Interim Financial Information and Report

for the six months ended 30 September 2024
(Unaudited)

from
Southern Water

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Chief Executive's introduction

This financial year, 2024–25, is the final year of the current regulatory business planning period and it sees us move into the last phase of our Turnaround Plan, tackling the issues that matter to our customers, and continuing to make operational changes across the business to improve our performance.

During the first six months of the year, weresponded to Ofwat's Draft Determination on our Business Plan for the period 2025–30. Ofwat's Final Determination will shape how we invest in the years to come.

Our customers have told us that their priorities are to receive a reliable supply of water, healthy rivers and seas, and trusted and easy customer service. This means tackling storm overflows, driving down pollution incidents and improving the quality of our bathing waters, among other performance improvements. It also means reducing our leakage as we try to address the increased demand for water in this water-stressed region, while the population continues to grow. So we're working to rebuild our four major sites and developing new sources of supply, such as the reservoir at Havant Thicket and water recycling.

We will continue our work amid the parliamentary discussion of the Water (Special Measures) Bill and the recently announced review of our sector. This review will be carried out by the Government's new independent Water Commission; we look forward to assisting the Commission with its work and hearing its recommendations next year. We also gather feedback on our plans by consulting with our independent Customer and Communities Challenge Group and the Independent Climate and Environment Group.

Improving our performance for customers and the environment

In October Ofwat published its review of industry performance for 2023–24. This report highlighted that, based on our 2023–24 results, our performance has improved on 9 out of 12 measures over the AMP, but is still lagging behind our Ofwat performance commitment targets. We are currently forecasting penalties for a number of areas including pollutions, treatment works compliance, internal flooding and leakage.

Our Turnaround Plan, which was developed to provide a robust performance improvement over the last two years of the current regulatory period, is delivering improvements in most areas such as external sewer flooding and unplanned outage (see the **November 2024 Turnaround Plan** update for further details). However, work needs to continue to improve our performance across all areas as we move towards implementing our Business Plan for 2025–30.

We have been using innovative engineering solutions and nature-based approaches to reduce storm overflows. We have improved the resiliance of our waste networks by diverting over 117 million litres of rainwater away from our sewage network across the south by installing sustainable drainage systems such as raingardens in nearly 100 schools, preventing flooding on those sites too.

As reported by Ofwat, we were one of only two of the 11 water and sewage companies to reduce pollution incidents in 2023 compared to 2022; however the number of pollution incidents is still higher than we'd like it to be; the actions we are putting in place need time to take effect. Our Pollution Incident Reduction Plan, revised and updated annually, continues to guide our work to try to drive down pollutions over time, with its targeted actions across prevention, detection and incident response. Meanwhile more pollution incidents have been self-reported, after we encouraged customers to report directly to us and improved communications with the EA.

It has been a challenging time for wastewater treatment works' compliance, internal and external sewer flooding, and sewer collapses, as we experienced further heavy rainfall across the year. This included the wettest 18 months on record, with over twice the amount of long-term average rainfall in September. In recognition of these climate challenges, our next Business Plan addresses the need to defend our wastewater system from the threat of surface water, improving its resistance.

We understand that internal flooding is not only unpleasant; it can be extremely distressing for customers, and we need to improve our performance to reduce these events. We launched new sewer performance hubs in August and focused on response times for repeat floods, which saw a reduction in August. We know that fat, oil and grease (FOG) and wet wipes in our network are some of the main causes of blockages which can lead to pollution incidents, so our FOG teams have been working in the community to provide information and support about this issue. By using sewer level monitors to help detect and predict possible bursts that can lead to pollution incidents, we have been able to clear 1,288 blockages since the beginning of the financial year; a further 8,000 monitors will be installed by April 2025. We have also been carrying out sewer cleaning and using tankers to take away excess run-off.

Our approach to leakage will achieve a reduction this year and crucially mean we will exit the AMP at the level needed to start our AMP 8 plan. However, the three-year rolling average, including the previous two years' leakage levels, is still high compared to our Ofwat Performance Commitment. Through our focus on proactive find and fix activities, we have repaired over 12,000 leaks so far this year, and more than 7,000 of these have been through proactive leak detection activity. Our April Leakage Summit established a set of around 50 leakage management activities which we monitor region by region on a weekly basis.

We reported last year that our Compliance Risk Index, which measures water quality, was our best score since the measure was introduced in 2019 and exceeded our plan. While there has been a marginal increase in this score so far this year, affected by failures at customer taps, this represents a significant improvement compared to the beginning of the 2020–25 Business Plan and we are still on track to meet our Turnaround Plan. We have provided customer advice, and we are always checking water quality through sampling to make sure water remains high quality from source to tap.

We are prioritising asset health and keeping customers in supply. Every month there has been a consistent reduction in unplanned outage. This shows that our targeted activity at key water treatment sites is making a difference, as we upgrade equipment and processes, increase training and make improvements to operational safety.

Supporting our customers

The mounting challenge in the South-East to meet our regulatory obligations – to continue to treat wastewater and produce drinking water while protecting the environment – requires a significantly larger investment than ever before. This means our customers will see their bills increase. Given the rising cost of living and recognising that more customers may be struggling to pay their bills, we've been in contact with customers to tell them about the expected rise and to remind them about the support on offer including discounted tariffs, payment plans and a hardship fund to help those most in need.

Our customers deserve a high level of service, whether that's during or after an incident or for day-to-day enquiries, and we are working to improve first contact resolution and make sure customers are regularly updated when there's an issue. We have continued to increase the number of customers registered on our Priority Services Register, with around 7,500 new registrants each month; the publication of our draft Vulnerability Strategy in June outlined the services available to customers needing extra support.

Making sure our customers have easy access to information is important to us. Southern Water's new website went live in April, providing customers with more user-friendly access to information and online services, making it easier to find out about any local incidents and what we're doing to improve our performance. We've also been talking to customers and stakeholders across the region with our *Your Water Matters* events in Horsham (May), Hastings (September) and Lancing (September). These demonstrate that we want to be transparent and open about what we're doing, as we work to rebuild trust with our customers and stakeholders.

As part of our continued commitment to transparency and sharing data, we developed an Open Data Strategy. We regularly share data and make information easily accessible, such as live incident updates, rainfall data and reservoir levels, real-time information about releases into bathing waters and inland water using the Rivers and Seas Watch app (formerly Beachbuoy), and bathing water quality.

Our New Wave schools programme continues to provide free educational resources online and at schools and events. This has been boosted by the opening of our operational site at Peacehaven in East Sussex and SEN-adapted tours for local school children to learn about our processes, careers and activities in their local area. We continued to support the Crawley Junior Citizen event in September – as we have done for more than a decade – this year providing approximately 1,600 young people with short talks and activities about water, as well as fully funded coach travel for all pupils to break down participation barriers.

Future proofing our network

In our water-stressed region, with a growing population in the South-East, taking less water from the chalk streams and aquifers will become ever more important. Our plans show how we are looking to find ways to reduce the amount of water we take from the environment and to plan for the more extreme weather we are experiencing with climate change. Water recycling is part of our plans: the technology is already successfully used in other countries around the world.

We'll be investing to tackle the challenges of being a water-stressed region. Part of the solution will be to reduce water usage, so our water-saving campaigns and free water-saving visits continue, even though we have one of the lowest levels of daily water consumption per person in the UK.

We're working in partnership to protect and enhance the region's water sources, reducing our reliance on chalk streams. Work is already underway in a joint scheme with Portsmouth Water to build a new reservoir at Havant Thicket – a ground-breaking ceremony took place in September. A consultation on our 25-year Water Resources Management Plan (WRMP) was published in the same month, inviting views from stakeholders on the solutions we're proposing to tackle these challenges, which may also include desalination schemes as well as water recycling. It's all part of how we're engaging with our customers, stakeholders and regulators to find shared solutions.

Looking ahead

As we move into this final phase before the next investment period, our performance is improving in key areas, while we know in others much more still needs to be done. 2,600 committed colleagues at Southern Water, and even more supply partners, are working with me to achieve our turnaround which will see us in a better position to deliver the ambitious programme we have set out in the next Business Plan. These improvements will enable us to provide our customers with a resilient water and wastewater service, serving them well into the future, while protecting the environment.

With uncertainty surrounding Ofwat's Final Determination due in December, and significant challenges in the sector's investment profile, the next few months will be highly important in setting the future direction for the company and the water sector more generally.

The credit ratings agencies recognise that we have strong liquidity through to March 2026. Having secured a total of £1.5 billion of new debt financing over the past 12 months, including a £300 million bond issue completed earlier this month, these agencies have changed their assessment of the stability and predictability of the regulatory environment for the UK water sector. This has resulted in downgrades to our credit ratings as set out on page 9. The credit rating agencies have noted that their final view on the sector risk will be refreshed following the outcome of the Final Determination, which is anticipated to be an improvement on the Draft Determination. However, a future downgrade to a sub-investment grade credit rating would result in a breach of the company's licence and borrowing covenants and given the recent downgardes and market sentiment, debt refinancing or equity raising required before March 2026 represents a material uncertainty on the company's ability to continue as a going concern as set out on pages 10 to 13.

As we await agreement on our plans for 2025–30, we look forward to scaling the business to deliver three or four times the enhancement investment ever seen before. At the same time, we remain committed to helping our customers through the necessary bill rises, providing financial support for those struggling to pay and clearly explaining the benefits customers will receive for the increase in their bill. We therefore continue our focus on delivering for our customers in the communities we serve, while protecting the beautiful and precious environment around us.

Lawrence Gosden
Chief Executive Officer
29 November 2024

Our performance improvements

Alongside our Turnaround Plan priorities, we're measured against a wider set of metrics, shared by all water companies.

	2020–21	2021–22	2022–23	2023–24	Mid-year assessment 2024–25*
Consumer experience	Amber	Amber	Amber	Amber	Improving
Developer experience	Amber	Amber	Amber	Amber	Improving
Water quality	Amber	Red	Amber	Amber	Declining
Leakage (in year)	Amber	Amber	Red	Amber	Improving
Water usage	Red	Red	Red	Amber	Improving
Internal flooding	Amber	Red	Amber	Red	Improving
External flooding	Green	Green	Green	Green	Improving
Supply interruptions	Red	Amber	Red	Amber	Improving
Pollution incidents	Amber	Amber	Amber	Amber	Static
Unplanned outage	Green	Green	Green	Green	Improving
Treatment works compliance	Red	Amber	Amber	Amber	Declining
Mains repairs	Red	Green	Red	Amber	Declining
Sewer collapses	Red	Amber	Amber	Amber	Improving

Key
- Green: Final Determination target met or exceeded
- Amber: Final Determination target missed but performance improved in relation to prior year outcome
- Red: Final Determination target missed and performance worse than prior year outcome
- Improving: Performance improving from 2023-24 APR
- Static: Performance static from 2023-24 APR
- Declining: Performance declining from 2023-24 APR

* This is our assessment comparing our year end 2023–24 outcome with the forecast outcome for 2024–25, based on YTD performance to the end of September. Final outcomes will be determined at the end of the year and reported in the Annual Report.

Interim report – financial performance

Key financial performance indicators

	Six months ended 30 September 2024 Unaudited £m	Six months ended 30 September 2023 Unaudited £m	Increase/ (decrease) %
Total revenue	496.2	441.0	12.5
Operating costs	(493.4)	(450.3)	9.6
Operating profit/(loss)	3.8	(8.5)	
Net finance costs	(102.1)	(119.5)	(14.6)
Loss before taxation and movement in fair value of derivatives	(97.8)	(127.7)	
(Loss)/profit after taxation from continuing operations	(63.1)	41.1	
Gross capital expenditure*	459.7	363.3	26.5
Net cash inflow from operating activities	45.2	89.7	(49.6)

* Excludes asset adoptions and capitalised interest

Income statement

Revenue for the period increased to £496.2 million (period to 30 September 2023: £441.0 million). This increase principally arises from the change in our regulatory tariff and is largely due to the application of inflation of £53.4 million.

In 2018–19 we made provision for rebates, based on our regulatory settlement with Ofwat, to be provided to customers over the period from 2020 to 2025. These rebates are now included within our tariffs and so part of the revenue reported in the income statement. The provision made for these rebates is being released in line with the tariff adjustment with £14.3 million released in the six months to September 2024 (September 2023: £13.3 million). A detailed analysis of revenue is provided in note 5.

Operating costs increased by 9.6% to £493.4 million (period to 30 September 2023: £450.3 million). This increase was largely driven by an increase in operating expenditure described below and additional depreciation arising from our capital programme of £10.5 million.

Over the period to September 2024 the principal drivers of additional operating costs were as follows:

- Inflation which has increased prices for all our operational costs by £15.2 million. The main increases were in power and our contractor and employee related costs
- Increased software related costs of £1.4 million primarily related to incident management and other support software.
- Increased tankering costs to deal with the continued high levels of groundwater in April and May following the exceptional wet weather last winter were offset by a reduction in waste disposal costs at Testwood Water Supply Works.
- Employee costs were up by £3.2 million excluding inflation due to increased resource numbers this year.
- Improvements to site security and access control of £1.4 million
- Further increases to the proactive maintenance programme on our wastewater assets to reduce the number of incidents, pollutions and improve compliance £4.6 million
- Increased leakage identification and repair activity £2.6 million
- In the period to 30 September 2024, we recognised a bad debt provision charge of £12.6 million (period to 30 September 2023: £7.6 million), an increase of £5.0 million compared to the prior year which reflects the impact of the increased cost of living.

We have disclosed in previous Annual Reports that we are investing heavily to improve the resilience of our existing assets, improve operational performance and enhance the level of wastewater treatment we undertake. The £10.5 million increase in depreciation is largely in relation to these operational schemes.

As a consequence of the above we recorded an operating profit of £3.8 million for the period (period to 30 September 2023: £8.5 million loss).

Net finance costs, excluding fair value movements on financial derivatives, decreased to £102.1 million (period to 30 September 2023: £119.5 million). This was largely due to a restructured debt position since September 2023 and an increase in the value of interest capitalised of £8.1 million in the period to March 2024.

As a result of the above movements the loss before taxation and movement in fair value of derivatives amounted to £97.8 million (period to 30 September 2023: loss £127.7 million).

The fair value gain on our derivative financial instruments amounted to £39.0 million (period to September 2023: gain of £186.1 million). The primary driver for the decrease in our derivative liabilities, which result in the profit reported in the income statement, is the fluctuation in UK Government bond yields which are used to discount the future cash flows. As Government gilt yields are constantly moving the valuation of our derivative instruments can be volatile, as experienced with the significant market movements in gilt yields in recent years. These changes do not represent cash flows.

Our tax charge of £4.3 million largely results from our profit from continuing operations (period to 30 September 2023: £17.3 million charge).

The loss from continuing operations after tax was £63.1 million (period to 30 September 2023: profit of £41.1 million).

Statement of financial position

As at 30 September 2024, non-current assets were £8,101.0 million (£7,783.0 million at 31 March 2024), an increase of £318.0 million. This largely results from the increase in the value of property plant and equipment and intangible assets of £311.0 million, resulting from our ongoing capital investment programme and an increase in the asset value of our derivative financial instruments of £2.3 million.

Current assets increased by £59.0 million from £875.0 million at 31 March 2024 to £934.0 million at 30 September 2024. This movement was largely driven by an increase in cash held in short-term investments to £200.0 million (31 March 2024: £100.0 million) since March 2024. There was also an increase in trade and other receivables of £28.9 million, reflecting the higher tariff in our revenues, a temporary timing difference in the receipt of cash from South East Water for customers who they bill on our behalf and a higher intercompany balance with SW (Finance) I Plc (SWFI). We transfer funds to SWFI to enable it to make interest payments on its debt as they fall due. These transfers are shown as an inter-company receivable until the interest is paid. Prepayments also increased primarily due to new and renewed software licence agreements.

This was partially offset by a reduction in our cash and cash equivalents balance of £71.3 million, due to our increased capital investment and operating costs in the period

Current liabilities of £552.4 million at 30 September 2024 were £64.6 million lower than at 31 March 2024 (current liabilities of £617.0 million) largely due to £13.0 million of borrowings classified as short-term at 31 March 24 that are now classed as long term at 30 September 2024, a reduction in trade and other payables of £37.3 million, reflecting the timing of payments to suppliers and for our interest liability. There were also reduced accrued expenses at September 2024 related to groundwater related incidents and the cyber-attack compared to March 2024. The regulatory settlement liability also reduced by £14.3 million in the period to September 2024 as it progresses toward full release by March 2025.

There was an increase to the value of our long-term borrowings which grew by £511.4 million, from £4,903.3 million at 31 March 2024 to £5,414.7 million at 30 September 2024 comprising £150.0 million of new bonds, a £350.0 million drawdown on the revolving credit facility this year and a reclassification of £13.0 million of short-term lending at March 24 to long term as at September 2024.

The liability associated with our derivative financial instruments was revalued at September 2024 and decreased by £12.4 million from £1,673.6 million at 31 March 2024 to £1,661.2 million at 30 September 2024.

The pension scheme deficit of £58.7 million (31 March 2024: £78.0 million) is based on the latest actuarial valuation as at 31 March 2024 updated by a qualified independent actuary to reflect the increase in corporate bond yields from March which are used to set the discount rate and the latest asset values as at 30 September 2024. The reduction in the deficit of £19.3 million largely results from the increase in returns on corporate bond yields which are used to determine the discount rate offset by lower projected investment returns as a result of market conditions. There was also a £5.0 million payment against the liability in April 2024.

Overall net assets decreased from £938.8 million at 31 March 2024 to £887.8 million at 30 September 2024.

Cash flow

The cash position decreased from £413.5 million at 31 March 2024 to £342.2 million at 30 September 2024, a reduction of £71.3 million. Details of the principal movements in the cash flow are provided in the table below.

Cash flow for the six months ended 30 September 2024

	2024 £m	2023 £m	Movement £m	Explanation
Net interest related transactions	**(22.8)**	(50.2)	27.4	In total, the net cash outflow in relation to interest decreased by £27.4 million. The principal reasons were: A £45.5 million decrease in the value of our inter-company transfer to SW (Finance) I Plc which is used to pay the interest on our bonds resulting in a £26.7 million cash inflow (2023: £18.8 million outflow). Cash interest paid on loans in total was £28.9 million higher than in the prior year. This was largely due to timing in that £22.5m of interest paid this year related to payments previously made in October in 2023. There were also £16.5 million of delayed interest payments in April 2024 previously paid in March and £1.6 million of payments relating to new loans. These were offset by £13.0 million of interest paid in the prior year on loans and associated finance costs that no longer exist. There was also higher interest income received in 2024 of £8.2 million and additional swap receipts of £2.3 million.
Net movement on borrowings	**479.1**	259.8	219.3	During the period, we drew £350.0 million on our revolving credit facility (September 2023: £270.0 million) and obtained new bonds totalling £150 million excluding associated finance costs. This was offset by loan repayments of £10.6 million (2023: £10.2 million).
Movements in short-term investments	**(100.0)**	0.0	(100.0)	There were an additional £200.0 million of funds held on deposit for periods greater than three months at September 2024 (March 2024: £100.0 million) compared to a September and March 2023 position of nil.
Net cash movement from operations	**45.2**	89.7	(44.5)	Largely driven by the increase in our operating costs and the movements on working capital described previously which includes a significant reduction in accrued expenses in the period related to the cost of dealing with the associated impacts of flooding and high ground water levels.
Capital investment	**(470.8)**	(355.8)	(115.0)	A continuation of our capital investment programme targeted at making refurbishments to our assets to improve operational performance.
Other	**(2.0)**	(2.3)	0.3	
	(71.3)	(58.8)	(12.5)	

Credit ratings

Our current credit ratings are shown in the table below.

Credit rating	As at signing date of Interim Report
Standard & Poor's (S&P)	Class A debt: BBB – (CreditWatch with negative implications)
Fitch	Class A debt: BBB – (Rating Watch Negative)
Moody's	Class A debt: Ba1 (Under review for downgrade)

As noted in our Annual Report, SWS is in a debt covenant trigger event under our Common Terms Agreement which restricts the payment of dividends and requires the preparation of a remedial plan for our lenders. Southern Water has obtained a waiver from its lenders to continue to access permitted financial indebtedness to refinance the business to March 2035 in the event of a trigger event. SWS is also in a credit ratings trigger event which also restricts the payment of dividends under the terms of our Common Terms Agreement, which states that a trigger event occurs if any two of the credit ratings fall to BBB (S&P), BBB (Fitch) or Baa2 (Moody's) or below; and a Default would occur if any two of the credit ratings are less than the minimum rating required for the status of investment grade. A further credit rating downgrade, by either Fitch or S&P would result in a breach of our license.

Credit ratings agencies, as set out in their public sector wide assessments, have changed their assessment of the stability and predictability of the regulatory environment for the UK water sector.

On 31 October 2024, S&P announced its decision to lower the credit rating on the senior secured debt issued by SWS' financing vehicle SW (Finance) I PLC to 'BBB-' from 'BBB'. The rating remains on CreditWatch with negative implications. This downgrade has no further implications to our covenant trigger event.

On 13 November 2024, Moody's announced its decision to lower the credit rating on the senior secured debt issued by SWS' financing vehicle SW (Finance) I PLC to 'Ba1' from 'Baa3'. The rating remains on review for downgrade. This downgrade has no further implications to our covenant trigger event.

On 19 November 2024, Fitch announced its decision to lower the credit rating on the senior secured debt issued by SWS' financing vehicle SW (Finance) I PLC to 'BBB-' from 'BBB'. The rating was also placed on Ratings Watch Negative. This downgrade has no further implications to our covenant trigger event.

The Southern Water Group, as recognised by the credit ratings agencies, has strong liquidity, having secured a total of £1.5 billion of new debt financing over the past 12 months, including a £300 million bond issue completed earlier this month and which has enabled the Southern Water Group to increase and extend its liquidity runway through to March 2026. Ofwat is expected to publish its Final Determination on 19 December 2024. Notwithstanding this, the Board has concluded that there is a material uncertainty to the company's ability to continue as a going concern should there be a further credit rating downgrade, as set out on pages 10 to 13.

How we finance the business

Southern Water established a financing structure, known as a Whole Business Securitisation (WBS), in 2003 following its sale by Scottish Power. The WBS sets strict rules which helps to reduce our financing costs and improves access to long-term and secure sources of finance. Reducing financing costs ultimately benefits customers in the form of lower bills.

The WBS works by creating a ring-fence around the Southern Water business in the form of a financing group. The financing group provides security to finance providers in the form of a charge over the share capital of SWS Group Holdings. No security is provided over our individual regulated operating assets. This structure is designed to ensure that, in the event that Southern Water or its financing subsidiaries were to default on their debt obligations, Southern Water would continue to operate as usual. Debt providers are not permitted to either break up or interrupt the business and can therefore only look to a new owner of the financing group to recover their debt in the event of default.

In 2003, a Common Terms Agreement (CTA) between the members of the financing group and its debt investors was established. The CTA sets out arrangements for the ongoing management of the debt issuance programme as well as a number of operating arrangements in order to minimise our financial risk and adhere to good industry practice.

This includes precautionary 'early warning' limits, called trigger events or cash lock ups, which prevent the payment of dividends if a pre-determined limit is breached. Following publication of our compliance reporting in July 2023, where interest cover was reported below its trigger event threshold, in addition to a downgrade by Fitch Ratings at the same time, the company entered a trigger event. This was the first time that a limit has been breached since the implementation of the financing framework in 2003.

The regulatory framework under which revenues and the RCV are indexed exposes us to inflation risk. This risk is managed through the use of inflation-linked loans and derivatives within the overall debt portfolio. We are not restricted to issuing only sterling debt, but will ensure any other currency loans are fully hedged back to sterling. We also hedge our exposure to interest rate volatility by ensuring that at least 85% of our outstanding debt liabilities (in respect of Class A) is either inflation-linked or fixed rate for the current five-year regulatory period and at least 70% in the next period (on a rolling basis).

Financing since 31 March 2024

In May 2024, £150.0 million of new bonds were secured and, subsequent to the reporting date, on 2 November 2024 a further £300.0 million of new bonds were secured as part of financing our continued spend on our turnaround plan.

Going concern

The directors believe, after due and careful consideration, that it is appropriate to adopt the going concern basis in preparing the financial statements for the six months to 30 September 2024 as they have a reasonable expectation that the company will continue in existence for the next 12 months from the date of approval of the financial statements (the 'assessment period'), subject to the material uncertainty as disclosed below.

In their assessment, the directors have identified the following material uncertainty related to events that are outside the control of the Board and which may cast significant doubt on the company's ability to continue as a going concern:

- A future downgrade to a sub-investment grade credit rating or a failure to meet our legal obligations could, depending on the circumstances and the approach of Ofwat, result in a breach of the company's Instrument of Appointment, and could result in an event of default under the terms of the company's financing arrangements.
- Further, while a weaker than anticipated Final Determination potentially leading to additional ratings downgrades, and the consequential event of default/and or breach of licence do not directly impact our ability to operate as a going concern during the forecast period due to the standstill period, there is a risk without remedy, the longer term consequences limit our ability to attract equity and debt funding and hence operate as a going concern in the future.
- The company is also required to refinance a £350 million bond that is due for repayment in March 2026 and requires additional funding (debt or equity) before March 2026. Given recent downgrades and market sentiment, there is no guarantee the company will be able to successfully refinance or raise this additional equity.

Background to and basis of preparation of the going concern assessment

For the six months to 30 September 2024, the company made an operating profit of £3.8 million (September 2023: loss of £8.5 million). As of 30 September 2024, the company had cash on hand of £342.2 million and cash on deposit for over 3 months of £200.0 million (31 March 2024: £413.5 million and £100.0 million respectively). The company also had borrowings totalling £5,470.5 million at 30 September 2024 (31 March 2024: £4,970.4 million), for which the earliest repayment is £350 million in March 2026. There were no additional undrawn bank facilities at 30 September 2024 (31 March 2024: £350.0 million).

In the annual report for the year ended 31 March 2024, the company concluded that the going concern basis was appropriate, but highlighted that liquidity headroom over the going concern period was limited, and that should total expenditure exceed the going concern base case by more than 18%, the company may not have sufficient liquidity for the going concern period. It further concluded that if net cash flow from operating activities, less capital maintenance expenditure, were to exceed the going concern base case by £36 million (6.2% of forecast operating costs in the base case), the post maintenance interest cover ratio (PMICR) covenant would be breached. Based on the company's forecasts and plans, these matters were considered sufficiently remote not to be a material uncertainty as to going concern.

Since the year end, debt funding of £0.5 billion has been raised, with terms ranging from 7-17 years. During the six months to September 2024, total operating cashflow exceeded the planned budget by £24 million primarily due to spend related to dealing with the consequences of wet weather causing flooding and high ground water levels and the cost of a major incident at Hastings that had some unique circumstances. These factors together have resulted in a stronger liquidity position than at the year end.

In assessing the going concern position of the company, the directors considered the forecast cash flows over the 12 months to November 2025, the capital structure of the company and financing needs for the period. The directors have considered a base case and various sensitivities, as set out in the sections below.

Forecast cash flows for the period to March 2025 are based on the company's latest Board approved business plans, which in turn are based on PR19 and further commitments made as part of the Turnaround Plan (see page 3). For the period after March 2025 (AMP8), the forecast cash flows are based on the company's PR24 Draft Determination response as resubmitted to Ofwat on 28 August 2024.

Forecast liquidity

The company has a significant level of planned expenditure over at least the next 12 months to continue to enhance its assets, improve operational performance and begin delivering its plans for AMP8. As a result, the company has forecast net cash outflows (pre financing outflows) for every month throughout the going concern assessment period of 12 months to November 2025. In preparing the forecasts, management has considered:

- The company's business activities, together with the factors likely to affect its future development, performance, and position. In particular, the company has considered the significant level of expenditure we have committed to in addition to that allowed at the PR19 price determination and the company's view of expenditure required under the potential PR24 price determination.
- The financial position of the company, its forecast monthly cash flows, liquidity position, covenants and borrowing facilities.
- The effects of the operational incidents in the six-month period to 30 September 2024 (see page 6 for details of our operating cost performance in the period).
- The continuing effects of recent high levels of inflation on costs such as energy, chemicals, and materials.
- Investment needed to improve operational performance and reduce the impact on the environment from the treatment and processing of water and wastewater and mitigate the effects of climate change.
- The company operates in an industry that is largely subject to economic regulation rather than market competition. Ofwat, the regulator, has a statutory obligation to set price limits that it believes will enable the water companies to finance their activities.

The forecasts show liquidity headroom for the whole of the going concern period. Downside sensitivities to the cash flows have identified that if total expenditure, over the going concern period, is 17% (c. £0.3 billion over the planned expenditure), the company would not have sufficient liquidity for the going concern period.

The company does not foresee total expenditure exceeding this, due to the detailed "bottom-up" forecasting process that occurred, and the fact that costs exceeded this forecast by only £19 million in the six-month period to date. This provides additional rigour to spending plans and takes into account the principal risks and uncertainties as set out on pages 12 to 13. We also note that management has control over the timing of spend commitments and additional contingency included in the budget, with regular management reviews conducted to ensure any variances are identified with sufficient time to employ mitigant action.

Financing needs

The directors consider that the PR24 plan submitted to Ofwat in respect of AMP8 is financeable, but it does assume additional debt funding of £4 billion and equity funding of £650 million will be received over the 5-year term of AMP8, which is not committed at the date of this report. The additional funding aligns with the planned expenditure during AMP8 and therefore the company has control over the timing of that expenditure within the AMP, in order to match it to the funding being available. In assessing going concern, the directors have therefore used a base case which does not assume any additional funding being received.

The first requirement for additional debt after the going concern period is in March 2026, to refinance a £350 million bond that is due for repayment on that date. The directors anticipate being able to refinance the debt, based on a history of successful fundraising in the past and following discussions with advisors, but this is not included in the base case because it is not yet committed.

Further, the company's plans for AMP 8 include additional equity funding of £650 million from the largest shareholder to be received over the course of AMP 8, but it is not yet committed. While these amounts are not required during the going concern assessment period, they will be required by March 2026. Given recent downgrades and market sentiment, there is no guarantee the company will be able to successfully refinance or raise the additional equity required and this also creates a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern.

Ofwat is due to report on the Final Determination for PR24 on 19 December 2024. Should the determination be different to the plans submitted in August 2024, the impact on cash flows in the going concern period is limited to April-November 2025, and the directors believe that such a variance, by its short-term horizon, would be limited in cashflow impact and so manageable within the existing liquidity headroom.

In planning for the future financing needs of the company, the directors have also considered the following information:

- The committed revolving credit facility of £350 million was fully drawn in the period to 30 September 2024 and proceeds were held as cash.
- Bonds totalling £150 million were issued during the half year period and a further £300 million were issued since the balance sheet date.
- Borrowings are generally at fixed interest rates but include certain inflation-linked loans and derivatives. The inflation-linked instruments are subject to inflation risk which is expected to be offset by the inflationary movement of the RCV and revenues.
- Financing costs are forecast to increase in 2024–25 as the newer debt raised in the period attracts higher interest charges. Average monthly cash interest expense is forecast to be c.£13 million for across the going concern period (2023–24: £12.5 million).
- No debt is due to be repaid during the going concern period, but £350 million is due in March 2026. As set out above the company anticipates being able to refinance this debt ahead of its falling due, based on their recent history of successful refinancing.

Forecast covenant compliance

The borrowings are subject to financial ratio covenants measured against full year financial projections/actual performance each year in March, (such reporting is updated semi-annually), as well as covenants relating to the credit rating of debt issued by the company and its subsidiaries. A breach of these covenants can result in either a trigger event (which among other things prevents the company from making distributions – the company has been in trigger event since July 2023 and is forecast to continue to be so throughout the going concern period) or a default event (see below).

The adjusted interest cover ratio has negative headroom which is expected to remain until March 2025 and therefore, as a result of this and the initial downgrade from Fitch Ratings in July 2023, the company is in a trigger event and is expected to continue to be in a trigger event. The company obtained a waiver from its lenders in August 2023 which allows full use of available borrowing facilities, plus the raising of new finance, during a trigger event related to either a credit rating downgrade or a breach of a financial ratio. This waiver is in place until 2035, and the company also increased the associated debt/RCV limit to 75% while in a trigger event.

There is positive financial headroom across all default debt covenant ratios for the going concern period in the base case, although there is limited financial headroom on the following two covenants:

- The PMICR covenant for 2024–25. The PMICR covenant requires that net cash flow from operating activities less capital maintenance expenditure divided by interest be greater than 1. It would be breached in FY25 if net cash flow from operating activities less capital maintenance expenditure were to exceed plan by £20 million (3% of the forecast operating costs in the base case); the consequences of this would be a default event. The company does not foresee net cash flows exceeding this, due to the detailed “bottom-up” forecasting process, as described previously, which includes £16 million contingency. Further, management has some ability to control cash flows by varying payment terms with suppliers over the short term, and rephasing capital maintenance spend.
- The debt/RCV ratio which is required to be under 75%. An increase in net debt of £153 million would cause a breach.

The company is required to maintain at least two investment-grade ratings (i.e. above Ba1/BB+/BB+). The company’s credit ratings as at the publication of this half year report were Ba1/BBB-/BBB-, with recent changes principally as a result of a downward review of the sector’s regulatory risk caused by Ofwat’s Draft Determination publication. At the time of the annual report, all three credit ratings were investment grade and the outlook was stable. While a downgrade was a possibility at that time, two downgrades were not foreseen in advance of the Final Determination being known, given the uncertainty of the outcome and the short period of time until its publication. Following the recent action, a further downgrade from one agency would result in an event of default under the company’s common terms agreement.

If this were to occur, the company enters a ‘standstill period’ during which time creditors may not enforce their claims. Committed funding of £190 million would become available to finance the business during this period (which are not included in the going concern base case, since they are only available in the event of a default event).

The standstill period would last a minimum of 18 months, during which discussions with secured lenders would continue and if no agreement with the lenders was reached, the lenders must vote to enforce their claims at the end of this period, subject to a majority vote. If enforcement was to occur, the company would no longer be a going concern.

The company intends to engage with its principal lenders who are eligible to vote under the Southern Water Group's financing documentation on amendments and waivers, with a view to mitigating the impact to the Southern Water Group. No amendment or waiver has been agreed at the date of this report.

Regulatory licence compliance

As set out above, the consequences of an event of default would not result in any borrowings becoming repayable but could result in restrictions on the company's access to capital (and increase the cost of debt). This in turn, over the longer term, may result in a failure to comply with relevant standards, environmental permits and other legislation that could lead to enforcement action by regulators, including Ofwat.

Furthermore, as set out above, a future downgrade of any monitored rating would represent a breach of the company's licence. While the company is in active discussions with Ofwat regarding this, the terms of any enforcement by Ofwat is not clear and not within the company's control .

Dependent on the severity of non-compliance, this could give rise to grounds for the Secretary of State (or Ofwat, with the consent of the Secretary of State) to petition the court for a Special Administration Order. A petition could also be made if the company is unable to pay its debts. The purpose of the Special Administration Regime is to protect the interests of the customers in the event a water company (the regulated entity) is or is likely to be unable to pay its debts or is in contravention with its principal statutory duties or an enforcement order.

The directors consider this scenario to be unlikely based on market precedent for other water companies and Ofwat's stated intention that it intends to act consistently in similar circumstances to achieve similar results. This outcome is not within management's control and therefore the directors consider that it represents a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

Mitigations

The directors have the following actions available to them in order to manage cash flows during the going concern period, to avoid a covenant or liquidity breach:

- Rephasing capital spend within the relevant AMP.
- Rephasing other spending, in particular:
  - Capital maintenance spend.
  - Non-essential operating costs.
  - Working with suppliers on payment terms.

In addition, the directors could seek to renegotiate the interest terms or use derivatives to vary the net interest payable amount, although their ability to do this is not completely within their control.

Conclusion

In assessing whether the company has adequate resources, for a period of at least 12 months from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due, the directors have taken into consideration all the factors set out above. Accordingly, the directors have concluded it is reasonable to assume that actions can be taken such that the company has adequate resources, for a period of 12 months from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due.

However, there exists a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern such that the company may be unable to realise its assets and discharge its liabilities in the normal course of business given a future downgrade to a sub-investment grade credit rating or a failure to meet our legal obligations could, depending on the circumstances and the approach of Ofwat, result in a breach of the company's licence and possibly a consequent event of default under the terms of the company's financing arrangements.

Further, while a weaker than anticipated Final Determination potentially leading to additional ratings downgrades, and the consequential event of default and/or breach of licence do not directly impact on our ability to operate as a going concern during this forecast period due to the standstill period, there is a risk that without remedy, the longer term consequences limit our ability to attract equity and debt funding and hence operate as a going concern in the future.

The company is also required to refinance a £350 million bond that is due for repayment in March 2026 and requires additonal funding before March 2026. Given recent downgrades and market sentiment, there is no guarantee the company will be able to successfully refinance or raise additional equity and this also creates a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern.

Principal risks

Risk management is a core component of our wider governance and internal control framework. It provides the overarching structure through which the company is managed to achieve its objectives.

The most significant risks facing us are referred to as 'principal risks'. These are monitored by our Executive Committee which undertakes a review on a quarterly basis and the Audit Committee. The Audit Committee receives a risk report at its meetings four times per year and advises the Board on the company's overall risk appetite, tolerance and strategy. The Board retains ownership and approval of the company's overall risk appetite, tolerance and strategy.

At November 2024, the principal risks and uncertainties that the business faces over the remainder of this financial year remain unchanged from those we reported in our last Annual Report and Financial Statements. We regularly review key developments and emerging risks to assess whether the current set of risks require any changes and will report proposals for any changes to the Audit Committee and Board.

The principal risks are listed below (in no particular order).

Operational risks

- **Water** – Higher than average rainfall has replenished our groundwater sources, reservoirs and rivers. Our investment schemes are building our network resilience and improving our water quality metrics. We have several ongoing focused programmes of work to improve our network leakage performance.
- **Wastewater** – Higher than average rainfall has caused significant drainage, groundwater infiltration and flooding across our region. Our Clean Rivers and Seas Task Force are delivering sustainable drainage solutions to reduce the use of storm overflows. Our pollution performance has significantly reduced, last year our wastewater treatment network has 99%+ compliance with our treatment and permit standards and we are focused on reducing serious pollutions. Risk remains around Flow and Spills performance but is being heavily mitigated by key programmes.
- **Customer** – We are focused on improving our customer service, communications and experience. Last year we reduced customer complaints by 59%, expanded our community education programmes and continue to support our most vulnerable customers.

Corporate risks

- **Financial** – There is increased pressure on our credit profile following our ratings downgrade. We continue to be supported by Macquarie Asset Management whose funds invested an additional £550 million equity during the year ended 31 March 2024. The continued regulatory uncertainty is a key factor for the going concern and long-term viability of the company and requires a supportive regulatory determination to deliver the proposed 2025–30 capital programme.
- **Compliance** – We are challenged to keep pace with the volume and speed of change in governing regulation and legislation. We are focused on our operational strategies to help our business adopt and adapt to regulatory change and ensure our legal and compliance obligations are achieved. Key compliance risk on flow compliance, storm overflow discharges and upcoming Industrial Emission's Directive (IED) legislation is a focus of the business.
- **Climate change** – Planning and mitigation for climate change is embedded in our long-term strategic plans e.g. our Drainage and Wastewater Management Plan, Water Resources Management Plan, Water Industry National Environment Programme, which includes consideration of the long-term management and resilience of our water and wastewater assets to ensure that they continue to be available to provide services to customers and adapt to the changing environment we live in.
- **Delivery** – Our Turnaround Plan has enabled focused delivery of our capital investment programme and Opex funded strategic projects. Our proposed business plan for 2025–30 is our most ambitious plan to date and includes significant uncertainties around deliverability.
- **Digital** – We experienced a cyber-attack in late 2023 exposing data from a limited part of our server estate in February 2024. Our services to customers were not impacted and continued to operate normally. We continue to build our compliance with the NIS Cyber Assessment Framework. Our digital estate requires continual maintenance and improvement to deliver the required capability for the business and the digital technologies to advance our various projects and programmes to meet customer and regulatory expectations.
- **Resources** – During the year we have continued to experience the ongoing impact from the rising costs of goods and services due to rapid inflation and delays or failures in the global supply chain. While inflation rates are slowing, the UK construction market continues to be saturated with infrastructure development

across multiple sectors. Major operational and capital delivery frameworks are being procured in readiness for our 2025–30 business plan. The expected expansion of our delivery programmes into the next five-year investment period is likely to put more pressure on this area.

- **Health and safety** – Our Health and Safety Transformation Plan is delivering improvements in our operational processes, ways of working, compliance with regulations and embedment of our Safety First culture across the business. We have experienced a 50% reduction in our Lost Time Incident Accident Frequency Rate over the past two years.
- **Corporate affairs** – We have improved our communications in relation to service event management and recovery and work closely with our customers, community leaders, activist groups and regulators to share cause, impacts and future mitigation to prevent recurrence.
- **People** – We continue to manage challenges in relation to talent attraction and retainment especially in the Technical and STEM roles. Our recruitment efforts are also impacted in part by our geographic location and more recently by the increasingly competitive employment environment which has been strongly influenced by rising inflation and the cost-of-living crisis.

The significance and potential financial risks of these uncertainties change over time. The key matters of operational and financial performance relating to these risks since the Annual Report are provided within the interim management report on pages 3 to 15.

Further detailed descriptions of these risks and uncertainties and our risk management process is included in the Annual Report and Financial Statements for the year ended 31 March 2024, which can be found on our website **southernwater.co.uk/our-reports**

Directors and their interests

The directors who held office during the period ended 30 September 2024 and (unless stated) up to the date of signing the interim financial statements were:

Keith Lough
(Chairman)

Lawrence Gosden
(Executive director – Chief Executive Officer)

Stuart Ledger
(Executive director – Chief Financial Officer)

Malcolm Cooper
(Independent non-executive director)

Gillian Guy
(Independent non-executive director)

Michael Putnam
(Independent non-executive director)
(Resigned 31 July 2024)

Christèle Delbé
(Independent non-executive director)

Kerensa Jennings
(Independent non-executive director)

Neil McArthur
(Independent non-executive director)
(Appointed 1 October 2024)

William Price
(Non-executive director)

Stephen Fraser
(Non-executive director)

Phil Swift
(Non-executive director)

Neil Corrigall
(Non-executive director)

None of the directors who held office during the period had any disclosable interests in the shares of the company or the group.

Directors' responsibilities statement

The directors confirm to the best of their knowledge that:

- the report and condensed financial statements have been prepared in accordance with FRS 104 'Interim Financial Reporting'; and give a true and fair view of the assets, liabilities, financial position and profit of the company as required by Disclosure and Transparency Rule 4.2.4R;
- the report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7R (indication of important events) during the period and description of the principal risks and uncertainties for the remaining months of the financial period; and
- the report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.8R (disclosure of related parties' transactions and changes therein).

Signed on behalf of the Board who approved the half yearly financial report on 29 November 2024:

Keith Lough
Chairman

Stuart Ledger
Chief Financial Officer

Interim financial statements

Condensed income statement for the six months ended 30 September 2024

	Notes	Six months ended 30 September 2024 Unaudited	Six months ended 30 September 2023 Unaudited
Continuing operations		£m	£m
Revenue	5	**481.9**	427.7
Amortisation of regulatory settlement	5	14.3	13.3
Total revenue	5	**496.2**	441.0
Other operating income	5	1.0	0.8
Operating costs			
• before charge for bad and doubtful debts, depreciation and amortisation		(295.6)	(268.0)
• charge for bad and doubtful debts		(12.6)	(7.6)
Operating costs before depreciation and amortisation		(308.2)	(275.6)
Depreciation and amortisation		(185.2)	(174.7)
Total operating costs		(493.4)	(450.3)
Operating profit/(loss)		**3.8**	(8.5)
Operating loss before regulatory settlement		(10.5)	(21.8)
Amortisation of regulatory settlement	5	14.3	13.3
Operating profit/(loss)		3.8	(8.5)
Profit on disposal of fixed assets	5	0.5	0.3
Profit/(loss) before net finance cost and taxation		4.3	(8.2)
Finance income	6	12.8	1.6
Finance costs	6	(114.9)	(121.1)
Movements on derivative financial instruments	6	39.0	186.1
Net finance (cost)/income	6	(63.1)	66.6
(Loss)/profit before taxation from continuing operations		**(58.8)**	58.4
Tax credit/(charge)	7	(4.3)	(17.3)
(Loss)/profit after taxation from continuing operations		**(63.1)**	41.1

Condensed statement of other comprehensive income for the six months ended 30 September 2024

	Notes	Six months ended 30 September 2024 Unaudited £m	Six months ended 30 September 2023 Unaudited £m
(Loss)/profit for the period		(63.1)	41.1
Items that cannot be reclassified to profit or loss			
Actuarial gain on retirement benefit obligation	16	16.1	19.6
Deferred tax asset movement relating to retirement benefit obligation	7	(4.0)	(4.9)
		12.1	14.7
Total comprehensive (loss)/profit for the period		(51.0)	55.8

Condensed statement of financial position as at 30 September 2024

	Notes	Six months ended 30 September 2024 Unaudited £m	Year ended 31 March 2024 Audited £m
Non-current assets			
Intangibles	9	88.9	98.0
Property, plant and equipment	10	7,890.1	7,570.0
Investments	11	0.2	0.2
Derivative financial instruments	12	107.1	104.8
Other non-current assets		14.7	10.0
		8,101.0	7,783.0
Current assets			
Inventories		14.9	13.5
Trade and other receivables		376.9	348.0
Investments		200.0	100.0
Cash and cash equivalents	20	342.2	413.5
		934.0	875.0
Current liabilities			
Trade and other payables		(512.5)	(549.8)
Borrowings	20	(20.0)	(33.0)
Lease liabilities	20	(3.9)	(3.9)
Regulatory settlement liability	13	(14.2)	(28.5)
Provision for liabilities	14	(1.8)	(1.8)
		(552.4)	(617.0)
Net current assets/(liabilities)		381.6	258.0
Total assets less current liabilities		8,482.6	8,041.0
Non-current liabilities			
Borrowings	20	(5,414.7)	(4,903.3)
Lease liabilities	20	(31.9)	(30.2)
Derivative financial instruments	12	(1,661.2)	(1,673.6)
Deferred tax liabilities		(378.7)	(370.3)
Retirement benefit obligations	16	(58.7)	(78.0)
Provisions for liabilities	14	(2.7)	(3.1)
Other non-current liabilities	15	(46.9)	(43.7)
		(7,594.8)	(7,102.2)
Net assets		887.8	938.8
Equity			
Called up share capital	17	37.6	37.6
Share premium account	18	769.2	769.2
Non-distributable reserve		102.7	100.2
Retained earnings		(21.7)	31.8
Total equity		887.8	938.8

Condensed statement of changes in equity for the six months ended 30 September 2024

	Called up share capital (Note 17) £m	Share premium (Note 18) £m	Non-distributable reserve £m	Retained earnings £m	Total £m
Balance as at 1 April 2024	**37.6**	**769.2**	**100.2**	**31.8**	**938.8**
Loss for the financial period	–	–	3.5	(66.6)	(63.1)
Other comprehensive income/(loss) for the period:					
Actuarial gain on retirement benefit obligations	–	–	–	16.1	16.1
Movement on deferred tax relating to retirement benefit obligations	–	–	–	(4.0)	(4.0)
Total comprehensive loss for the period	**–**	**–**	**3.5**	**(54.5)**	**(51.0)**
Reserves transfer*	–	–	(1.0)	1.0	–
Equity dividends (note 8)	–	–	–	–	–
At 30 September 2024(unaudited)	**37.6**	**769.2**	**102.7**	**(21.7)**	**887.8**

Condensed statement of changes in equity for the six months ended 30 September 2023

	Called up share capital (Note 17) £m	Share premium (Note 18) £m	Non-distributable reserve £m	Retained earnings £m	Total £m
Balance at 1 April 2023	0.1	437.5	94.6	332.4	864.6
Profit for the financial period	–	–	2.5	38.6	41.1
Other comprehensive income/(loss) for the period:					
Actuarial gain on retirement benefit obligations	–	–	–	19.6	19.6
Movement on deferred tax relating to retirement benefit obligations	–	–	–	(4.9)	(4.9)
Total comprehensive income for the period	**–**	**–**	**2.5**	**53.3**	**55.8**
Reserves transfer*	–	–	(1.0)	1.0	–
Equity dividends (note 8)	–	–	–	–	–
At 30 September 2023 (unaudited)	**0.1**	**437.5**	**96.1**	**386.7**	**920.4**

* The non-distributable reserve arose upon adoption of IFRS 15 and relates to deemed revenue on adoption of assets from customers and is being amortised to retained earnings in line with the depreciation of the related assets.

Condensed statement of cash flows for the six months ended 30 September 2024

	Notes	Six months ended 30 September 2024 Unaudited £m	Six months ended 30 September 2023 Unaudited £m
Cash from operations		45.2	89.7
Tax paid		–	–
Net cash from operating activities	19	45.2	89.7
Investing activities			
Interest received		10.8	2.6
Purchase of property, plant and equipment		(465.9)	(341.2)
Purchase of intangible assets		(4.9)	(14.6)
Proceeds on disposal of property, plant and equipment		0.3	–
Acquisition of short term investments		(322.3)	–
Maturity of short term investments		222.3	–
Net cash used in investing activities		(559.7)	(353.2)
Financing activities			
Equity dividends paid		–	–
Preference share dividends paid		–	–
Interest paid		(57.9)	(74.5)
Receipts on derivative financial instruments		24.3	21.7
Repayment of borrowings	20	(10.6)	(10.2)
Repayments of principal on leases	20	(2.3)	(2.3)
Proceeds of new loans		489.7	270.0
Net cash generated from in financing activities		443.2	204.7
Net (decrease) in cash and cash equivalents		(71.3)	(58.8)
Cash and cash equivalents at beginning of the period	20	413.5	115.8
Cash and cash equivalents at end of the period	20	342.2	57.0

Notes to the interim financial information

For the six months ended 30 September 2024

1. Basis of preparation and accounting policies

The audited annual financial statements of the company are prepared in accordance with FRS 101 'Reduced Disclosure Framework' incorporating the Amendments to FRS 101 issued by the FRC in July 2015 and the amendments to company law made by the Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015. The condensed financial statements for the six months ended 30 September 2024, which are unaudited, have been prepared in accordance with FRS 104 'Interim Financial Reporting' as adopted by the United Kingdom.

The condensed financial statements for the six months ended 30 September 2024 do not constitute statutory accounts of the company as defined in section 434 of the Companies Act 2006. They do not include all of the information required for a complete set of FRS 101 financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the company's financial position and performance since the last annual financial statements. Statutory financial statements for the year ended 31 March 2024 were approved by the Board on 8 July 2024 and the auditor's report on those accounts was not qualified and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The condensed financial statements for the six months ended 30 September 2024 should be read in conjunction with the Annual Report and Financial Statements for the year ended 31 March 2024 which have been delivered to the Registrar of Companies and can be obtained from the Company Secretary, Southern House, Yeoman Road, Worthing, BN13 3NX, or from our website.

The directors have undertaken a detailed review of the company's liquidity requirements compared with the cash and facilities available, which includes cash on hand, cash on deposit totalling £542.2 million at 30 September 2024 together with new debt financing of £300 million raised since the balance sheet date, the financial covenant position including projections based on future forecasts, the current credit ratings and financial risk.

When determining whether it is appropriate to adopt the going concern basis, the directors also consider whether there is a material uncertainty regarding whether the company has sufficient resources for its present requirements.

The company has a significant level of planned expenditure over the next 12 months to improve operational performance, the resilience of its assets, and reduce the impact on the environment from the treatment and processing of water and wastewater. The company is also facing the ongoing effect of recent high inflation, particularly on costs such as energy, chemicals, and materials.

On the basis of their assessment of the company's financial position, and the board approved latest cash flow forecast, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the approval of these financial statements. However, in their assessment, the directors have identified the following material uncertainty related to events that are outside the control of the Board and which may cast significant doubt on the company's ability to continue as a going concern:

- A future downgrade to a sub-investment grade credit rating or a failure to meet our legal obligations could, depending on the circumstances and the approach of Ofwat, result in a breach of the company's Instrument of Appointment, and could result in an event of default under the terms of the company's financing arrangements.
- Further, while a weaker than anticipated Final Determination potentially leading to additional ratings downgrades, and the consequential event of default/and or breach of licence do not directly impact our ability to operate as a going concern during the forecast period due to the standstill period, there is a risk without remedy, the longer term consequences limit our ability to attract equity and debt funding and hence operate as a going concern in the future.
- The company is also required to refinance a £350 million bond that is due for repayment in March 2026 and requires additional funding (debt or equity) before March 2026. Given recent downgrades and market sentiment, there is no guarantee the company will be able to successfully refinance or raise this additional equity.

The going concern assessment is set out in detail on pages 10-13.

The material accounting policies adopted in these condensed financial statements are consistent with those applied and set out in the Annual Report and Financial Statements for the year ended 31 March 2024, except as described below.

The tax charge is based on the estimated effective tax rate before exceptional items, fair value adjustments and adjustments in respect of prior periods, for the full year to 31 March 2025.

Separate line items on face of income statement

When assessing whether an event should be presented separately on the face of the income statement management considers the nature, frequency, materiality and the facts and circumstances of each event. Management considers whether there is any precedent, and ensures consistent treatment for both favourable and unfavourable transactions.

Adoption of new and revised accounting and financial reporting standards

There have been no new or revised accounting standards adopted in the current year that had a significant or material impact on the financial statements.

2. Key assumptions and significant judgments

In preparing these interim financial statements, management has made judgments and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgments made in applying the company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 March 2024, the most material of which for the interim accounts are detailed below.

The measured income accrual is an estimation of the amount of water and wastewater unbilled at the period end and is a key source of estimation uncertainty. As at 31 March 2024, the accrual for unbilled measured income was £251.8 million. The value of household billings raised in the period to 30 September 2024 for consumption in prior years was £248.4 million, £3.4 million (1.4%) less than the accrual at 31 March 2024, with further billing for prior years still to be finalised. This difference is well within our view of acceptable tolerances for accounting estimates.

The company enters into a variety of derivative financial instruments to manage its exposure to inflation and interest rate risk in line with the company's risk management policy. The value of derivatives is highly sensitive to assumptions of inflation and interest rates, and the following scenarios indicate the impact of a 1% movement in the respective rate structures on the fair value of the derivatives portfolio as at 30 September 2024. These values have been obtained by recalculating the entire portfolio value by shifting the interest rate curve and the inflation curve by +-1%.

Event	+1% increase £m	-1% decrease £m
Interest rates	281.1	(332.4)
Inflation rates	(899.0)	710.6

Positive figures represent a reduction in the overall liability and negative figures represent an increase in the liability.

3. Changes in accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the company's financial statements as at and for the year ended 31 March 2024 (the policy for recognising and measuring income taxes in the interim period is described in Note 1 above).

A number of new standards and amendments are effective for periods beginning from 1 January 2024. These changes had no material impact on the company's financial statements.

4. Seasonality of operations and segmental analysis

The company's business is not seasonal in nature.

The directors believe that the whole of the company's activities constitute a single class of business. The company's revenue is generated wholly from within the United Kingdom. The Southern Water Board and management team review all internal management information on a single segment basis and accordingly no segmental information is provided in this interim report.

5. Income

An analysis of the company's income is as follows:

Continuing operations

	Six months ended 30 September 2024 Unaudited £m	Six months ended 30 September 2023 Unaudited £m
Water and sewerage services		
Household – measured	308.2	269.0
Household – unmeasured	66.5	59.0
Non-household – measured	73.4	69.5
Non-household – unmeasured	2.1	2.2
Total water and sewerage services	450.2	399.7
Bulk supplies	3.4	2.3
Infrastructure charge receipts	5.1	4.7
Trade effluent	5.2	4.5
Cesspools	3.3	3.1
New connections	3.0	2.9
Adoptions (see note (a) below)	3.5	2.5
Other services	8.2	8.0
Total revenue before amortisation of regulatory settlement	481.9	427.7
Amortisation of regulatory settlement (see note (b) below)	14.3	13.3
Total revenue	496.2	441.0
Other operating income (see note (c) below)	1.0	0.8
Profit on disposal of fixed assets	0.5	0.3
Interest receivable (note 6)	12.8	1.6
Total income	510.5	443.7

a) Revenue associated with the adoption of assets from customers is treated as non-distributable upon recognition, and amortised to retained earnings in line with the depreciation of the related assets.

b) As reported on page 29 the company co-operated with Ofwat in relation to its investigation into the management, operation and performance of its wastewater treatment works.

To ensure that customers are not disadvantaged as a result of these matters, the company has agreed to make direct customer rebates totalling £135.5 million in forecast outturn prices (£122.9 million in 2017–18 prices) over the period 2020–25. This reflects the seriousness of the breaches identified in the investigation. These rebates are now being made and recorded through the water and sewerage services revenue shown above. The provision for these rebates made in the financial statements for 2018–19 is also being released through revenue in line with the annual profile of the rebates to be made.

Amortisation of £13.7 million in the period ended 30 September 2023 is shown net of changes for future inflation estimates of £0.4 million. There have been no adjustments for inflation in the current period as it is the final year of release.

c) Other operating income in the current year relates to the release of deferred grants and contributions relating to non-current assets from the balance sheet, as amortised in line with the useful economic life of the related assets, and rents receivable. See also note 15.

6. Net finance costs

	Notes	Six months ended 30 September 2024 Unaudited £m	Six months ended 30 September 2023 Unaudited £m
Finance income			
Deposit income on short-term bank deposits		12.8	1.6
		12.8	1.6
Finance costs			
Interest payable on other loans		(5.9)	(17.3)
Interest paid to SW (Finance) I Plc		(121.5)	(78.1)
Indexation of index-linked debt		(15.4)	(45.7)
Amortisation of issue costs		(0.7)	(0.8)
Amortisation of gilt lock proceeds		0.1	0.1
Amortisation of bond premium		0.1	0.3
Finance lease interest		(0.5)	(0.5)
Other finance expense		(1.8)	(1.7)
Dividends on preference shares*		(2.3)	(2.3)
		(147.9)	(146.0)
Amounts capitalised on qualifying assets		33.0	24.9
		(114.9)	(121.1)
Movements on derivative financial instruments	12	39.0	186.1
Net finance (costs)/income		(63.1)	66.6

* Dividends due to Class B preference shareholders of £70 per share for the period ending 30 September 2024 totalled £2.3 million (30 September 2023: £2.3 million). Of this amount £nil was paid during the year (30 September 2023: £nil) with £2.3 million accrued at 30 September 2024 (30 September 2023: £2.3 million). The cumulative balance sheet liability for unpaid preference share dividends at 30 September 2024 was £11.3 million (30 September 2023: £6.8 million).

7. Taxation

Taxation presented in the income statement is based on the result for the period using current rates and takes into account tax deferred due to timing differences.

Tax on profit/loss on continuing operations

	Six months ended 30 September 2024 Unaudited £m	Six months ended 30 September 2023 Unaudited £m
Current tax:		
In respect of the current period	–	–
Total current tax charge	–	–
Deferred tax:		
Origination and reversal of temporary differences	4.3	17.3
Total deferred tax charge	4.3	17.3
Total tax charge on profit/(loss) from continuing operations	4.3	17.3

In line with the requirements of FRS 104, the tax charge for the six months ended 30 September 2024 is based on the estimated effective tax rate before exceptional items, fair value gains/losses and adjustments in respect of prior periods, for the full year to 31 March 2025.

Deferred tax balances at 30 September 2024 and 30 September 2023 were calculated at 25%.

In addition to the tax charged to the income statement, the following amounts of tax relating to components of other comprehensive income were recognised:

Deferred tax

	Six months ended 30 September 2024 Unaudited £m	Six months ended 30 September 2023 Unaudited £m
Arising on income and expenses recognised on other comprehensive income:		
Tax charge/(credit) on actuarial losses on defined benefit pension scheme	4.0	4.9
Total deferred tax charge recognised in other comprehensive income	4.0	4.9

8. Dividends

	Six months ended 30 September 2024 Unaudited £m	Six months ended 30 September 2023 Unaudited £m
Equity dividends:		
– Ordinary	–	–
	–	–

9. Intangible assets

	£m
Cost	
At 1 April 2024	276.6
Additions	3.0
At 30 September 2024 (unaudited)	279.6
Accumulated amortisation	
At 1 April 2024	178.6
Charge for the period	12.1
At 30 September 2024 (unaudited)	190.7
Net book amount	
At 30 September 2024 (unaudited)	**88.9**
At 31 March 2024	98.0

Intangible assets comprise IT software and development projects. The company does not have any internally generated intangible assets.

10. Property, plant and equipment

	£m
Cost	
At 1 April 2024	11,674.2
Additions in the period	493.2
Disposals	(14.6)
At 30 September 2024 (unaudited)	12,152.8
Accumulated depreciation	
At 1 April 2024	4,104.2
Charge for the period	173.1
Disposals	(14.6)
At 30 September 2024 (unaudited)	4,262.7
Net book amount	
At 30 September 2024 (unaudited)	**7,890.1**
At 31 March 2024	7,570.0

11. Investments

	Six months ended 30 September 2024 Unaudited £000	Year ended 31 March 2024 Audited £000
Shares in subsidiaries:		
SW (Finance) I Plc	136.1	136.1
SW (Finance) II Limited	37.6	37.6
Total investments	**173.7**	173.7

The company has the following direct investments in subsidiary undertakings at 30 September 2024:

	Registered Office	Class of share capital	Activity
SW (Finance) I Plc	Southern House, Yeoman Road, Worthing	Ordinary (100%)	To raise debt finance
SW (Finance) II Limited	Southern House, Yeoman Road, Worthing	Ordinary (100%)	To raise debt finance
Southern Water Executive Pension Scheme Trustees Limited	Southern House, Yeoman Road, Worthing	Ordinary (100%)	Dormant
Southern Water Pension Trustees Limited	Southern House, Yeoman Road, Worthing	Ordinary (100%)	Dormant

12. Derivative financial instruments

Categories of financial instruments at fair value

	30 September 2024 Unaudited £m	31 March 2024 Audited £m
Derivative assets carried at fair value through profit or loss (FVTPL):		
Inflation swaps	107.1	104.8
Total derivative financial assets	**107.1**	104.8
Derivative liabilities carried at fair value through profit or loss (FVTPL):		
Inflation swaps	(1,661.2)	(1,673.6)
Total derivative financial liabilities	**(1,661.2)**	(1,673.6)

Changes in value of financial instruments at fair value

	Six months ended 30 September 2024 Unaudited £m	Six months ended 30 September 2023 Unaudited £m
Movements on derivative financial assets at FVTPL	(2.3)	19.3
Movements on derivative financial liabilities at FVTPL	36.7	166.8
Total movements on derivative financial instruments at FVTPL	**39.0**	186.1
Realised movements on derivative financial liabilities in the period	(24.3)	(21.7)
Total movements on derivative financial instruments	**14.7**	164.4

The fair values of derivative instruments (interest rate swaps) at the reporting date are determined using quoted prices adjusted for credit risk.

The regulatory framework, under which revenues and the Regulatory Capital Value are indexed, exposes the company to inflation risk. The company enters into inflation linked derivative financial instruments to manage its exposure to that risk.

Under interest rate swap contracts, the company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the company to mitigate inflation risk on issued fixed rate debt held.

13. Regulatory settlement liability

	Six months ended 30 September 2024 Unaudited £m	Year ended 31 March 2024 Audited £m
At 1 April	**28.5**	55.6
Decrease in period/year (see also note 5(b))	(14.3)	(27.4)
Reassessment of provision for changes in future inflation estimates	–	0.3
At 30 September 2024 and 31 March 2024	**14.2**	28.5
Included in:		
Current liabilities	14.2	28.5
Non-current liabilities	–	–
	14.2	28.5

In 2018–19 Ofwat concluded its investigation in relation to the management, operation and performance of the company's wastewater treatment works. That investigation resulted in Ofwat taking enforcement action. Ofwat issued Southern Water with a financial penalty amounting to £3.0 million as published on its website. To ensure that customers are not disadvantaged as a result of these matters, the company agreed to make direct customer rebates totalling £122.9 million in 2017–18 prices over the period 2020–25 reflecting the seriousness of the breaches identified in the investigation. These amounts have been provided for in the financial statements at outturn prices and are reassessed each year to account for the impact of inflation. After reassessment at 31 March 2024, the profile for release of the provision is as follows:

Year Ending 31 March:	2020–21	2021–22	2022–23	2023–24	2024–25	Total
AMP6 Bill Rebate (2017–18 CPI real)	33.54	22.33	22.33	22.33	22.33	122.86
Inflation	2.21	1.60	2.70	5.05	6.19	17.75
Provision (Nominal)	35.75	23.93	25.03	27.38	28.52	140.61

The company gave a number of formal undertakings to Ofwat in relation to the numerous measures that have been put in place and are being put in place to ensure that the issues identified in the investigation have ceased and cannot be repeated.

14. Provisions for liabilities

	Environmental obligations £m
At 1 April 2024	4.9
Utilised in period	(0.4)
At 30 September 2024	**4.5**
At 1 April 2023	5.5
Utilised in year	(0.6)
At 31 March 2024	**4.9**

	30 September 2024 Unaudited £m	31 March 2024 Audited £m
Included in:		
Current liabilities	1.8	1.8
Non-current liabilities	2.7	3.1
	4.5	4.9

The environmental provision relates to management's best estimate for the decommissioning of abandoned sites and environmental commitments made for ecology work following the South Hampshire abstraction inquiry for the period up to 2030. No reimbursement is expected.

Environment Agency

The company is seeking to work proactively with the Environment Agency to resolve its ongoing investigation into sampling and flow compliance and reporting issues for the period 2013 to 2017 (inclusive). The Board has concluded that it is not yet possible to make a reliable estimate of the financial obligation that will arise from this separate investigation and further details are provided in note 21 Contingent liabilities, to these interim financial statements.

15. Other non-current liabilities

	Grants & contributions £m	Deferred Revenue £m	Total £m
Balance at 1 April 2024	32.1	11.6	43.7
Increase in year	4.2	-	4.2
Released to income statement	(0.8)	(0.2)	(1.0)
Balance at 30 September 2024	**35.5**	**11.4**	**46.9**

Grants and contributions relate to property, plant and equipment.

Deferred revenue of £11.4 million (31 March 2024: £11.6 million) relates to the proceeds from the sale of income rights relating to aerial masts and sites owned by SWS. The income will be credited to the income statement evenly over the life of the lease.

16. Retirement benefit obligations

The latest actuarial valuation of the SWPS was carried out as at 31 March 2022 using the projected unit method. The timing and quantum of future contributions in relation to the deficit have been agreed with the Trustees and Pensions Regulator. The first payment was made in November 2018 and payments up to 1 April 2021 totalled £69.1 million. On 31 March 2022 the company made an additional one-off contribution of £59.6 million into the Scheme covering the agreed deficit contribution for 1 April 2022 of £20.6 million plus a further prepayment of £39.0 million in relation to deficit contributions due in future years. Future contributions will be dependent on levels of RPI, and the base deficit contributions (before adjustment for RPI) over the period from 1 April 2023 to 1 April 2029 are payable annually and, offset by the £39.0 million prepayment made on 1 April 2022 as described above, total £105.3 million. £5.0 million was paid on 8 April 2024.

If the assumptions documented in the Scheme's Statement of Funding Principles dated 14 March 2023 are borne out in practice, the deficit will be removed by 1 April 2029.

The High Court's June 2023 ruling in Virgin Media Limited vs NTL Pension Trustees has potentially cast doubt on the validity of previous amendments made to pension scheme rules. Pending further information on the wider application of this judgement, neither the company nor the Scheme's Trustees have made any investigations or taken legal advice on whether there is a potential impact on the Scheme. The disclosures are based on the assumption that all Scheme documents were validly implemented.

The retirement benefit obligations shown at 30 September 2024 are based on the valuations at 31 March 2024, updated by a qualified independent actuary reflecting the movement in corporate bond yields, which impact the discount rate, and asset values. These are not formal interim valuations of the scheme assets and liabilities; however an assessment of the actuarial losses has been made and shown in the summarised statement of other comprehensive income.

The resulting net defined benefit liability has decreased in the 6 months to 30 September 2024. This is primarily due to an increase on 0.25% per annum in corporate bond yields, which leads to a higher discount rate and therefore a lower value of liabilities, a decrease of 0.15% per annum in assumed future inflation, and using more up to date mortality projection tables which have marginally reduced the assumed life expectancy. The decrease in the defined benefit obligation has been partly offset by lower than assumed investment returns over the period, primarily due to the value of the Government Bonds/LDI decreasing as a result of increases in gilt and bond yields over the period.

The major assumptions used by the actuary are set out in the table on the next page.

16. Retirement benefit obligations (continued)

	Six months ended 30 September 2024 Unaudited % per annum	Year ended 31 March 2024 Audited % per annum
Price inflation (RPI)	3.15	3.30
Price inflation (CPI)		
– RPI less 1% pa up to 2030	2.15	2.30
– Equal to RPI after 2030	3.15	3.30
Rate of increase of pensions in payment:		
– MIS* members only***	2.15†	2.30†
– Old section** members only***	3.15	3.30
– New section and ex FSLP (RPI max 5%)***	3.00	3.10
– Post 5 April 1988 GMP (CPI max 3%)***	1.85†	1.90†
– All sections post-31 March 2013 service (RPI max 2.5%)***	2.00	2.05
Rate of increase for deferred pensions:		
– MIS* members only***	2.15†	2.30†
– Old section** members only***	3.15	3.30
– New section and ex FSLP (RPI max 5%)***	3.15	3.30
– All sections post-31 March 2013 service (RPI max 2.5%)***	2.50	2.50
Discount rate	5.00	4.75

* *MIS refers to the Southern Water Mirror Image Pension Scheme. Pensions in payment and deferment for this section will be indexed in line with the Consumer Price Index.

** For this section the Trustee will endeavour to meet any indexation of excess pension above the 5% per annum cap on increases that apply to other sections of the Scheme.

*** Pension increase assumptions allow for caps and floors where appropriate based on a statistical model (the Black Scholes model).

† Rates shown apply up to 2030. Assumed equal to RPI post 2030.

The amounts included in the statement of financial position arising from the company's obligations under the defined benefit scheme were as follows:

	30 September 2024 Unaudited £m	31 March 2024 Audited £m
Total fair value of assets	586.4	594.3
Present value of the defined benefit obligation	(645.1)	(672.3)
Deficit recognised in the statement of financial position	(58.7)	(78.0)

16. Retirement benefit obligations (continued)

Analysis of the movement in the scheme's deficit during the period

	Six months ended 30 September 2024 Unaudited £m	Six months ended 30 September 2023 Unaudited £m	Year ended 31 March 2024 Audited £m
At 1 April	(78.0)	(73.0)	(73.0)
Employer's contributions	5.0	–	–
Financing charge	(1.8)	(1.7)	(3.4)
Actuarial gain/(loss)	16.1	19.6	(1.6)
Deficit in the scheme at end of the period	(58.7)	(55.1)	(78.0)

17. Called up share capital

	30 September 2024 Unaudited £000	31 March 2024 Audited £000
Equity shares		
Authorised		
46,050,000 Ordinary shares of £1 each	46,050	46,050
Allotted and fully-paid		
Ordinary shares of £1 each		
At 1 April	37,612	112
Issued for cash	–	37,500
At 30 September/31 March	37,612	37,612
Non-equity shares		
Issued		
64,665 (31 March 2024: 64,665) Class B preference shares of £1 each	65	65

The redeemable preference shares are presented as a liability at an amount of £64.7 million (31 March 2024: £64.7 million) including share premium of £64.6 million (31 March 2024: £64.6 million) and accordingly are excluded from called up share capital in the balance sheet.

18. Share premium account

	30 September 2024 Unaudited £m	31 March 2024 Audited £m
Equity share premium		
At 1 April	769.2	437.5
Issued for cash	–	331.7
At 30 September/31 March	769.2	769.2

19. Cash generated by operations

	Six months ended 30 September 2024 Unaudited £m	Six months ended 30 September 2023 Unaudited £m
Continuing operations		
Operating profit/(loss)	3.8	(8.5)
Adjustments for:		
Fair value of sewer adoptions	(3.5)	(2.5)
Depreciation of property, plant and equipment	173.1	160.4
Amortisation of intangible assets	12.1	14.3
Difference between pension charge and cash contributions	(5.0)	–
Receipt of grants and contributions	4.2	3.0
Amortisation of grants and contributions	(0.8)	(0.8)
Operating cash flow before movement in working capital	183.9	165.9
Increase in inventories	(1.3)	(0.9)
Increase in receivables	(59.2)	(26.2)
Decrease in payables	(63.5)	(35.2)
Decrease in regulatory settlement liability	(14.3)	(13.3)
Decrease in provisions	(0.4)	(0.6)
Cash generated by operations	45.2	89.7
Tax paid		
– Group relief	–	–
– Payments made within SWSG Dividend Loop	–	–
Net cash generated from operating activities	45.2	89.7

20. Analysis of net debt

	At 1 April 2024 Audited £m	Cash flow £m	Fair value adjustments £m	Finance leases £m	Other non-cash changes £m	At 30 September 2024 Unaudited £m
Cash and cash equivalents	413.5	(71.3)	–	–	–	**342.2**
Net liabilities from financing activities:						
Term facilities/index linked loans	(13.0)	(350.0)	–	–	–	**(363.0)**
Index linked loans	(39.6)	10.6	(0.8)	–	–	**(29.8)**
Loans from subsidiary	(4,819.0)	(141.4)	(16.3)	–	(0.5)	**(4,977.2)**
Finance lease liabilities	(34.1)	2.3	–	(4.0)	–	**(35.8)**
Redeemable preference shares	(64.7)	–	–	–	–	**(64.7)**
Net interest rate swaps	(1,568.8)	(24.3)	39.0	–	–	**(1,554.1)**
Total liabilities from financing activities	(6,539.2)	(502.8)	21.9	(4.0)	(0.5)	**(7,024.6)**
Net debt	(6,125.7)	(574.1)	21.9	(4.0)	(0.5)	**(6,682.4)**

The non-cash movement on loans from subsidiary of £0.5 million relates to the amortisation of loan issue costs, bond premiums and discounts, and gilt lock proceeds.

Unaudited balances at 30 September 2024 comprise:

	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total £m
Cash and cash equivalents	–	342.2	–	–	**342.2**
Derivative financial instruments	107.1	–	–	(1,661.2)	**(1,554.1)**
Lease liabilities	–	–	(3.9)	(31.9)	**(35.8)**
Borrowings due within one year	–	–	(20.0)	–	**(20.0)**
Borrowings due after one year	–	–	–	(5,414.7)	**(5,414.7)**
Net debt	107.1	342.2	(23.9)	(7,107.8)	**(6,682.4)**

Borrowings due within one year relate to loans from group undertakings that are repayable on demand or within 12 months of the balance sheet date.

Cash and cash equivalents (which are presented as a single class of assets on the face of the Statement of Financial Position) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

Cash on deposit with a maturity of more than three months from the date of acquisition is shown as current asset investments in the statement of financial position.

20. Analysis of net debt (continued)

Audited balances at 31 March 2024 comprise:

	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total £m
Cash and cash equivalents	–	413.5	–	–	413.5
Derivative financial instruments	104.8	–	–	(1,673.6)	(1,568.8)
Lease liabilities	–	–	(3.9)	(30.2)	(34.1)
Borrowings due within one year	–	–	(33.0)	–	(33.0)
Borrowings due after one year	–	–	–	(4,903.3)	(4,903.3)
Net debt	104.8	413.5	(36.9)	(6,607.1)	(6,125.7)

Borrowings due within one year relate to loans from group undertakings that are repayable on demand or within 12 months of the balance sheet date.

Cash and cash equivalents (which are presented as a single class of assets on the face of the Statement of Financial Position) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

Cash on deposit with a maturity of more than three months from the date of acquisition is shown as current asset investments in the statement of financial position.

21. Contingent liabilities

There are currently two significant ongoing investigations being conducted by the Environment Agency (EA) of which one is also being considered by Ofwat.

As has been reported previously, we have assisted the EA in its investigation into legacy issues relating to wastewater sampling compliance for the period 2013 to 2017. Post period end we have been informed by the EA that they have now completed the investigation. We have not yet received any details of specific charges the EA intends to raise. As a result, the Board has concluded that it is not yet possible to make a reliable estimate of any financial obligation that may arise from this investigation, nor its timing (which could be several months or years),but will keep the situation under review.

In November 2021 the Environment Agency and Ofwat launched an investigation into sewage treatment works belonging to all water and wastewater companies in England and Wales. Ofwat has opened enforcement cases into all the other water and wastewater companies (not Southern Water). However, we remain subject to Ofwat's ongoing investigation as they continue to review the information they have gathered and all water and wastewater companies remain subject to the ongoing EA investigation. As the investigations are ongoing, and as neither the EA nor Ofwat have stated what their intentions are so far as the next steps in the investigations are concerned, the Board has concluded that it is not yet possible to make a reliable estimate of any financial obligation that may arise from these investigations, or its timing (which could be several months or years), but will keep the situation under review.

In December 2023, Southern Water Services experienced a criminal cyber-attack. The incident involved the theft of data from the company's IT systems, including personal data of a small proportion of Southern Water's customers and personal data relating to current and former employees.

The quantum of any claims for compensation or regulatory penalties that may arise because of this cyber incident remains uncertain. The Board has therefore concluded that it is not yet possible to make a reliable estimate for any financial obligation that may arise, nor for the timing of any outflow. As a result, no provision has been made in the financial statements.

As well as the ongoing EA and Ofwat investigations, companies of the size and scale of Southern Water Services Limited are sometimes subject to civil claims, disputes and potential litigation. The directors consider that, where a liability is probable, and where it is possible to be estimated reasonably, an appropriate position has been taken in reflecting such items in these financial statements.

Contractors submit claims to the company for the estimated final cost of their works. These claims are reviewed to assess where the liability for the costs rests and the amount that will actually be settled. The expected amount is included within capital creditors and a further sum is identified as a contingent liability, representing a proportion of the difference between the contractor's claim and Southern Water Services Limited's valuation.

The company had no contingent liabilities for capital claims at the period end (2023: £nil).

22. Financial commitments

(a) Capital commitments are as follows:

	Six months ended 30 September 2024 Unaudited £m	Year ended 31 March 2024 Audited £m
Contracted for but not provided for in respect of contracts placed in respect of:		
– property, plant and equipment	881.9	1,089.7
– intangible assets	5.6	8.9
Right to receive water from Portsmouth Water Limited[1]	658.0	658.0
	1,545.5	1,756.6

[1] In February 2021 the company entered into a contractual arrangement with Portsmouth Water Limited ('Portsmouth Water'), under which after constructing the reservoir, and Southern Water have laid a pipe, Portsmouth Water will supply Southern Water with 21 million litres of water a day from 1 April 2029 as part of the development of the Havant Thicket Reservoir in Portsmouth Water's supply area. The contract runs for the period from 2021 to 2100 and comprises fixed capacity charge payments as well as volumetric charges for the water to be supplied. The present value of the fixed contractual payments, which total £658 million over the period to 2100, using a discount rate of 4.98%, being the nominal return on capital allowed per the PR19 final determination, was £144.2 million at 31 March 2024 (31 March 2023: £137.3 million). The volumetric charge will be recognised as water is supplied, from 1 April 2029.

(b) The company as lessee

	Six months ended 30 September 2024 Unaudited £m	Year ended 31 March 2024 Audited £m
Lease payments under operating leases recognised as an expense in the year	1.2	5.6

Operating leases are charged to the income statement over the lease term and comprise short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (£5,000 or less).

23. Related party transactions

The immediate parent undertaking is SWS Holdings Limited.

The ultimate parent company and ultimate controlling party is Greensands Holdings Limited (GSH), a company incorporated in Jersey, which is the parent undertaking and controlling party of the smallest, largest and only group to consolidate these financial statements. Copies of the consolidated financial statements may be obtained from the registered office of GSH at Southern House, Yeoman Road, Worthing, BN13 3NX, or from the Southern Water website.

Macquarie Asset Management, whose managed funds hold a majority shareholding in the consortium of investors owning GSH is considered to be a related party of the company as they have the ability to influence the financial and operating policies of both the company and the group. Other related parties comprise key management personnel.

24. Post balance sheet events

2024, £300.0 million of new bonds were secured as part of financing continued spend on the company's turnaround plan.

On 31 October 2024, S&P announced its decision to lower the credit rating on the senior secured debt issued by SWS' financing vehicle SW (Finance) I PLC to 'BBB-' from 'BBB'. The rating remains on CreditWatch with negative implications.

On 13 November 2024, Moody's announced its decision to lower the credit rating on the senior secured debt issued by SWS' financing vehicle SW (Finance) I PLC to 'Ba1' from 'Baa3'. The rating remains on review for downgrade.

On 19 November 2024, Fitch announced its decision to lower the credit rating on the senior secured debt issued by SWS' financing vehicle SW (Finance) I PLC to 'BBB-' from 'BBB'. The rating was also placed on Ratings Watch Negative.

These downgrades have no further implications to the company's covenant trigger event, further details are provided in the going concern disclosures on pages 10 to 13.

Subsequent to the reporting date we have been informed by the EA that they have now completed their investigation into legacy issues relating to waste water sampling compliance from 2013 to 2017. We have not yet received any details of specific charges the EA intends to raise. Further information on this matter is provided under note 21.

Independent review report to Southern Water Services Limited

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2024 which comprises the condensed income statement, the condensed statement of other comprehensive income, the condensed statement of financial position, condensed statement of changes in equity, condensed statement of cash flows, and related notes 1 to 24.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2024 is not prepared, in all material respects, in accordance with Financial Reporting Standard 104 'Interim Financial Reporting' as adopted by the United Kingdom.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom (ISRE (UK) 2410). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 1, the annual financial statements of the company are prepared in accordance with United Kingdom Generally Accepted Accounting Practice (including Financial Reporting Standard 101 "Reduced Disclosure Framework"). The condensed set of financial statements included in this half-yearly financial report have been prepared in accordance with Financial Reporting Standard 104 "Interim Financial Reporting".

Material uncertainty relating to going concern

We draw attention to note 1 in the condensed set of financial statements, which indicates that a future downgrade to a sub-investment grade credit rating or a failure to meet the Company's legal obligations could, depending on the circumstances and the approach of Ofwat, result in a breach of the Company's Instrument of Appointment and possibly a consequent event of default under the terms of the Company's financing arrangements. Further, while a weaker than anticipated Final Determination potentially leading to additional ratings downgrades, and a consequential event of default/and or breach of licence do not directly impact the Company's ability to operate as a going concern during the forecast period, there is a risk without remedy, the longer term consequences limit the Company's ability to attract equity and debt funding and hence operate as a going concern in the future. The Company is also required to refinance a £350 million bond that is due for repayment in March 2026 and requires additional funding (debt or equity) before March 2026. Given recent downgrades and market sentiment, there is no guarantee the Company will be able to successfully refinance or raise this additional equity. As stated in note 1, these events or conditions, along with the other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Notwithstanding the material uncertainty discussed above, based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting.

This Conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410; however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the FRS 104 'Interim Financial Reporting' as adopted by the United Kingdom.

In preparing the half-yearly financial report, the directors are responsible for 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our Conclusion, including the material uncertainty related to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the company in accordance with ISRE (UK) 2410. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP

Deloitte LLP
Statutory Auditor
London, United Kingdom
29 November 2024

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