place to identify, manage and review its risks; and

- the Company's explanations of how it will manage and/or mitigate material or potentially material risks are soundly based.

In their report Atkins concluded that "Portsmouth Water is reporting information to Ofwat in a manner that is consistent with the targets laid out in the PR09 Final Determination (FD)".

In their report Atkins utilise a 'traffic light' approach to assessing risks. These are classified as follows:

- 'Red'. These are material issues that mean that either we cannot provide assurance to that area of the submission, or there are issues that present a risk of regulatory action by Ofwat in relation to the current year's reporting data if they become aware of them in future.
- 'Amber'. These are significant issues that are worthy of comment at the Audit Committee level, and may need to be addressed in order to mitigate the risk to the business in the longer term.
- 'Green' these are relatively minor issues that are designed to provide continuous improvement to the reporting process and will be highlighted within the appendices to their main report.

No issues from the audit were classified as 'Red'. However there were 4 areas which were classified as amber. The Board has reviewed these areas and instigated corrective action where appropriate.

The Company has also recently undertaken a major review of its Risk Management processes. This was undertaken with the involvement of our insurance brokers and involved all senior managers and the Board and will continue through 2013/14.

Chapter 2 - Key Performance Indicators, Outputs and Service Delivery

The table below details the Regulatory Compliance Key Performance Indicators (KPIs) for the Company. This includes all the KPI's required by Ofwat plus two additional ones:

- i) The number of Water Quality samples meeting Drinking Water Standards
-

measured by

ii) Reportable Accidents - for Health and Safety

All the KPI's have been audited by the Company Reporter. These KPI's are commented on below:

Regulatory Compliance KPIs

| Key Performance Indicator (KPI) | Unit | Score (Green - Meeting Target, Red - Needs improving) | Company Target |
|---|--|---|--|
| Service Incentive Mechanism (SIM) (Quantitative - Number of complaints and unwanted contacts. Qualitative - Customer experience survey) | nr | 23.27 - Quantitative | |
| | | 44.75 - Qualitative | |
| | | 68.0 - Total Score | > 50 (Total Score is out of 100) |
| Water Supply Interruptions | Hours per total properties served | 0.067 | 0.1 (Company - Average achieved previous 5 years) |
| Serviceability (Water Non-Infrastructure) | Text | STABLE | STABLE (From FD) |
| Serviceability (Water Infrastructure) | Text | STABLE | STABLE (From FD) |
| Leakage | MI/d | 34.07 | 30 (From FD) |
| Security of Supply Index | Index Score | 100 | 100 (From FD) |
| Green House Gas Emissions | ktCO2e | 11,632 | < 10% over 11.501 (From FD) |
| Pollution Incidents Water | Category 1=13 incidents per 1,000 km of main | 0 | Below Industry Average (Regulatory Compliance Guidance) |
| Discharge Permit Compliance | % | 100 | Above Industry Average (Regulatory Compliance Guidance) |
| Post Tax Return on Capital | % | 4.57 | >5.57 (From FD) |
| Gearing (Long term debt compared to capital) | % | 77.9 | < 84 |
| Interest Cover | | 1.8 | >1.6 |
| Mean Zonal Compliance (Number of Water Quality samples meeting drinking water standards) | % | 99.96 | 99.96 |
| Reportable Accidents | nr | 1 | Nil |

2.1 Ofwat Service Incentive Mechanism (SIM) - Results for 2012/13

Ofwat use a methodology for measuring customer service known as the Service Incentive Mechanism (SIM). This seeks to measure the quality of service provided rather than just the time taken to provide the service which the original DG indicators measured.

The SIM is divided into two elements:

Quantitative - measured by:

- The number of CCW investigations
- The number of escalated written complaints
- The total number of written complaints
- The number of unwanted telephone contacts
- The total number of abandoned calls over ten seconds
- All lines busy

Qualitative - measures how satisfied customers are with the quality of service they receive based on a survey of customers who have had direct contact with their water company.

Table 2.1 shows the performance against the Company's Key Performance Indicators for 2012/13.

Table 2.1

| SIM scores Quantitative Measure | Number | Multiplier | Total | Per 1,000 Properties |
|---|---------------|-------------------|---------------|---------------------------------|
| All Lines Busy | 3,712 | 1 | 3,712 | 12 |
| Calls Abandoned | 14,971 | 1 | 14,971 | 49 |
| Unwanted Phone Contacts | 75,818 | 1 | 75,818 | 247 |
| Written Complaints | 320 | 5 | 1,600 | 5 |
| Escalated Written Complaints | 25 | 100 | 2,500 | 8 |
| CC Water Investigated | - | 1,000 | - | - |
| | 94,746 | | 98,601 | 321 |
| Connected Properties ('000) | | | 307 | |
| Quantitative SIM Score (calculated as per the Ofwat methodology) | | | 23.3 | |
| | | | | |
| Qualitative Measure | 4.47 | 10 | 44.7 | |
| | | | | |
| Total SIM Score | | | 68.0 | |

The overall Quantitative assessment score of 23.3 was higher than last year, but 'Calls Abandoned' at 14,971 was higher than the 7,665 of the previous year. This element was affected by implementation of the new billing system, with high levels of abandoned calls in the first three months after implementation. However the billing system has now been successfully implemented and these scores will fall back to the normal levels for the 2014 SIM score. 'All Lines Busy' at 3,712 was higher than the 494 achieved in 2012, primarily due to one incident on one day when the BT telephone lines failed.

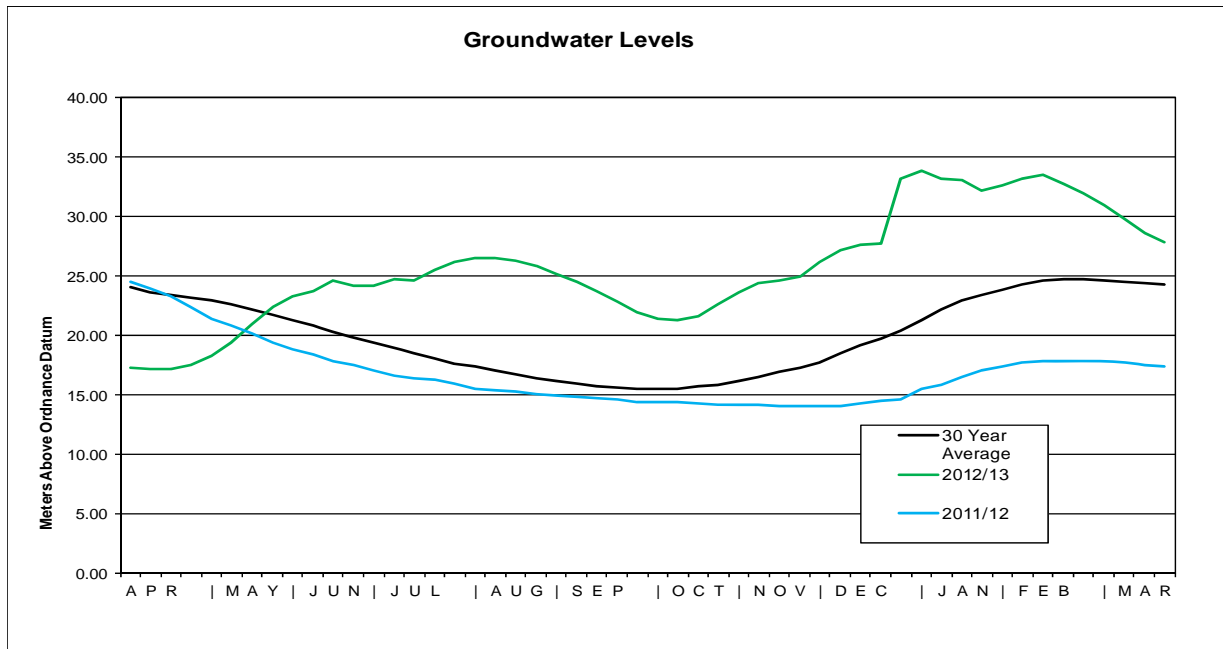
Previously the Company did not have a Customer Contact system and this made a proportion of calls difficult to classify. This resulted in a very high number of 'unwanted telephone contacts' which, in 2011/12 was reported as 101,311. The implementation of the new billing system has now enabled the Company to classify calls much more accurately and this has reduced the number classified as 'unwanted' to 75,818. However it should be noted that this figure includes part of the year on the old basis and part on the new basis. Therefore we anticipate that the level of unwanted calls will fall further once we report an entire year's figures on the new basis.

In the Qualitative assessment for the four quarters in 2012/13 the Company was ranked 5th of the 21 companies with 4.58 points out of 5.0, top was 4.69, bottom was 3.88. The scores clearly indicate that the industry has moved forward and, although our score has increased (from 4.56 in 2012) – the score for 2012/13 would have put us in first place last year - the Company has slipped from 2nd to 5th in the rankings.

The Company's overall Qualitative score was 44.7 and the Quantitative score was 23.3. This therefore, gives Portsmouth Water a total score of 68.0 compared to 64.6 last year.

For 2012/13, Portsmouth Water had 10.5 complaints per 10,000 customers which was by some distance the lowest in the industry. However this was an increase over 2011/12 when 8 complaints per 10,000 customers were received. The increase was due to the implementation of the new billing system referred to above when experienced individuals were seconded from the call centre into the implementation team. Now that the billing system has been successfully fully implemented we anticipate that written complaints will decline.

Groundwater Levels



Groundwater levels in 2011/12 were below the 30 year average for most of the year. A very wet April ensured that levels recovered in the spring and remained above the long term average for the remainder of 2012/13. It is unlikely that restrictions to supply will be necessary in 2013/14.

Water Supply Interruptions

Portsmouth Water's customers experienced an average interruption of 0.067 hours per total properties served. This compares to 0.08 hours reported last year. In the year, no properties experienced an interruption of more than 12 hours.

2.2 Water Service Delivery

2.2.1 Serviceability Water Infrastructure

Table 2.2 shows the performance against the serviceability water infrastructure performance indicator target.

Table 2.2 - Infrastructure Performance Levels

| Serviceability Indicator | Unit | 2011/12 | 2012/13 | AMP5 Reference Level |
|---|---------------------|---------|---------|----------------------|
| Total bursts | Nr | 290 | 267 | 342 |
| | Per 1,000km | 89 | 81 | 104 |
| Interruptions >12 hours | Nr | 332 | NIL | 50 |
| Iron non-compliance (as 100 - mean zonal compliance) | % | 0.56 | NIL | NIL |
| Customer contacts - discolouration | Nr/1,000 population | 0.04 | 0.08 | 0.06 |
| Distribution Index TIM (as 100 - mean zonal compliance) | % | 0.19 | NIL | NIL |

For most of the KPI's the performance in 2012/13 was an improvement on the previous year. The one exception is customer contacts re discolouration, which increased. However, the total number of contacts for appearance of water

(discoloured plus particles plus air contacts) have decreased from 184 in 2011 to 176 in 2012.

2.2.2 Water Serviceability non-infrastructure

Table 2.3 shows the performance against the Company's Key Performance Indicator target.

Table 2.3 - Non-infrastructure Performance Levels

| Serviceability Indication | Unit | 2011/12 | 2012/13 | AMP 5 Reference Level |
|---|-------------|----------------|----------------|------------------------------|
| Water Treatment Works Coliforms Non-compliance | % | 0.05 | NIL | 0.03 |
| Service Reservoirs Coliforms Non-compliance | % | NIL | NIL | NIL |
| Turbidity | NIL | NIL | NIL | NIL |
| Enforcement | Nr | NIL | NIL | NIL |
| Unplanned Maintenance Jobs | Nr | 937 | 767 | 831 |

Table 2.3 above outlines the Company's performance against the AMP5 reference level. There are no failures and therefore the Company believes the overall serviceability for non infrastructure remains stable and supported by the results of compliance testing in accordance with the Water Quality Regulations.

It should be noted that the original AMP5 reference level for unplanned maintenance jobs was 557 and it was reported last year that, at 937, the number of unplanned maintenance jobs for 2011/12 had exceeded the reference level. However, during the year, the Company proposed to Ofwat that the reference level be revised. This was due to the fact that three cryptosporidium filtration plants were commissioned in 2007 and 2008 and improved management control implemented during 2008 and 2009. Both of these drivers had resulted in a significant increase in recorded jobs. Ofwat agreed to revise the reference level to 831. For the year 2012/13 the number of unplanned maintenance jobs totalled 767 and was therefore below the revised reference level.

Water Quality regulations are in place to ensure water supplied to customers is safe to drink. There are 58 standards selected by the Drinking Water Inspectorate (DWI) to reflect water quality from source to tap. In 2012 the Company carried out a total of 39,149 determinations in samples taken at treatment works service reservoirs and customers taps. Of these the overall mean zonal compliance, (MZC) which is the representation of overall drinking water quality and was 99.96% (99.98% in 2011).

Within the MZC, results are grouped by the DWI to reflect the stages of the processes. Process control, Disinfection control and Service Reservoir have been chosen by the DWI to reflect the performance of Non Infrastructure assets.

Process control quality compliance is based upon a selection of parameters which are, in general terms, controlled by the processes in place at water treatment works. The focus is on chemical parameters and in 2012 100% of the samples taken were compliant.

Disinfection control quality compliance is based upon a selection of parameters which demonstrate the effectiveness of disinfection and pathogen removal. Microbiological standards are of particular importance and based upon the presence of coliforms, a highly ubiquitous group of bacteria which are not normally pathogenic and which make excellent indicator organisms. In 2012 100% of the samples taken were compliant.

Reservoir integrity quality compliance is based upon a selection of parameters to reflect the hygienic status of service reservoirs and includes microbiological analysis. In 2012 100% of the samples taken were compliant.

The Company believes that serviceability for non-infrastructure has been maintained as stable.

2.2.3 Key Supporting Activities**Table 2.4**

| Activity | 2011/12 | 2012/13 | Total Activity During 2010-2015 |
|---------------------------------------|---------|---------|---------------------------------|
| Mains Renewal Km | 23 | 19 | 116 |
| Mains Relined Km | 0 | 0 | 0 |
| Number of household Meters renewed nr | 171 | 228 | 15,000 |

During the year the Company renewed 18.9km of mains (2012 – 23.2km) at a cost of £5.2m (£3.9m - 2012). The higher cost compared to the previous year was a result of a reduction in mains laying in the verge and open fields and a lower percentage (20.6%) of mains renewed in the year using “no dig” techniques compared with 24% in 2011/12. “No dig” techniques are less expensive than the conventional methods of renewals, but cannot be used in all circumstances.

A programme for household meter replacements has been initiated which replaces all meters over 12 years.

2.3 Capital Maintenance - Exceptional Outputs

In the Final Determination, the Company had two exceptional items, both to maintain serviceability and to reduce algal growth in the clarifiers and in a storage reservoir at the River Itchen. The two projects, which are required in response to an undertaking to the DWI are:

- To construct a roof over the clarifiers - Final Determination Completion date 2011
- To construct a roof to cover the bankside storage reservoir - Final Determination Completion Date 2013

The projects were completed during the year. Expenditure on the scheme amounted to £4.9m.

2.4 Delivery against Supply/Demand Outputs**Table 2.5 - Security of Supply Performance against target**

| | Performance 2012/13 | FD Target |
|------------------------------------|------------------------|-----------|
| SOSI dry year average | 100 | 100 |
| SOSI critical / peak | 100 | 100 |
| Leakage MI/d | 34 | 30 |
| Water Efficiency Base Target MI/d | 0.35 | 0.29 |
| New Properties connected (000's) | 1.3 | 2.5 |
| Metering - Optional Meters (000's) | 4.9 | 5.0 |

2.4.1 Leakage

Leakage for the year was recorded at an average of 34 MI/d, which is above the Company's target.

During the year the Company carried out a full, independent review of leakage and has identified that it is higher than previously thought and that the Company had in fact missed its leakage target. In November 2012, the Company immediately put in place a programme to further reduce leakage. The programme is on schedule but the Company has missed its target for leakage for 2012/13 by approximately 13%. The programme will continue in 2013/14 and further reductions in leakage will be achieved. The higher leakage figure has had no impact on customers' bills and the additional cost of this programme will be met by the shareholders and not by our customers and will amount to £0.4m of operating cost and £0.5m of capital expenditure. Nevertheless the Company will remain within its covenants for interest cover and gearing.

The Company informed the Regulator at the earliest possible point at which it could be certain its leakage was higher than previously estimated and committed to working collaboratively with the Regulator to resolve any issues. The Regulator has confirmed that it will not undertake a formal investigation at this stage but will monitor our progress.

2.4.2 Base Service Water Efficiency

In 2010 Ofwat set the Company an annual target of achieving water savings, through water efficiency, of 0.29 mega litres per day (Ml/d). This equated to an overall five year target of 1.45 Ml/d.

Pleasingly this year the Company has exceeded the target by achieving overall savings of 0.35 Ml/d. This gives us going forward a surplus of 0.06 Ml/d.

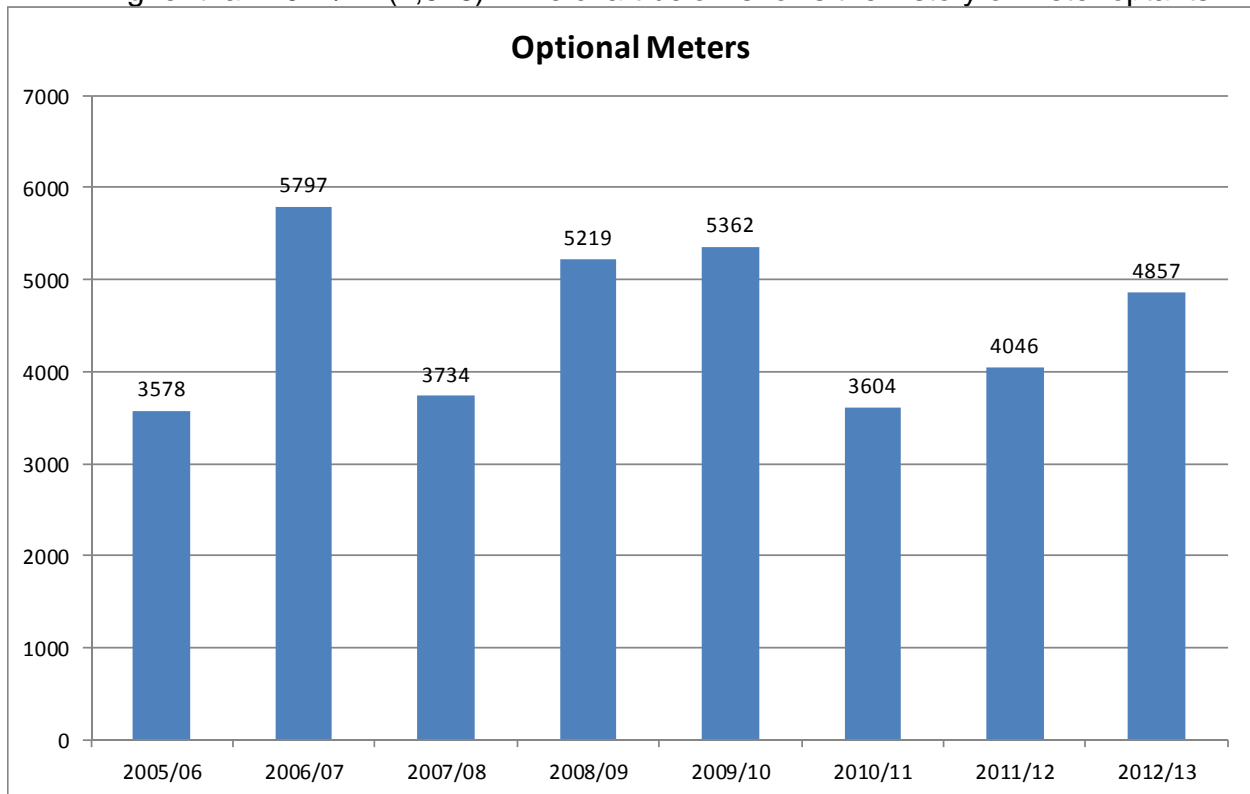
This excellent result was achieved by initiatives such as supplying free water saving packs and subsidised water efficient devices such as shower heads to customers. This was in conjunction with a number of proactive water saving campaigns in the local media such as the "Water Saving Challenge" which is designed to encourage customers to change their behaviour when it comes to water use.

2.4.3 New Properties Connected

The recession in housebuilding is still having an effect in the Company's area of supply and is lasting longer than anticipated at the time of the Final Determination. In 2012/13 1,359 properties were built compared to the Final Determination of 2,500.

2.4.4 Optional Meters

The actual number of meter optants at 4,857 was just below the target of 5,000, but higher than 2011/12 (4,046). The chart below shows the history of meter optants.



Following a drop off in the number of optional meters in 2010/11 the Company increased its publicity to promote switching to a meter. The publicity highlighted the savings that some customers are able to make through switching to a measured supply, focussing on the customers with higher than average unmeasured charges due to the size of their property. This was in addition to the usual advertising that we carry out to promote meter optants; on our website, in our annual newsletter and on our charges leaflet (which is included with all unmeasured bills). The campaign resulted in an increase in the level of optants to 4,046 in 2011/12 and 4,857 in 2012/13.

2.5 Drinking Water Quality Enhancements

2.5.1 Security and Emergency Measures (SEMD)

The security improvements consist of 5 distinct projects. Four have been completed, and one scheme, with the agreement of CPNi, has been deferred for approximately two to three years.

2.5.2 Environmental Obligations

The Company was required to undertake two environmental studies, the Post Implementation Monitoring of the impact of abstraction on certain Habitats Directive sites and the impact of abstraction on the water quality of certain catchments under the Water Framework Directive. Both schemes were completed in March 2013 and the results passed on to the Environment Agency (EA). The EA is due to update the National Environment Programme (NEP) in August 2013 and this will set out the next stage of options appraisal. Portsmouth Water has worked with our stakeholders, such as the Wildlife Trusts, throughout this process. It is hoped that the new Catchment Based Approach, as set out by DEFRA, will result in more speedy implementation of mitigation measures and possible licence variations.

2.5.3 Catchment Management

The Company has continued to work in partnership with stakeholders to reduce diffuse pollution in the catchment. This should be delivering benefits to drinking water quality and the environment.

2.6 Resilience

In the Final Determination three small schemes were included to reduce the risk of supply interruptions for 34,000 properties from 1 in 100 years to effectively zero. These schemes were completed in 2011/12.

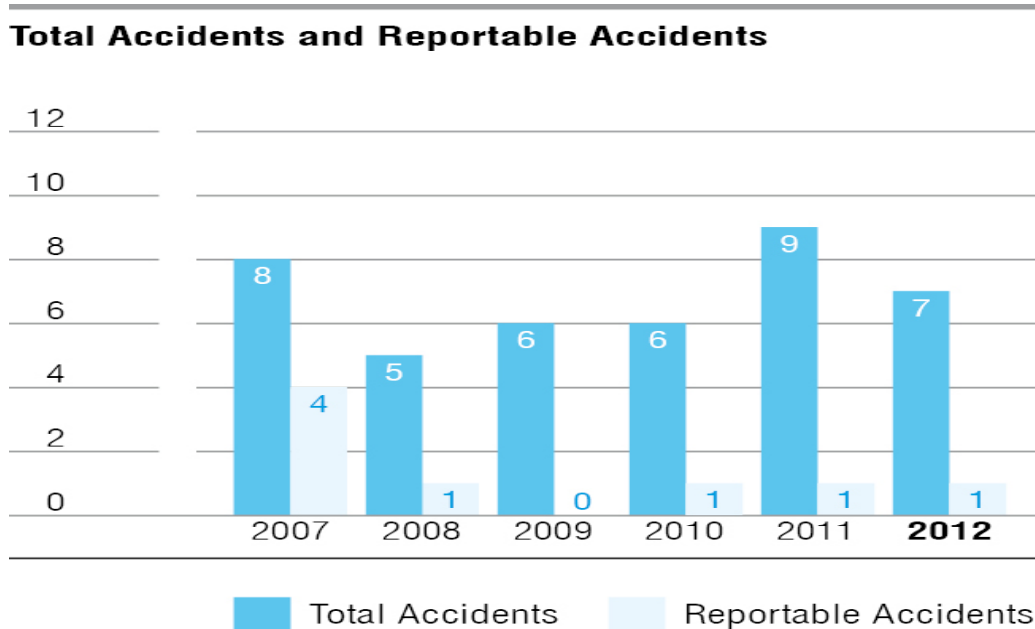
2.7 Health and Safety

Health and safety of employees is considered fundamental to the success of the business and the Board is committed to achieving high standards across the organisation.

Considerable time and resources have continued to be directed into raising the awareness of Health and Safety and the statistical results for the year 2012 show very positive results from these efforts, with accidents being maintained at a low level.

It is pleasing to report that our efforts have again been recognised externally through the RoSPA Health and Safety Awards, by the Company being awarded a Gold Medal. This is in recognition of our Health and Safety record over the last eight years where we have received seven Gold awards and an Industry sector award. This award is again recognition of the efforts of all employees who should feel proud of their achievements in making the Company a safer place.

Total Accidents and Reportable Accidents



2.8 Carbon Accounting

Portsmouth Water's total carbon emissions for reporting year were 11,632 tCO₂e based on the Defra definition. Due to improvements in our Carbon reporting, this is a decrease as we have better reported information not previously returned and introduced efficiencies. The amount of carbon emitted per megalitre (kgCO₂/MI) of drinking water produced has also decreased due to these improvements and is now 174 kgCO₂/MI.

Portsmouth Water have based the carbon target on the projection included in their final Business Plan for the 2009 price review. This target has been adjusted to take account of schemes that were not included in the Final Determination. Compared to the rebased target there has been a 9% increase in emissions, it should be noted that Portsmouth Water have increased the scope of their carbon reporting since 2008 which accounts for a proportion of the increase.

Portsmouth has reported green status for this KPI as the increase is within the 10% stated in the KPI guidance.

2.9 Key Supporting Information

Table 2.6

| | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
|------------------------------------|---------|---------|---------|---------|---------|---------|
| Distribution Input MI/d | 178.3 | 177.99 | 180.35 | 179.42 | 175.81 | 172.96 |
| Water Delivered MI/d | 156.8 | 155.6 | 159.7 | 157.81 | 153.78 | 146.86 |
| Percentage of households metered % | 10.1 | 12.4 | 14.9 | 17.0 | 19.0 | 21.0 |
| Average billed properties | 294,000 | 294,000 | 295,000 | 299,000 | 299,000 | 301,000 |